SOUTHERN COPPER CORP/
Form 10-Q
November 08, 2016
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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, 2016

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.)
1440 East Missouri Avenue, Suite 160, Phoenix, AZ	**85014**
(Address of principal executive offices)	(Zip Code)

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

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

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

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

Large accelerated filer	x	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	o

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

As of October 31, 2016 there were outstanding 773,016,469 shares of Southern Copper Corporation common, par value $0.01 per share.

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Southern Copper Corporation (SCC)

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PART I FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

Southern Copper Corporation

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited, in millions, except per share amounts)

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Net sales (including sales to related parties, see Note 8)	$ 1,400.7	$ 1,133.6	$ 3,980.8	$ 3,791.3
Operating costs and expenses:				
Cost of sales (exclusive of depreciation, amortization and depletion shown separately below)	831.4	670.8	2,309.9	2,057.4
Selling, general and administrative	22.7	23.6	72.5	73.4
Depreciation, amortization and depletion	174.5	131.6	474.3	373.8
Exploration	9.7	13.7	30.4	36.2
Environmental remediation		7.0		23.5
Total operating costs and expenses	1,038.3	846.7	2,887.1	2,564.3
Operating income	362.4	286.9	1,093.7	1,227.0
Interest expense	(91.5)	(92.4)	(270.9)	(244.1)
Capitalized interest	18.4	27.6	50.8	99.5
Other income (expense)	9.6	(4.3)	14.9	(9.6)
Interest income	1.8	2.9	6.0	8.4
Income before income taxes	300.7	220.7	894.5	1,081.2
Income taxes (see note 5)	111.2	125.3	305.4	411.6
Net income before equity earnings of affiliate	189.5	95.4	589.1	669.6
Equity earnings of affiliate, net of income tax	8.7	4.0	17.4	9.5
Net income	198.2	99.4	606.5	679.1
Less: Net income attributable to non-controlling interest	0.6	1.0	1.9	3.5
Net income attributable to SCC	$ 197.6	$ 98.4	$ 604.6	$ 675.6
Per common share amounts attributable to SCC:				
Net earnings basic and diluted	$ 0.26	$ 0.12	$ 0.78	$ 0.85
Dividends paid	$ 0.05	$ 0.10	$ 0.13	$ 0.30
Weighted average common shares outstanding basic and diluted	773.6	793.2	773.7	798.9

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, in millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	**2015**	**2016**	**2015**
Net income and comprehensive income	$ 198.2	$ 99.4	$ 606.5	$ 679.1
Comprehensive income attributable to non-controlling interest	0.6	1.0	1.9	3.5
Comprehensive income attributable to SCC	$ 197.6	$ 98.4	$ 604.6	$ 675.6

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, in millions)

	September 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 511.5	$ 274.5
Restricted cash	3.8	4.3
Short-term investments	100.8	603.5
Accounts receivable trade	563.7	448.6
Accounts receivable other (including related parties 2016 - $40.6 and 2015 - $15.8)	100.6	102.6
Inventories	972.6	857.2
Prepaid taxes	249.3	165.8
Other current assets	47.5	27.7
Total current assets	2,549.8	2,484.2
Property and mine development, net	8,581.4	8,262.8
Ore stockpiles on leach pads	786.6	752.3
Intangible assets, net	152.9	155.1
Related parties receivable		111.2
Deferred income tax	767.0	614.2
Equity method investment	83.7	76.1
Other assets	141.6	137.3
Total assets	$ 13,063.0	$ 12,593.2
LIABILITIES		
Current liabilities:		
Accounts payable (including related parties 2016 - $70.0 and 2015 - $69.3)	549.4	646.6
Accrued income taxes	121.0	39.2
Accrued workers participation	97.3	124.9
Accrued interest	135.5	87.1
Other accrued liabilities	31.9	22.4
Total current liabilities	935.1	920.2
Long-term debt	5,953.5	5,951.5
Deferred income taxes	196.0	196.0
Other liabilities and reserves	33.5	35.4
Asset retirement obligation	210.4	190.9
Total non-current liabilities	6,393.4	6,373.8
Commitments and contingencies (Note 10)		
STOCKHOLDERS EQUITY		
Common stock	8.8	8.8
Additional paid-in capital	3,357.3	3,349.8
Retained earnings	5,316.1	4,812.1

Accumulated other comprehensive income		1.1		1.1
Treasury stock, at cost, common shares		(2,987.0)		(2,908.9)
Total Southern Copper Corporation stockholders equity		5,696.3		5,262.9
Non-controlling interest		38.2		36.3
Total equity		5,734.5		5,299.2
Total liabilities and equity	$	13,063.0	$	12,593.2

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, in millions)

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
OPERATING ACTIVITIES				
Net income	$ 198.2	$ 99.4	$ 606.5	$ 679.1
Adjustments to reconcile net earnings to net cash provided from operating activities:				
Depreciation, amortization and depletion	174.5	131.6	474.3	373.8
Equity earnings of affiliate, net of dividends received	(5.3)	(2.0)	(7.5)	(4.2)
Loss (gain) on currency transaction effect	1.6	4.7	(6.5)	(14.5)
(Benefit) provision for deferred income taxes	(77.1)	1.6	(130.9)	(63.3)
Other, net	7.6	0.7	21.4	2.0
Change in operating assets and liabilities:				
(Increase) decrease in accounts receivable	(86.5)	61.2	(115.0)	120.3
(Increase) in inventories	(3.4)	(74.1)	(149.7)	(182.0)
Increase (decrease) in accounts payable and accrued liabilities	153.1	49.7	53.6	(99.6)
(Increase) decrease in other operating assets and liabilities	(55.6)	(10.9)	(110.3)	5.5
Net cash provided by operating activities	307.1	261.9	635.9	817.1
INVESTING ACTIVITIES				
Capital investments	(275.6)	(316.2)	(840.5)	(845.9)
Payments to acquire business, net of cash acquired		(100.4)		(100.4)
Proceeds from sale (purchase) of short-term investments, net	(2.6)	(308.8)	502.7	(543.6)
Loan repaid by related parties	74.8		111.2	
Sale of property	1.3	0.2	2.6	3.2
Net cash used in investing activities	(202.1)	(725.2)	(224.0)	(1,486.7)
FINANCING ACTIVITIES				
Proceeds from issuance of debt				2,045.8
Repayments of debt		(200.0)		(266.0)
Payments of debt issuance costs		(2.0)		(11.7)
Cash dividends paid to common stockholders	(38.7)	(79.5)	(100.6)	(239.8)
Distributions to non-controlling interest		(0.1)		(0.5)
Repurchase of common shares	(18.0)	(309.8)	(71.7)	(724.4)
Other			0.3	0.3
Net cash (used in) provided by financing activities	(56.7)	(591.4)	(172.0)	803.7
Effect of exchange rate changes on cash and cash equivalents	10.7	(13.1)	(2.9)	6.4
Increase (decrease) in cash and cash equivalents	59.0	(1,067.8)	237.0	140.5
Cash and cash equivalents, at beginning of period	452.5	1,572.3	274.5	364.0
Cash and cash equivalents, at end of period	$ 511.5	$ 504.5	$ 511.5	$ 504.5

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 September 30, 2016, Grupo Mexico through its wholly-owned subsidiary Americas Mining Corporation (AMC) owned 88.9% 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 September 30, 2016 and the results of operations, comprehensive income and cash flows for the three and nine months ended September 30, 2016 and 2015. The results of operations for the three and nine months ended September 30, 2016 and 2015 are not necessarily indicative of the results to be expected for the full year. The December 31, 2015 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, 2015 and notes included in the Company s 2015 annual report on Form 10-K.

NOTE 2 SHORT-TERM INVESTMENTS:

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

	At September 30, 2016	At December 31, 2015
Trading securities	$ 98.3	$ 600.2
Weighted average interest rate	1.34%	0.71%
Available-for-sale	$ 2.5	$ 3.3
Weighted average interest rate	0.80%	0.72%
Total	$ 100.8	$ 603.5

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 September 30, 2016 and December 31, 2015, included corporate bonds and asset and mortgage backed obligations. As of September 30, 2016 and December 31, 2015, 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. The Company also 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 September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Trading securities:				
Interest earned	$ 0.3	$ 0.4	$ 1.0	$ 0.9
Unrealized gain (loss) at the end of the period	0.3	(*)	0.3	(*)
Available-for-sale:				
Interest earned	(*)	(*)	(*)	(*)
Investment redeemed	$ 0.3	$ 0.2	$ 0.8	$ 0.8

(*) Less than $0.1 million

NOTE 3 - INVENTORIES:

Inventories were as follows ($ in millions):

	At September 30, 2016	At December 31, 2015
Inventory, current:		
Metals at average cost:		
Finished goods	$ 115.8	$ 104.1
Work-in-process	196.5	188.6
Ore stockpiles on leach pads	304.2	243.2
Supplies at average cost	356.1	321.3
Total current inventory	$ 972.6	$ 857.2
Inventory, non-current:		
Ore stockpiles on leach pads	$ 786.6	$ 752.3

During the nine months ended September 30, 2016 and 2015, total leaching costs added as non-current inventory of ore stockpiles on leach pads amounted to $329.4 million and $360.0 million, respectively. Leaching inventories recognized in cost of sales amounted to $234.1 million and $172.8 million for the nine months ended September 30, 2016 and 2015, respectively.

NOTE 4- ACQUISITION OF EL PILAR MINE:

On July 6, 2015, the Company acquired 100% of the outstanding stock of Recursos Stingray de Cobre, S.A. de C.V. for $100.0 million, a company incorporated under the laws of Mexico whose principal holding is a 100% interest in the El Pilar mine concession. In the Company s consolidated financial statements for the year ended December 31, 2015, amounts related to the acquisition were still provisional as the purchase was still in the measurement period. This period ended in the third quarter of 2016 and final amounts were determined as follows:

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Recognized amounts of identifiable assets acquired and liabilities assumed ($ in million)

	At September 30, 2016	At December 31, 2015
Cash	$ 0.1	$ 0.1
Trade accounts receivable	0.3	0.3
Mining assets	57.2	93.0
Value beyond proven and probable mineral reserves	29.5	
Exploration cost	7.5	10.5
Deferred income tax asset	5.5	
Deferred income tax liability	(25.0)	(24.7)
Trade accounts payable	(0.1)	(3.6)
Total identifiable net assets	75.0	75.6
Goodwill	25.0	24.4
Total paid	$ 100.0	$ 100.0

The Company has recorded goodwill of $25.0 million, representing the amount of the purchase price in excess of the fair value of the net assets acquired. This goodwill is attributable to future benefits that the Company expects to realize from the mine and will not be deductible for income tax purposes.

NOTE 5 INCOME TAXES:

The income tax provision and the effective income tax rate for the nine months of 2016 and 2015 consisted of ($ in millions):

	2016	2015
Statutory income tax provision	$ 268.5	$ 366.8
Peruvian royalty		3.0
Mexican royalty	29.4	22.8
Peruvian special mining tax	7.5	19.0
Income tax provision	$ 305.4	$ 411.6
Effective income tax rate	34.1%	38.1%

These provisions include income taxes for Peru, Mexico and the United States. In addition, a Mexican royalty tax, a portion of the Peruvian royalty tax and the Peruvian special mining tax are included in the income tax provision. The effective income tax rate decreased by 4.0% from the 2015 nine-month period to the comparable 2016 period, of which approximately 1% is related to a reduction in the Peruvian special mining tax due to lower SCC Peruvian branch earnings. The remaining decrease of 3% is primarily due to a reduction in estimated prior year creditable foreign taxes at the SCC Peruvian branch and from lower tier Mexican subsidiaries. At December 31, 2015 the Company had approximately $187.4 million of net foreign tax credit carryforwards that can be used to offset taxable income in future periods and reduce the Company´s income taxes payable in those periods. These credits will expire if they are not used within certain periods. At this time, the Company considers it more likely than not that it will have sufficient taxable income in the future that will allow to utilize these credits. However, if metal prices continue to decline, it is possible that some or all of the credits could ultimately expire unused and require a valuation allowance that could materially increase tax expense.

Peruvian royalty tax: The 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 $12.2 million and $18.5 million of royalty charge in the nine months of 2016 and 2015, respectively, of which $3.0 million was included in income taxes in 2015; no amounts were included in income tax in the nine months of 2016.

Peruvian special mining tax: This tax is based on operating income at rates ranging 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

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85% of operating income is reached. The Company has accrued $7.5 million and $19.0 million of special mining tax as part of the income tax provision for the nine months of 2016 and 2015, respectively.

Peruvian income tax rate: In 2014, the Peruvian government enacted tax law changes to both the income tax and dividend tax rates that became effective on January 1, 2015. The new rates are as follows:

Year	Income Tax Rate	Dividend Tax Rate
2015- 2016	28%	6.8%
2017- 2018	27%	8.0%
2019 and later	26%	9.3%

Mexican mining royalty: In December 2013, the Mexican government enacted a new law which, among other things, established a mining royalty charge of 7.5% on earnings before taxes as defined by Mexican tax regulations and an additional royalty charge of 0.5% over gross income from sales of gold, silver and platinum. The Company has accrued $29.4 million and $22.8 million of royalty taxes as part of the income tax provision for the nine months of 2016 and 2015, respectively.

Accounting for uncertainty in income taxes: In the third quarter and nine months of 2016, there were no changes in the Company s uncertain tax positions.

NOTE 6 PROVISIONALLY PRICED SALES:

At September 30, 2016, the Company has recorded provisionally priced sales of copper at average forward prices per pound, and molybdenum at the September 30, 2016 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 September 30, 2016:

	Sales volume (million lbs.)		Priced at (per pound)	Month of settlement
Copper	206.3	$	2.20	From October 2016 to December 2016
Molybdenum	15.8	$	7.00	From October 2016 to January 2017

The provisional sales price adjustment included in accounts receivable and net sales at September 30, 2016 includes a positive adjustment of $3.5 million for copper and a negative adjustment of $1.1 million for molybdenum.

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

NOTE 7 - 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 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 a review 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 September 2016, the Company has provided guarantees of $21.7 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.

In 2010, the Company announced to the Mexican federal environmental authorities its closure plans for the copper smelter plant at San Luis Potosi. In order to transform an environmental liability into an asset, the Company initiated a program for plant demolition and soil remediation with a budget of $66.2 million, of which the Company has spent $65.7 million through September 30, 2016. Plant demolition and construction of a confinement area at the south of the property were completed in 2012. In accordance with remediation goals previously approved by environmental authorities, soil remediation and on-site encapsulation on a second confinement area of impacted soils has been completed. Confirmation sampling was successfully

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completed. On September 2, 2016, the environmental authorities approved the conclusion of the remediation effort. A decision will be made on whether to sell or develop the property.

The overall cost recognized for mining closure in Mexico 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 nine months ended September 30, 2016 and 2015 ($ in millions):

	2016	2015
Balance as of January 1	$ 190.9	$ 116.1
Changes in estimates		
Payments	(1.7)	(15.3)
Accretion expense	21.2	13.1
Balance as of September 30,	$ 210.4	$ 113.9

NOTE 8 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 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):

	At September 30, 2016	At December 31, 2015
Related parties receivable current:		
Asarco LLC	$ 7.7	$
Compania Perforadora Mexico S.A.P.I. de C.V. and affiliates	1.3	0.7
Ferrocarril Mexicano S.A. de C.V.		0.2
Grupo Mexico	4.9	0.6
Mexico Generadora de Energia S. de R.L. (MGE)	25.3	13.9
Mexico Proyectos y Desarrollos, S.A. de C.V. and affiliates	1.2	0.3
Operadora de Generadoras de Energia Mexico S.A. de C.V.		0.1
Operadora de Cinemas S.A. de C.V.	0.2	
	$ 40.6	$ 15.8

Related parties receivable non-current:

MGE	$		$	111.2
Related parties payable:				
Asarco LLC	$	37.8	$	20.6
Eolica El Retiro, S.A.P.I. de C.V.		0.1		0.1
Ferrocarril Mexicano S.A. de C.V.		0.1		
Grupo Mexico		1.4		12.0
MGE		18.4		23.0
Mexico Proyectos y Desarrollos, S.A. de C.V. and affiliates		9.8		11.8
Boutique Bowling de Mexico S.A. de C.V.				0.2
Mexico Transportes Aereos S.A. de C.V. (Mextransport)		1.0		0.5
Operadora de Cinemas S.A. de C.V.		0.3		0.2
Breaker S.A. de C.V. and affiliates (Breaker)		0.3		0.3
Higher Technology S.A.C.		0.6		
Servicios y Fabricaciones Mecanicas S.A.C.		0.2		
Sempertrans and affiliates				0.6
	$	70.0	$	69.3

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Purchase and sale activity:

Grupo Mexico and its affiliates:

The following table summarizes the purchase and sales activities with Grupo Mexico and its affiliates in the nine months ended September 30, 2016 and 2015 (in millions):

	2016	2015
Purchase activity		
Asarco LLC	$ 26.9	$ 23.9
Compania Perforadora Mexico S.A.P.I. de C.V and affiliates		0.3
Eolica El Retiro, S.A.P.I. de C.V.	0.8	7.1
Ferrocarril Mexicano S.A de C.V.	33.9	17.8
Grupo Mexico	15.0	10.4
MGE	171.3	97.1
Mexico Proyectos y Desarrollos, S.A. de C.V. and affiliates	47.1	44.2
Total purchases	$ 295.0	$ 200.8
Sales activity		
Asarco LLC	$ 37.0	$ 71.7
Compania Perforadora Mexico S.A.P.I. de C.V and affiliates	0.5	0.4
Grupo Mexico	0.6	0.1
MGE	72.6	64.3
Mexico Proyectos y Desarrollos, S.A. de C.V. and affiliates	0.3	0.7
Total sales	$ 111.0	$ 137.2

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 requiring 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 Desarrollo 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.

The Company s Mexican operations purchased scrap and other residual copper mineral from Asarco, and power from MGE. Both companies are subsidiaries 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 the power plants. That 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 a 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%. In the third quarter of 2016, MGE repaid the outstanding balance of the debt. Related to this loan, the Company recorded interest income of $4.2 million and $7.0 million in the nine months ended September 30, 2016 and 2015, 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 second quarter of 2014. These plants are natural gas-fired combined cycle power generating units, with a net total capacity of 516.2 megawatts. The first plant began supplying power to the Company in December 2013, and the second plant began to supply power in June 2015. MGE is supplying approximately 12% of its power output to third-party energy users.

On August 4, 2014, Mexico Generadora de Energia Eolica S. de R.L. de C.V, an indirect subsidiary of Grupo Mexico, which is located in Oaxaca, Mexico, acquired Eolica El Retiro, S.A.P.I de C.V. (Eolica el Retiro). Eolica el Retiro is a windfarm with 37 wind turbines. In 2014, Eolica el Retiro started to sell power to IMMSA, one of our Mexican subsidiaries groups. During the nine

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months of 2016, approximately 11% of Eolica El Retiro s power was sold to IMMSA, the rest of its power output was sold to third-party energy users, including the Federal Electricity Commission.

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 rentals 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 nine months ended September 30, 2016 and 2015 (in millions):

	2016	2015
Purchase activity		
Boutique Bowling de Mexico S.A. de C.V.	$ 0.3	$
Mextransport	1.5	1.1
Operadora de Cinemas S.A. de C.V.	0.5	
Total purchases	$ 2.3	$ 1.1
Sales activity		
Boutique Bowling de Mexico S.A. de C.V.	$ 0.2	$
Mextransport	0.4	0.3
Operadora de Cinemas S.A. de C.V.	0.1	
Total sales	$ 0.7	$ 0.3

The Larrea family controls a majority of the capital stock of Grupo Mexico, and has extensive interests in other businesses, including transportation, real estate and entertainment. 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, air transportation and entertainment.

The Company s Mexican operations paid fees for entertainment services provided by Boutique Bowling de Mexico S.A de C.V. and Operadora de Cinemas S.A. de C.V. Both companies are controlled by the Larrea family.

MexTransport provides aviation services to the Company s Mexican operations. This is a company controlled by the Larrea family.

Companies with relationships with SCC executive officers:

The following table summarizes the purchase activities with companies with relationships to SCC executive officers in the nine months ended September 30, 2016 and 2015 (in millions):

	2016	2015
Breaker	$ 0.5	$ 3.8
Higher Technology S.A.C.	1.0	1.1
Pigoba S.A. de C.V.	0.1	
Sempertrans and affiliates		0.5
Servicios y Fabricaciones Mecanicas S.A.C.	0.4	0.5
Total purchases	$ 2.0	$ 5.9

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, son of SCC s Chief Executive Officer, has a proprietary interest in these companies.

The Company purchased industrial material from Sempertrans and its affiliates, which employed Mr. Alejandro Gonzalez as a sales representative, through August 4, 2015. 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´s Mexican operations purchased industrial material and services from Breaker, a company in which Mr. Jorge Gonzalez, son-in-law of SCC s Chief Executive Officer, has a proprietary interest.

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Equity Investment in Affiliate: The Company has a 44.2% participation in Compania Minera Coimolache S.A. (Coimolache), which it accounts for on the equity method. Coimolache owns Tantahuatay, a gold mine located in the northern part of Peru. It is anticipated that in the future the Company will enter into similar transactions with these same parties.

NOTE 9- BENEFIT PLANS:

Post retirement defined benefit plans

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

In addition, the Company s Mexican subsidiaries have a defined contribution pension plan for salaried employees and a non-contributory defined benefit pension plan for union employees.

The components of the net periodic benefit costs for the nine months ended September 30, 2016 and 2015 are as follows (in millions):

	2016	2015
Service cost	$ 0.6	$ 0.7
Interest cost	0.7	0.7
Expected return on plan assets	(1.8)	(2.4)
Amortization of net loss (gain)	0.2	(0.1)
Amortization of prior service cost	0.1	0.1
Net periodic benefit cost	$ (0.2)	$ (1.0)

Post-retirement health care plan

United States: The Company adopted a post-retirement health care plan for retired salaried employees eligible for Medicare in 1996. 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 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 new workers of Buenavista del Cobre will receive health services from the Mexican Institute of Social Security as is the case for all Mexican workers.

The components of the net periodic benefit cost for the nine months ended September 30, 2016 and 2015 are as follows (in millions):

	2016	2015
Interest cost	$ 0.4	$ 1.0
Amortization of net (gain)	(0.3)	(0.2)
Amortization of prior service cost (credit)	(*)	(*)
Net periodic benefit cost	$ 0.1	$ 0.8

(*) amount is lower than $0.1 million

NOTE 10 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 the 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.

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Environmental capital investments in the nine months ended September 30, 2016 and 2015 were as follows ($ in millions):

	2016	2015
Peruvian operations	$ 58.7	$ 60.8
Mexican operations	101.2	15.4
	$ 159.9	$ 76.2

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 mine closure and remediation. In accordance with the requirements of this law, the Company s closure plans were approved by MINEM. See Note 7 Asset retirement obligation, for further discussion of this matter. In accordance with the requirements of the law, in 2015 the Company submitted the closure plans for the Tia Maria project and for the Toquepala expansion. The process of review and approval of closure plans usually takes several months. In March 2016, MINEM approved the Mining Closure Plan for the Toquepala expansion project. The closure plan for the Tia Maria project is pending approval.

In 2008, the Peruvian government enacted environmental regulations establishing more stringent air quality standards (AQS) for daily sulfur dioxide (SO2) in the air for the Peruvian territory. These regulations, as amended in 2013, recognize distinct zones/areas, as atmospheric basins. MINAM has established three atmospheric basins that require further attention to comply with the air quality standards. 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, indicates that mining companies should review their compliance with these regulations and develop a modification plan to reach compliance. The Company continues to work with an environmental technical study group, established by a MINAM resolution to identify activities, goals, deadlines, timetables and to develop an action plan in order to achieve compliance with AQS.

While the Company believes that a potential loss contingency may exist, it cannot currently estimate the amount of such contingency. The Company and other industries affected by this supreme decree believe that the lack of further regulations and direction from the government has delayed the full review and analysis of the necessary actions to establish compliance. Pending further government action, the Company will continue to work with its study group to analyze this issue. Furthermore, the Company does not believe it can estimate a reasonable range of possible costs until additional guidance is received from the government. Therefore, currently the Company is not able to disclose a range of costs that is meaningful.

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 had twelve months to identify contaminated sites in and around its facilities and present a report of identified contaminated sites. This report was submitted to MINEM in April 2015. After a review, MINEM should evaluate and issue a report to the Company, which will allow it to continue to the next phase. Currently, the Company is awaiting an official response from MINEM. Once MINEM notifies the Company, it must prepare a characterization study to determine the depth, extent and physio-chemical composition of the contaminated areas and to define an appropriate remediation plan and the time-frame in which it will take place. In addition, the Company must submit for approval a Soil Decontamination Plan (SDP) within 24 months after being notified by the authority. This SDP shall include remediation actions, a schedule and compliance deadlines. Also under this rule, if deemed necessary and given reasonable justification, the Company may request a one year extension for the decontamination plan.

Soil confirmation tests must be carried out after completion of decontamination actions (within the approved schedule) and results must be presented to authorities within 30 days after receiving such results. Non-compliance with this obligation or with decontamination goals will carry penalties, although no specific sanctions have been established yet. During compliance with this schedule, companies cannot be penalized for non-compliance with the SQS.

While the Company believes that there is a reasonable possibility that a potential loss contingency may exist, it cannot currently estimate the amount of the contingency. The Company believes that a reasonable determination of the loss will be possible once the characterization study and the SDP are substantially completed. At that time the Company will be in a position to estimate the remediation cost. Further, the Company does not believe that it can estimate a reasonable range of possible costs until the noted studies have substantially progressed and therefore is not be able to disclose a range of costs that is meaningful.

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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. It may also initiate administrative proceedings against companies that violate environmental laws, which in the most extreme cases may result in the temporary or permanent shutdown of non-complying facilities, the revocation of operating licenses and/or other sanctions or fines.

In 2011, the General Law was amended, giving 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 as long as it can be argued that the harm may be caused. In addition, in 2011, amendments to the Civil Federal Procedures Code (CFPC) were enacted. 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 2013, the Environmental Liability Federal Law was enacted. The law establishes general guidelines for actions to be considered to likely cause environmental harm. If a possible determination regarding harm occurs, environmental clean-up and remedial actions sufficient to restore environment to a pre-existing condition should be taken. Under this law, if restoration is not possible, compensation measures should be provided. Criminal penalties and monetary fines can be assessed under this law.

On August 6, 2014, an accidental spill of approximately 40,000 cubic meters of copper sulfate solution occurred at a leaching pond that was under construction ten kilometers from the mine of Buenavista del Cobre, S.A. de C.V. (BVC) a subsidiary of the Company. The accident was caused by a rock collapse that affected the system s pumping station and by a construction defect in the seal of a pipe in the leaching system containment dam, a part of the new SX-EW III plant. This solution reached the Bacanuchi River and the Sonora River. Immediate actions were taken in order to contain the spill, and to comply with all the legal requirements. In August 2014, the Company hired contractors including environmental specialists and more than 1,200 of its own workers to clean the river.

In addition, the Company developed a service program to assist the residents of the Sonora River region, which included (i) water distribution provisions, and infrastructure development within the affected region, (ii) the expansion of the current Community Development program to communities further downstream that were affected and previously not within the scope of the Company´s program, (iii) meetings with local farmers and producers in coordination with the Federal Ministry of Agriculture, Livestock, Rural Development, Fisheries, and Nutrition in order to revamp and promote the activities of local farmers and producers, (iv) the implementation of sustainable productive projects at each affected site, as well as (v) the establishment of service desks to address specific complaints and concerns of the community.

The National Water Commission, the Federal Commission for the Protection of Sanitary Risk and PROFEPA initiated administrative proceedings regarding the spill to determine possible environmental and health damages. On August 19, 2014, PROFEPA, as part of the administrative proceeding initiated after the spill, announced the filing of a criminal complaint against BVC in order to determine those responsible for the environmental damages. The Company is vigorously defending itself against this complaint. As of September 30, 2016, the case remains in the procedural stages and is pending resolution.

On September 15, 2014, BVC executed an administrative agreement with PROFEPA, providing for the submission of a remediation action plan to the Mexican Ministry of Environment and Natural Resources (Secretaria de Medio Ambiente y Recursos Naturales SEMARNAT). The general remediation program submitted to SEMARNAT was approved on January 6, 2015. This program is being developed in five different zones all of which have obtained approval from SEMARNAT. The Company is complying with the remedial program.

The Company also created a trust with Nacional Financiera S.N.C., a Mexican development bank, acting as a Trustee to support environmental remedial actions in connection with the spill, to comply with the remedial action plan and to compensate those persons adversely affected by the spill. The Company committed up to two billion Mexican pesos (approximately $150 million) of which approximately one billion Mexican pesos have already been contributed. A technical committee for the trust was created with representatives from the federal government, the Company and specialists assisted by a team of environmental

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experts to ensure the proper use of the funds. Along with the administrative agreement executed with PROFEPA, the trust serves as an alternative mechanism for dispute resolution to mitigate public and private litigation risks.

As a result of the administrative proceeding, conducted by PROFEPA, on March 2, 2015 a final ruling imposed a fine of $1.7 million.

Through the first half of 2015, six collective action lawsuits were filed in federal courts in Mexico City and Sonora against two subsidiaries of the Company seeking economic compensation, clean up and remedial activities in order to restore the environment to its pre-existing conditions. Four of the collective action lawsuits have been dismissed by the court. The plaintiffs in these six lawsuits are: Acciones Colectivas de Sinaloa, A.C. which established two collective actions (one of which was dismissed on September 26, 2016); Filiberto Navarro Soto et al (dismissed on July 14, 2015); Defensa Colectiva A.C. (dismissed on August 7, 2015); Ismael Navarro Babuca et al (dismissed on August 17, 2015); and Ana Luisa Salazar Medina et al. which has been granted a collective action certification and the plaintiffs have requested cautionary measures on the construction of facilities for the monitoring of public health services and the prohibition of the closure of the Río Sonora Trust.

For a description of the regulations related to collective actions in Mexico, please refer to the 2011 amendments to the CFPC described above.

Similarly, during 2015, eight civil action lawsuits were filed against BVC in the state courts of Sonora seeking damages for alleged injuries and for moral damages as a consequence of the spill. The plaintiffs in the state court lawsuits are: Jose Vicente Arriola Nunez et al; Santana Ruiz Molina et al; Andres Nogales Romero et al; Teodoro Javier Robles et al; Gildardo Vasquez Carvajal et al; Rafael Noriega Souffle et al; Grupo Banamichi Unido de Sonora El Dorado, S.C. de R.L. de C.V; and Marcelino Mercado Cruz. In the first quarter of 2016, one additional civil action lawsuit, claiming the same damages, was filed by Juan Melquicedec Lebaron.

During 2015, four constitutional lawsuits (juicios de amparo) were filed before Federal Courts against various authorities and against a subsidiary of the Company, arguing; (i) the alleged lack of a waste management program approved by SEMARNAT; (ii) the alleged lack of a remediation plan approved by SEMARNAT with regard to the August 2014 spill; (iii) the alleged lack of community approval regarding the environmental impact authorizations granted by SEMARNAT to one subsidiary of the Company; and (iv) the alleged inactivity of the authorities with regard of the spill in August 2014. The plaintiffs of those lawsuits are: Francisca Garcia Enriquez, et al which established two lawsuits, Francisco Ramon Miranda, et al and Jesus David Lopez Peralta et al. In the first quarter of 2016, an additional constitutional lawsuit, claiming same damages was filed by Oscar Encinas Gamez et al; and during the third quarter of 2016, three additional constitutional lawsuits, claiming same damages were filed by Maria Elena Heredia Bustamante et al; Martin Eligio Ortiz Gamez et al; and Maria de los Angeles Enriquez Bacame et al.

It is currently not possible to determine the extent of the damages sought in these state and federal lawsuits but the Company considers that these lawsuits are without merit. Accordingly, the Company is vigorously defending against these actions. Nevertheless, the Company considers that none of the legal proceedings resulting from the spill, individually or in the aggregate, would have a material effect on its financial position or results of operations.

As of September 30, 2016, BVC estimated total damages at $136.4 million, of which $42.3 million was paid with the Company s funds, and approximately one billion Mexican pesos (approximately $74.9 million) was deposited in the trust. These funds have been available and are being used to compensate claims as they arise. This deposit was classified as restricted cash and was recorded as an operating expense in the Company s results.

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 investments.

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

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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.

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 such 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 sol . Due to a past period of high inflation between 1985 and 1990, one billion of old soles is equivalent to today s one 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.

On June 9, 2009, the 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 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.

On September 23, 2015, the lower court that ordered the delivery by the Branch of the labor shares, seized 10,501,857 investment shares owned by SCC and Compania Minera Los Tolmos, S.A. (Los Tolmos). The Company is vigorously defending against these measures, and has challenged them on various grounds, mainly because a labor share created by law in 1979 is not equivalent to an investment share , on a one to one basis, as the latter must recognize the Peruvian inflation of the 1980-2014 period. One investment share represents ten million labor shares . Additionally, the seized investment shares are owned by SCC and Los Tolmos, companies that are not a party in the lawsuit.

In December 2015, the Company appealed the lower court´s decision before the Superior Court that declared without merit its opposition to the seizure. Los Tolmos initiated a third party claim to ownership, to have the lower court cancel the

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seizure order on their investment shares. In January 2016, the lower court issued a resolution clarifying that the seizure measure applies to the investment shares owned by SCC s Peruvian Branch even if they are in possession of SCC or Los Tolmos.

On October 4, 2016, the Superior Court issued Resolution N.10 which ruled that SCC s assertion that the plaintiffs had participated in each of the labor share exchange transactions has not been proven. Hence, an expert must be engaged to establish which plaintiffs received the labor shares; to determine who are the holders of the current investment share certificates; determine the dividend amounts that have been generated by such shares and to identify the plaintiffs who have collected the dividends. The court also ruled that the seizure of the corporation s investment shares was unfounded.

This ruling is important because it recognizes that the value of the original labor shares was affected by the fluctuations in Peruvian currency, which changed over time from the original sol de oro to the inti , and subsequently to the Nuevo sol or currently simply referred to as the sol . Such fluctuation affected the value of a Labor share on a 10 to 1 exchange ratio, and the value of the investment shares, at an exchange ratio of 1,000 to 1.

If the recent ruling of the Superior Court is upheld on appeal, SCC s Peruvian Branch believes that the experts review will prove the validity of the Branch´s assertions that it fulfilled its obligations to the plaintiffs. Additionally, if upheld on appeal the Court s recognition of the exchange ratio of the original 1980 labor shares to today´s investment shares, makes the final result of this matter not material for the Company.

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: (1) Armando Cornejo Flores and others v. SCC s Peruvian Branch (filed May 10, 2006); (2) Alejandro Zapata Mamani and others v. SCC s Peruvian Branch (filed June 27, 2008); (3) Edgardo Garcia Ataucuri, in representation of 216 of SCC s Peruvian Branch former workers, v. SCC s Peruvian Branch (filed May 2011); (4) Juan Guillermo Oporto Carpio v. SCC s Peruvian Branch (filed August 2011); (5) Rene Mercado Caballero v. SCC s Peruvian Branch (filed November 2011); (6) Enrique Salazar Alvarez and others v. SCC s Peruvian Branch (filed December 2011); (7) Armando Cornejo Flores, in representation of 37 of SCC s Peruvian Branch former workers v. SCC s Peruvian Branch (filed March 2012); (8) Porfirio Ochochoque Mamani and others v. SCC s Peruvian Branch (filed July 2012); (9) Alfonso Claudio Flores Jimenez and others v. SCC s Peruvian Branch (filed July 2013); (10) Edgardo Garcia Ataucuri in representation of 104 of SCC´s Peruvian Branch former workers (filed March 2015); (11) Nicolas Aurelio Sueros Benavente v. SCC s Peruvian Branch (filed May 2015); (12) Victor Raul Marquez Cano v. SCC s Peruvian Branch (filed June 2015) and (13) Armando Cornejo Flores in representation of five former workers of SCC s Peruvian Branch v. SCC s Peruvian Branch (filed September 2016). SCC s Peruvian Branch has answered the complaints and denied the validity of the asserted 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 lawsuit:

- 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. In August 2015, the lower court dismissed the case on the grounds that the plaintiffs had not proven the alleged unfairness of the negotiations. The plaintiffs appealed this resolution before the Superior Court. In September 2016, the Superior Court confirmed the lower court s resolution. The plaintiffs may appeal this last resolution before the Supreme Court.

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The Company asserts that this lawsuit is without merit and is vigorously defending against it.

The Tia Maria Mining Project

There are four lawsuits filed against the Peruvian Branch of the Company related to the Tia Maria project. The lawsuits seek (i) to declare null and void the resolution which approved the Environmental Impact Assessment of the project; (ii) the cancellation of the project and the withdrawal of mining activities in the area and (iii) to declare null and void the beneficiation concession application of the Tia Maria project. The lawsuits were filed by Messrs. Jorge Isaac del Carpio Lazo, Ernesto Mendoza Padilla, Nicolas Belfiore Nicolini and Juan Alberto Guillen Lopez.

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

Special Regional Pasto Grande Project (Pasto Grande Project)

In 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 with proper governmental authorization, since 1995. SCC s Peruvian Branch asserts that the lawsuit is without merit and is vigorously defending against it. Upon a motion filed by the Peruvian Branch, the lower court has included MINEM as a defendant in this lawsuit. MINEM has answered the complaint and denied the validity of the claim. As of September 30, 2016, the case remains pending resolution without further developments.

Carla Lacey and Barbara Siegfried, on behalf of themselves and all other similarly situated stockholders of Southern Copper Corporation, and derivatively on behalf of Southern Copper Corporation

A purported class action derivative lawsuit filed in the Delaware Court of Chancery was served on the Company and its Directors in February 2016 relating to the 2012 capitalization of 99.999% of MGE by Controladora de Infraestructura Energetica Mexico, S.A. de C.V., an indirect subsidiary of Grupo Mexico (the CIEM Capitalization), the Company s entry into a power purchase agreement with MGE in 2012 (the MGE Power Purchase Agreement), and the 2012 restructuring of a loan from the Company s Mexican Operations to MGE for the construction of two power plants to supply power to the Company s Mexican operations (the MGE Loan Restructuring). The action purports to be brought on behalf of the Company and its common stockholders. The complaint alleges, among other things, that the CIEM Capitalization, the MGE Power Purchase Agreement and the MGE Loan Restructuring were the result of breaches of fiduciary duties and the Company s charter. The Company has filed a response denying these allegations and is currently in the discovery process.

Labor matters:

Peruvian operations: Approximately 74% of the Company s 3,366 Peruvian workers were unionized at September 30, 2016. Currently, there are five separate unions, one large union and four smaller unions. In the first quarter of 2016, the Company signed three-year agreements with all five unions. These agreements include, among other things, annual salary increases of 5% for each of the three years.

The Company has not had any labor stoppages at its Peruvian operations as of the nine months ending September 30, 2016.

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) to other less politicized unions.

However, the workers of the San Martin and Taxco mines, are still under the National Mining Union and 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

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decision of the labor court in this new proceeding would have the effect of terminating the protracted strike at San Martin. As of September 30, 2016, the case remains pending resolution without further developments.

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 at the mine (including termination of 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 remanded the case to the federal labor court for reconsideration. After several legal proceedings on January 25, 2013, the Company filed a new proceeding before the labor court. On June 16, 2014, the labor court denied the petition of the Company. The resolution issued by the labor court was challenged by the Company before a federal court. In August 2015, the Supreme Court decided to assert jurisdiction over the case and to rule on it directly. Considering this new decision of the Supreme Court, there could be grounds for a favorable decision to end the protracted strike at the Taxco mine. As of September 30, 2016, the case remains pending resolution without further developments.

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

In view of these lengthy strikes, the Company has reviewed the carrying value of the San Martin and Taxco mines to ascertain whether impairment exists. The Company concluded that there is a non-material impairment of the assets located at these mines.

Excluding the San Martin and Taxco mines, the Company has not had any labor stoppages at its Mexican operations as of the nine months ending September 30, 2016.

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.

Other commitments:

Peruvian Operations

Tia Maria:

On August 1, 2014, the Company received the final approval of Tia Maria´s Environmental Impact Assessment (EIA). However, the issuance of the project´s construction permit has been delayed due to pressures from anti-mining groups. In 2016, the Company has continued working with community groups in order to resolve open issues concerning the project.

Tia Maria´s project budget is approximately $1.4 billion of which $362.8 million has been invested through September 30, 2016. When completed, it is expected to produce 120,000 tons of copper cathodes per year. This project will use state-of-the-art SX-EW technology with the highest international environmental standards. SX-EW facilities are the most environmentally friendly in the industry as they do not require a smelting process and consequently, no emissions are released into the atmosphere. The project will only use seawater, transporting this more than 25 kilometers to 1,000 meters above sea level, and includes a desalinization plant which will be constructed at a cost of $95 million. Consequently, the Tambo river water resources and the water resources from the wells in the area will be used solely for farming and human consumption.

The Company expects the project to generate 3,500 jobs during the construction phase. When in operation, Tia Maria will directly employ 600 workers and indirectly another 2,000. Through its expected twenty-year life, the project related services will create significant business opportunities in the Arequipa region.

In view of the delay in this project, the Company has reviewed the carrying value of this asset to ascertain whether impairment exists. Should the Tia Maria project not resume operations, the Company is confident that most of the project equipment will continue to be used productively, through reassignment to other mine locations operated by the Company. The Company believes that an impairment loss, if any, will not be material.

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Toquepala Concentrator Expansion:

In April 2015, the construction permit for the Toquepala expansion project was approved by the MINEM. The project budget is $1.2 billion, of which $476.6 million has been expended through September 30, 2016. When completed, this expansion project is expected to increase annual production capacity by 100,000 tons of copper and 3,100 tons of molybdenum.

Corporate Social Responsibility:

The Company has a corporate social responsibility policy to promote local sustainable development in the regions where it develops its mining operations. The objective of this policy is to integrate with local communities in the areas of Company influence, promote dialogue to achieve sustainable development while maintaining the continuity of operations. To reinforce these initiatives, the Peruvian National Government promotes development roundtables where the national, regional and local authorities participate in conjunction with local organized community groups and Company representatives to identify initiatives for regional development. Accordingly, the Company participates in various roundtables as follows:

Tacna Region: In connection with the Toquepala concentrator expansion, the Company has committed to fund various social and infrastructure projects in Toquepala s neighboring communities. The total amount committed for these purposes is S/ 400.0 million (approximately $118 million).

Moquegua Region: In connection with the Cuajone operations, the Company is part of a development roundtable which is discussing the creation of a development fund. While the fund amount is not yet settled, the Company has committed to contribute S/ 108.5 million (approximately $32 million) in advance, for an important landmark educational project which is benefiting the Moquegua children and teachers.

Arequipa Region: In connection with the Tia Maria project, the Company has offered to fund technical studies for S/ 38 million (approximately $11 million) in cooperation with the regional and local authorities, to promote social and infrastructure projects for the benefit of the Tia Maria s neighboring communities.

These commitments are subject to the continuity of the respective mine operations and, as such, are not present obligations of the Company, therefore, the Company has not recorded a liability on its condensed consolidated financial statements.

Power purchase agreements:

- *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 120 megawatt (MW) with the state power 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 120MW 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. In May 2016, the Company signed an additional power purchase agreement for a maximum of 80MW with Kallpa, under which Kallpa will supply energy for the Peruvian operations related to the Toquepala Expansion and other minor projects for ten years starting on May 1, 2017 and ending after ten years of commercial operation of the Toquepala Expansion or on April 30, 2029; whichever happens first.

<u>Mexican operations</u>

Power purchase agreements:

- *MGE:* In 2012, the Company signed a power purchase agreement with MGE, an indirect subsidiary of Grupo Mexico, to supply power to some of the Company s Mexican operations through 2032. For further information, please see Note 8 Related party transactions .

<u>Corporate operations</u>

Commitment for Capital projects:

As of September 30, 2016, the Company has committed approximately $308.2 million for the development of its capital investment projects at its operations.

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Tax contingency matters:

Tax contingencies are provided for under ASC 740-10-50-15 Uncertain tax position (see Note 5 Income taxes).

NOTE 11 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 Senior Management on the segment basis. Senior Management 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.

Financial information relating to Southern Copper s segments is as follows ($ in millions):

	Three Months Ended September 30, 2016				
	Mexican Open-pit	**Mexican IMMSA Unit**	**Peruvian Operations**	**Corporate, other and eliminations**	**Consolidated**
Net sales outside of segments	$ 865.0	$ 94.9	$ 440.8	$	$ 1,400.7
Intersegment sales		19.0		(19.0)	
Cost of sales (exclusive of depreciation, amortization and depletion)	462.6	73.8	341.8	(46.8)	831.4
Selling, general and administrative	11.3	2.1	9.0	0.3	22.7
Depreciation, amortization and depletion	94.5	15.8	54.0	10.2	174.5
Exploration	2.5	1.7	2.1	3.4	9.7
Operating income	$ 294.1	$ 20.5	$ 33.9	$ 13.9	362.4
Less:					
Interest, net					(71.3)
Other income (expense)					9.6

Income taxes	(111.2)
Equity earnings of affiliate	8.7
Non-controlling interest	(0.6)
Net income attributable to SCC	