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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

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

For the fiscal year ended: **December 31, 2019**

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**Commission File Number: 1-14066**

Graphic

**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**

Securities registered pursuant to Section 12(b) of the Act:

| <u>Title of each class:</u>              | <u>Trading Symbol</u> | <u>Name of each exchange on which registered:</u> |
|--|-----------------------|---|
| Common stock, par value \$0.01 per share | SCCO                  | New York Stock Exchange<br>Lima Stock Exchange    |

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  
Yes  No

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 every Interactive Data File required to be submitted 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 such files). Yes  No

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

Large accelerated filer       Accelerated filer       Non-accelerated filer       Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

At February 26, 2020, there were of record 773,058,869 shares of common stock, par value \$0.01 per share, outstanding.

The aggregate market value of the shares of common stock (based upon the closing price at June 30, 2019 as reported on the New York Stock Exchange-Composite Transactions) of Southern Copper Corporation held by non-affiliates was approximately \$3,332.7 million.

PORTIONS OF THE FOLLOWING DOCUMENTS ARE INCORPORATED BY REFERENCE:

Part III: Proxy statement for 2020 Annual Meeting of Stockholders  
Part IV: Exhibit Index is on Page 161 through 163

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**Southern Copper Corporation (“SCC”)**

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**PART I**

**ITEM 1. BUSINESS**

**THE COMPANY**

Southern Copper Corporation (“SCC”, “Southern Copper” or the “Company”) is one of the largest integrated copper producers in the world. Our major production includes copper, molybdenum, zinc and silver. All of our mining, smelting and refining facilities are located in Peru and Mexico and we conduct exploration activities in those countries and in Argentina, Chile and Ecuador. See Item 2 “Properties—Review of Operations” for maps of our principal mines, smelting facilities and refineries. Our operations make us one of the largest mining companies in Peru and Mexico. We believe we have the largest copper reserves in the world. We were incorporated in Delaware in 1952 and have conducted copper mining operations since 1960. Since 1996, our common stock has been listed on both the New York and Lima Stock Exchanges.

Our Peruvian copper operations involve mining, milling and flotation of copper ore to produce copper concentrates and molybdenum concentrates; the smelting of copper concentrates to produce blister and anode copper; and the refining of anode copper to produce copper cathodes. As part of this production process, we also produce significant amounts of molybdenum concentrate and sulfuric acid. Our precious metals plant at the Ilo refinery produces refined silver, gold, and other materials. Additionally, we produce refined copper using solvent extraction/electrowinning technology (“SX-EW”). We operate the Toquepala and Cuajone open-pit mines high in the Andes Mountains, approximately 860 kilometers southeast of the city of Lima, Peru. We also operate a smelter and refinery west of the Toquepala and Cuajone mines in the coastal city of Ilo, Peru.

Our Mexican operations are conducted through our subsidiary, Minera Mexico, S.A. de C.V. (“Minera Mexico”), which we acquired in 2005. Minera Mexico engages primarily in the mining and processing of copper, molybdenum, zinc, silver, gold and lead. Minera Mexico operates through subsidiaries that are grouped into three separate units. Mexicana de Cobre, S.A. de C.V. (together with its subsidiaries, the “La Caridad” unit) operates La Caridad, an open-pit copper mine, a copper ore concentrator, a SX-EW plant, a smelter, refinery and a rod plant. The La Caridad refinery has a precious metals plant which produces refined silver, gold and other materials. Operadora de Minas e Instalaciones Mineras, S.A. de C.V. (the “Buenavista unit”) operates Buenavista, an open-pit copper mine, which is located at the site of one of the world’s largest copper ore deposits, two copper concentrators and three SX-EW plants. Industrial Minera Mexico, S.A. de C.V. (together with its subsidiaries, the “IMMSA unit”) operates five underground mines that produce zinc, lead, copper, silver and gold, a coal mine and a zinc refinery.

We utilize modern, state of the art mining and processing methods, including global positioning systems and computerized mining processes. Our operations have a high level of vertical integration that allows us to manage the entire production process, from the mining of the ore to the production of refined copper rod and other products and most related transport and logistics functions, using our own facilities, employees and equipment.

The sales prices for our products are largely determined by market forces beyond our control. Our management, therefore, focuses on cost control and production enhancement to remain profitable. We endeavor to achieve these goals through capital spending programs, exploration efforts and cost reduction programs. Our focus is to remain profitable during periods of low copper prices and on maximizing results in periods of high copper prices. For

additional information on the sale prices of the metals we produce, please see “Metal Prices” in this Item 1.

Currency Information:

Unless stated otherwise, all our financial information is presented in U.S. dollars and any reference herein to “U.S. dollars”, “dollars”, or “\$” are to U.S. dollars; references to “sol”, “soles” or “S/”, are to Peruvian soles; and references to “peso”, “pesos”, or “Ps.”, are to Mexican pesos.

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### Unit Information:

Unless otherwise noted, all tonnages are in metric tons. To convert to short tons, multiply by 1.102. All ounces are troy ounces. All distances are in kilometers. To convert to miles, multiply by 0.621. To convert hectares to acres, multiply by 2.47.

### ORGANIZATIONAL STRUCTURE

The following chart describes our organizational structure, starting with our controlling stockholders, as of December 31, 2019. For clarity of presentation, the chart identifies only our main subsidiaries and eliminates intermediate holding companies.

Graphic

We are a majority-owned, indirect subsidiary of Grupo Mexico S.A.B. de C.V. (“Grupo Mexico”). At December 31, 2019, Grupo Mexico through its wholly-owned subsidiary Americas Mining Corporation (“AMC”) owned 88.9% of our capital stock. Grupo Mexico’s principal business is to act as a holding company for the shares of other corporations engaged in the mining, processing, purchase and sale of minerals and other products and railway and other related services.

We conduct our operations in Peru through a registered branch (the “SPCC Peru Branch”, “Branch” or “Peruvian Branch”). The SPCC Peru Branch comprises substantially all of our assets and liabilities associated with our copper operations in Peru. The SPCC Peru Branch is not a corporation separate from us and, therefore, obligations of SPCC Peru Branch are direct obligations of SCC and vice-versa. It is, however, an establishment, registered pursuant to Peruvian law, through which we hold assets, incur liabilities and conduct operations in Peru. Although it has neither its own capital nor liability separate from us, it is deemed to have equity capital for purposes of determining the economic interests of holders of our investment shares (See Note 14 “Stockholders’ Equity” of our consolidated financial statements).

In April 2005, we acquired Minera Mexico, from Americas Mining Corporation (“AMC”), a subsidiary of Grupo Mexico, our controlling stockholder. Minera Mexico is a holding company and all of its operations are conducted through subsidiaries that are grouped into

three units: (i) the La Caridad unit (ii) the Buenavista unit and (iii) the IMMSA unit. We own 99.96% of Minera Mexico.

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In 2008, our Board of Directors (“BOD”) authorized a \$500 million share repurchase program that has since been increased by the BOD and is currently authorized to \$3 billion. Pursuant to this program, through December 31, 2019 we have purchased 119.5 million shares of our common stock at a cost of \$2.9 billion. These shares are available for general corporate purposes. We may purchase additional shares from time to time, based on market conditions and other factors. This repurchase program has no expiration date and may be modified or discontinued at any time.

### REPUBLIC OF PERU AND MEXICO

Our revenues are derived primarily from our operations in Peru and Mexico. Risks related to our operations in both countries include those associated with economic and political conditions, the effects of currency fluctuations and inflation, the effects of government regulations and the geographic concentration of our operations.

### AVAILABLE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the U.S. Securities and Exchange Commission (“SEC”). You may read and copy any document we file at the SEC’s Public Reference Room at 100 F Street NE, Washington, D.C. 20549. The SEC maintains a website that contains annual, quarterly and current reports, proxy statements and other information that issuers (including Southern Copper Corporation) file electronically with the SEC. The SEC’s website is [www.sec.gov](http://www.sec.gov).

Our website is [www.southerncoppercorp.com](http://www.southerncoppercorp.com). Beginning with the Form 8-K dated March 14, 2003, we have made available on this website, free of charge, our annual, quarterly and current reports, as soon as reasonably practical after we electronically file such material with, or furnish it to, the SEC. Our website also includes the Company’s Corporate Governance guidelines and the charters of our principal Board Committees. However, the information found on our website is not part of this or any other report.

### CAUTIONARY STATEMENT

Forward-looking statements in this report and in other Company statements include information regarding expected commencement dates of mining or metal production operations, projected quantities of future metal production, anticipated production rates, operating efficiencies, costs and expenditures, including taxes, as well as projected demand or supply for the Company’s products. Actual results could differ materially depending upon certain factors, including the risks and uncertainties relating to general U.S. and international economic and political conditions, the cyclical and volatile prices of copper, other commodities and supplies, including fuel and electricity, the availability of materials, insurance coverage, equipment, required permits or approvals and financing, the occurrence of unusual weather or operating conditions, lower than expected ore grades, water and geological problems, the failure of equipment or processes to operate in accordance with specifications, failure to obtain financial assurance to meet closure and remediation obligations, labor relations, litigation and environmental risks, as well as political and economic risk associated with foreign operations. Results of operations are directly affected by metal prices on commodity exchanges, which can be volatile.

Additional business information follows:

### COPPER BUSINESS

Copper is an important component in the world's infrastructure. It is the third most widely used metal, after iron and aluminum. Copper has unique chemical and physical properties, including high ductility, malleability, thermal and electrical conductivity, and resistance to corrosion that has made it a superior material for use in electrical and electronic products, including power transmission and generation, which accounts for about three quarters of copper global use, telecommunications, building construction, transportation and industrial machinery. Copper is also an important metal in non-electrical applications such as plumbing and roofing and, when alloyed with zinc to form brass, in many industrial and consumer applications.

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Copper is an internationally traded commodity with prices principally determined by the major metal exchanges, the Commodities Exchange, or “COMEX”, in New York and the London Metal Exchange or “LME.” Copper is usually found in nature in association with sulfur. Pure copper metal is generally produced from a multistage process, beginning with the mining and concentrating of low-grade ores containing copper sulfide minerals, and followed by smelting and electrolytic refining to produce a pure copper cathode. An increasing share of copper is produced from acid leaching of oxidized ores. Copper is one of the oldest metals ever used and has been one of the most important materials in the development of civilization.

### BUSINESS REPORTING SEGMENTS:

Our management views Southern Copper as having three reportable segments and manages it on the basis of these segments.

The three segments identified are groups of individual mines, each of which constitutes an operating segment with similar economic characteristics, type of products, processes and support facilities, regulatory environments, employee bargaining contracts and currency risks. In addition, each mine within the individual group earns revenues from similar types of customers for their products and services and each group incurs expenses independently, including commercial transactions between groups.

Inter-segment sales are based on arm’s length prices at the time of sale. These may not be reflective of actual prices realized by the Company due to various factors, including additional processing, timing of sales to outside customers and transportation cost. Added to the segment data is information regarding the Company’s sales. The segments identified by the Company are:

1. Peruvian operations, which include the Toquepala and Cuajone mine complexes and the smelting and refining plants, including a precious metals plant, industrial railroad and port facilities that service both mines. Sales of its products are recorded as revenue of our Peruvian mines. The Peruvian operations produce copper, with production of by-products of molybdenum, silver and other materials.
2. Mexican open-pit operations, which include the La Caridad and Buenavista mine complexes and the smelting and refining plants, including a precious metals plant and a copper rod plant and support facilities that service both mines. Sales of its products are recorded as revenue of our Mexican mines. The Mexican open-pit operations produce copper, with production of by-products of molybdenum, silver and other materials.
3. Mexican underground mining operations, which include five underground mines that produce zinc, copper, lead, silver and gold, a coal mine that produces coal and coke, and a zinc refinery. This group is identified as the IMMSA unit and sales of its products are recorded as revenue of the IMMSA unit.

Financial information is regularly prepared for each of the three segments and the results are reported to Senior management on a segment basis. Senior management focuses on operating income and on total assets as measures of performance to evaluate different segments and to make decisions to allocate resources to the reported segments. These are common measures in the mining industry.

Segment information is included in Item 2 “Properties,” under the captions—“Metal Production by Segments” and “Ore Reserves.” More information on business segment and segment financial information is included in Note 18 “Segment and Related Information” of our consolidated financial statements.

#### CAPITAL INVESTMENT PROGRAM AND EXPLORATION ACTIVITIES

For a description of our capital investment program, see Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Capital Investment Program” and for our exploration activities, see Item 2 “Properties—Explorations Activities.”

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## PRINCIPAL PRODUCTS AND MARKETS

Copper is primarily used in the building and construction industries, in the power generation and transmission industry, in electrical and electronic products and, to a lesser extent, in industrial machinery and equipment, consumer products and in the automotive and transportation industries. Molybdenum is used to toughen alloy steels and soften tungsten alloy and is also used in fertilizers, dyes, enamels and reagents. Silver is used for photographic, electrical and electronic products and, to a lesser extent, in brazing alloys and solder, jewelry, coinage, silverware and catalysts. Zinc is primarily used as a coating on iron and steel to protect against corrosion and is also used to make die cast parts, in the manufacturing of batteries and in the form of sheets for architectural purposes.

Our marketing strategy and annual sales planning emphasize developing and maintaining long-term customer relationships. Thus acquiring annual or other long-term contracts for the sale of our products is a high priority. Generally, 80% to 90% of our metal production is sold under annual or longer-term contracts. Sales prices are determined based on the prevailing commodity prices for the quotation period according to the terms of the contract.

We focus on the ultimate end-user customers as opposed to selling on the spot market or to trading companies. In addition, we devote significant marketing efforts to diversifying our sales both by region and by customer base. We also strive to provide superior customer service, including timely deliveries of our products. Our ability to consistently fulfill customer demand is supported by our substantial production capacity.

For additional information on sales please see “Revenue recognition” in Note 2 “Summary of Significant Accounting Policies” and Note 18 “Segment and Related Information” of our consolidated financial statements.

## METALS PRICES

Prices for our products are principally a function of supply and demand and, with the exception of molybdenum, are established on COMEX and LME. Prices for our molybdenum products are established by reference to the publication Platt’s Metals Week. Our contract prices also reflect any negotiated premiums and the costs of freight and other factors. From time to time, we have entered into hedging transactions to provide partial protection against future decreases in the market price of metals and we may do so under certain market conditions. For a further discussion of our products market prices, please see Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Metal Prices.”

The table below shows the high, low and average COMEX and LME per pound copper prices during the last 10 years:

| Year | Copper (COMEX) |      |         | Copper (LME) |      |         |
|------|----------------|------|---------|--------------|------|---------|
|      | High           | Low  | Average | High         | Low  | Average |
| 2010 | 4.44           | 2.76 | 3.43    | 4.42         | 2.76 | 3.42    |
| 2011 | 4.62           | 3.05 | 4.01    | 4.60         | 3.08 | 4.00    |
| 2012 | 3.97           | 3.28 | 3.61    | 3.93         | 3.29 | 3.61    |
| 2013 | 3.78           | 3.03 | 3.34    | 3.74         | 3.01 | 3.32    |

|            |      |      |      |      |      |      |
|------------|------|------|------|------|------|------|
| 2014       | 3.43 | 2.84 | 3.12 | 3.37 | 2.86 | 3.11 |
| 2015       | 2.95 | 2.02 | 2.51 | 2.92 | 2.05 | 2.50 |
| 2016       | 2.69 | 1.94 | 2.20 | 2.69 | 1.96 | 2.21 |
| 2017       | 3.29 | 2.48 | 2.80 | 3.27 | 2.48 | 2.80 |
| 2018       | 3.29 | 2.56 | 2.93 | 3.29 | 2.64 | 2.96 |
| 2019—1st Q | 2.96 | 2.57 | 2.81 | 2.98 | 2.64 | 2.82 |
| 2019—2nd Q | 2.98 | 2.63 | 2.78 | 2.95 | 2.61 | 2.77 |
| 2019—3rd Q | 2.74 | 2.51 | 2.62 | 2.75 | 2.51 | 2.63 |
| 2019—4th Q | 2.86 | 2.55 | 2.68 | 2.82 | 2.54 | 2.67 |
| 2019       | 2.98 | 2.51 | 2.72 | 2.98 | 2.51 | 2.72 |

The per pound COMEX copper price during the last 5 and 10 year periods averaged \$2.63 and \$3.07, respectively. The per pound LME copper price during the last 5 and 10 year periods averaged \$2.64 and \$3.06, respectively.

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The table below shows the high, low and average per-pound, except silver, which is per ounce, market prices for our three principal by-products during the last 10 years:

| Year       | Molybdenum (Dealer<br>Oxide Platt's<br>Metals Week) |       |         |   |       |         |            |      |         |
|------------|---|-------|---------|---|-------|---------|------------|------|---------|
|            | Silver (COMEX)                                      |       |         | Molybdenum (Dealer<br>Oxide Platt's<br>Metals Week) |       |         | Zinc (LME) |      |         |
|            | High  | Low   | Average | High  | Low   | Average | High       | Low  | Average |
| 2010       | 30.91   | 14.82 | 20.18   | 18.60   | 11.75 | 15.60   | 1.14       | 0.72 | 0.98    |
| 2011       | 48.58   | 26.81 | 35.18   | 17.88   | 12.70 | 15.33   | 1.15       | 0.79 | 0.99    |
| 2012       | 37.14   | 26.25 | 31.19   | 14.80   | 10.90 | 12.62   | 0.99       | 0.80 | 0.88    |
| 2013       | 32.41   | 18.53 | 23.82   | 11.95   | 9.12  | 10.26   | 0.99       | 0.81 | 0.87    |
| 2014       | 22.05   | 15.39 | 19.04   | 15.05   | 8.75  | 11.30   | 1.10       | 0.88 | 0.98    |
| 2015       | 18.35   | 13.67 | 15.68   | 9.40  | 4.30  | 6.59    | 1.09       | 0.66 | 0.88    |
| 2016       | 20.67   | 13.74 | 17.10   | 8.60  | 5.10  | 6.42    | 1.32       | 0.73 | 0.95    |
| 2017       | 18.49   | 15.37 | 17.03   | 10.25   | 6.85  | 8.13    | 1.53       | 1.00 | 1.31    |
| 2018       | 17.55   | 13.95 | 15.65   | 13.00   | 10.60 | 11.86   | 1.64       | 1.04 | 1.33    |
| 2019—1st Q | 16.16   | 14.92 | 15.52   | 12.70   | 10.70 | 11.70   | 1.27       | 0.90 | 1.23    |
| 2019—2nd Q | 15.47   | 14.28 | 14.85   | 12.38   | 11.85 | 12.13   | 1.37       | 1.14 | 1.25    |
| 2019—3rd Q | 19.39   | 14.92 | 16.98   | 12.00   | 11.53 | 11.76   | 1.15       | 1.00 | 1.06    |
| 2019—4th Q | 18.01   | 16.48 | 17.27   | 11.70   | 8.28  | 9.49    | 1.18       | 1.01 | 1.08    |
| 2019       | 19.39   | 14.28 | 16.16   | 12.70   | 8.28  | 11.27   | 1.37       | 0.90 | 1.16    |

The per ounce COMEX silver price during the last 5 and 10 year periods averaged \$16.32 and \$21.10, respectively. The per pound Platt's Metals Week Dealer Oxide molybdenum price during the last 5 and 10 year periods averaged \$8.85 and \$10.94, respectively. The per pound LME zinc price during the last 5 and 10 year periods averaged \$1.12 and \$1.03, respectively.

#### COMPETITIVE CONDITIONS

Competition in the copper market is based primarily on price and service basis, with price being the most important factor when supplies of copper are ample. Our products compete with other materials, including aluminum and plastics. For additional information, see Item 1A "Risk Factors—The copper mining industry is highly competitive."

#### LABOR FORCE

As of December 31, 2019, we had 14,301 employees, approximately 71% of whom are unionized and represented by nine different labor unions. Despite the three strikes in 2017 at

our Peruvian operations, we believe the Company has a positive labor environment in our operations in Mexico and Peru, which is allowing us to increase productivity as well as helping us achieve the goals of our capital expansion program.

#### Peru

65% of our 4,890 Peruvian employees were unionized at December 31, 2019. Currently, there are six separate unions, one large union and five smaller unions. In June 2018, the Company signed a three-year collective bargaining agreement with one of the smaller unions. This agreement includes, among other things, annual salary increases of 5% for each year starting September 2018, and a signing bonus of S/ 45,000 (approximately \$13,600) which was recorded as labor expense. In August 2018, the Company signed a three-year collective bargaining agreement with three additional unions. This agreement includes, among other things, annual salary increases of 5% for each year starting December 2018, and a signing bonus of S/ 45,000 (approximately \$13,600) which was recorded as labor expense. In March 2019, the Company signed an agreement with one additional union. The agreement also included annual salary increases of 5% for each year starting September 2018, and a signing bonus of S/45,000 (approximately \$13,600) which was recorded as labor expense in the first quarter of 2019.

In November 2019, the Company signed two agreements with the remaining union, one of them for one year and the other one consisting of a three-year collective bargaining agreement. The agreements also included annual salary

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increases of 5% for each year starting September 2018, and a signing bonus of S/15,000 (approximately \$4,500) for the one-year agreement and S/45,000 for the three-year agreement (approximately \$13,600), which were recorded as labor expense in the fourth quarter of 2019.

Employees of the Toquepala and Cuajone units reside in townsites, where we have built 3,700 houses and apartments. We also have 90 houses at Ilo for staff personnel. Housing, together with maintenance and utility services, is provided at minimal cost to most of our employees. Our townsite and housing complexes include schools, medical facilities, churches, social clubs and recreational facilities. We also provide shopping, banking and other services at the townsites.

### Mexico

73.9% of our 9,358 Mexican employees were unionized at December 31, 2019, represented by three separate unions. Under Mexican law, the terms of employment for unionized workers are set forth in collective bargaining agreements. Mexican companies negotiate the salary provisions of collective bargaining agreements with the labor unions annually and negotiate other benefits every two years. We conduct negotiations separately at each mining complex and each processing plant.

Our Taxco mine in Mexico has been on strike since July 2007. For a discussion of labor matters, refer to the information contained under the caption “Labor matters” in Note 13 “Commitments and Contingencies” of the consolidated financial statements.

Employees of La Caridad and Buenavista units reside in townsites at Nacozari and Cananea, where we have built approximately 1,800 houses and apartments. Most of the employees of the IMMSA unit reside on the grounds of the mining or processing complexes in which they work and where we have built approximately 356 houses and apartments. Housing, together with maintenance and utility services, is provided at minimal cost to most of our employees. Our townsites and housing complexes include educational and medical facilities, churches, social clubs, shopping centers, banking and other services. Through 2007, the Buenavista unit provided health care services to employees and retired unionized employees and their families through its own hospital at the Buenavista unit. In 2010, 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 receive health services through the Mexican Institute of Social Security as is the case for all Mexican workers.

### FUEL, ELECTRICITY AND WATER SUPPLIES

The principal raw materials used in our operations are fuel, electricity and water. We use natural gas to power boilers and generators, and for metallurgical processes at our Mexican operations and diesel fuel to power mining equipment. We believe that sources of fuel, electricity and water are readily available. The prices of these raw materials may fluctuate outside of our control, therefore we focus our efforts to reduce these costs through cost and energy saving measures.

Energy is the principal cost in mining, so the concern for its conservation and efficient usage is critical. We have energy management committees at most of our mines, which meet periodically to discuss consumption and to develop measures directed at saving energy. Also, alternative sources are being analyzed at the corporate level, from both traditional and renewable energy sources. This has helped us to develop a culture of energy conservation directed at the sustainability of our operations.

Peru:

Fuel: In Peru, we obtain fuel primarily from local companies. The Company believes that adequate supplies of fuel are available in Peru.

Electricity: In June 2014, we entered into a power purchase agreement for 120 megawatt (“MW”) with the state company Electroperu S.A., which began supplying energy for our Peruvian operations for twenty years starting on April 17, 2017. In July 2014, we entered into a power purchase agreement for 120MW with a private power generator

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Kallpa Generacion S.A. (“Kallpa”), which began supplying energy to our Peruvian operations for ten years starting on April 17, 2017. In May 2016, we signed an additional power purchase agreement for a maximum of 80MW with Kallpa, under which Kallpa will supply energy for the 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 occurs first. In addition, we feel confident that additional power can be obtained from the Peruvian national grid, should the need arise.

Additionally, we have nine megawatts of power generation capacity from two small hydro-generating installations at Cuajone. Power is distributed over a 224-kilometer closed loop transmission circuit, which is interconnected with the Peruvian network.

Water: We have water rights or licenses for up to 1,950 liters per second from well fields at the Huaitire, Vizcachas and Titijones aquifers and surface water rights from the Suches lake and two small water courses, Quebrada Honda and Quebrada Tacalaya. We believe these water sources are sufficient to supply the needs of our operating units at Toquepala and Cuajone, including the Toquepala expansion. At Ilo, we have two desalination plants that produce water for industrial use and domestic consumption that we believe are sufficient for our current and projected needs.

Mexico:

Fuel: In Mexico, since 2018, we have purchased fuel from Petroleos Mexicanos (“PEMEX”), the state producer, and from private suppliers.

The La Caridad unit imports natural gas from the United States through its pipeline (between Douglas, Arizona and Nacozari, Sonora), which allows us to import natural gas from the United States at market prices and thereby reduce operating costs. Several contracts with PEMEX and the United States provide us with the option of using a monthly or daily fixed price for our natural gas purchases.

Natural gas is used for metallurgical processes, to power furnaces, converters, casting wheels, boilers and electric generators. Diesel oil is a backup for all these uses. We use diesel oil to power mining equipment at our operations.

Electricity: Electricity is used as the main energy source at our mining complexes. We purchase most of our electricity from Mexico Generadora de Energia S. de R. L. (“MGE”), a subsidiary of Grupo Mexico which has two power plants designed to supply power to La Caridad and Buenavista units. MGE is supplying 5.2% of its power output to third party energy users. These plants are natural gas-fired combined cycle power generating units, with a net total capacity of 516.2 megawatts. In 2012, we entered into a power supply agreement with MGE through 2032. The first plant was completed in 2013 and the second was completed in the second quarter of 2014. The first plant began to supply power to the Company in December 2013, and the second plant began to supply power in June 2015.

We also purchase electricity from the *Comision Federal de Electricidad* (the Federal Electricity Commission or the “CFE”), the state’s electrical power producer. In addition, we recover some energy from waste heat boilers at the La Caridad smelter. Accordingly, a significant portion of our operating costs in Mexico is dependent upon the pricing policies of CFE, as well as PEMEX, which reflect government policy, as well as international market prices for crude oil, natural gas and conditions in the refinery markets.

Some mining operations of IMMSA also purchase electricity from Eolica el Retiro, S.A.P.I de C.V. (“Eolica”), a windfarm energy producer that is an indirect subsidiary of Grupo Mexico. In August 2013, IMMSA and other of the mining operations of the Company entered into a purchase agreement and in late 2014 started to purchase electricity from Eolica. Due to the nature of the production process there is not a fixed power capacity contracted. In 2019, the total purchases were approximately 28.64 million kilowatt hours.

Water: In Mexico, water is deemed a public property and industries not connected to a public service water supply must obtain a water concession from *Comision Nacional del Agua* (the National Water Commission or the “CNA”). Water usage fees are established in the *Ley Federal de Derechos* (the Federal Rights Law), which distinguishes several availability zones with different fees per unit of volume according to each zone, with the exception of Mexicana de

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Cobre. All of our operations have one or several water concessions and pump out the required water from wells. Mexicana de Cobre pumps water from the La Angostura dam, which is close to the mine and plants. At our Buenavista facility, we maintain our own wells and pay the CNA for water usage. Water conservation committees have been established in each plant in order to conserve and recycle water. Water usage fees are updated on a yearly basis and have been increasing in recent years.

### ENVIRONMENTAL MATTERS

For a discussion of environmental matters reference is made to the information contained under the caption “Environmental matters” in Note 13 “Commitments and Contingencies” of the consolidated financial statements.

### MINING RIGHTS AND CONCESSIONS

Peru:

We have 159,430 hectares in concessions from the Peruvian government for our exploration, exploitation, extraction and production operations, at various sites, as follows:

|             | <u>Toquepala</u> | <u>Cuajone</u> | <u>Ilo</u>   | <u>Other</u>   | <u>Total</u>   |
|-------------|------------------|----------------|--------------|----------------|----------------|
|             |                  |                | (hectares)   |                |                |
| Plants      | 360              | 919            | 421          | —              | 1,700          |
| Operations  | 23,781           | 21,555         | 4,483        | 36,759         | 86,578         |
| Exploration | —                | —              | —            | 71,152         | 71,152         |
| Total       | <u>24,141</u>    | <u>22,474</u>  | <u>4,904</u> | <u>107,911</u> | <u>159,430</u> |

We believe that our Peruvian concessions are in full force and in effect under applicable Peruvian laws and that we are in compliance with all material terms and requirements applicable to these concessions. The concessions have indefinite terms, subject to our payment of concession fees of up to \$3.00 per hectare annually for the mining concessions and a fee based on nominal capacity for the processing concessions. Fees paid during 2019, 2018 and 2017, were approximately \$1.8 million, \$1.5 million and \$1.2 million, respectively. We have two types of mining concessions in Peru: metallic and non-metallic concessions.

In 2011, the Peruvian Congress approved an amendment to the mining royalty charge. The new mining royalty charge is based on operating income margins with graduated rates ranging from 1% to 12% of operating profits, with a minimum royalty charge assessed at 1% of net sales. If the operating income margin is 10% or less, the royalty charge is 1% and for each 5% increment in the operating income margin, the royalty charge rate increases by 0.75%, up to a maximum of 12%. In 2019, 2018 and 2017, we made provisions of \$42.3 million, \$32.9 million and \$23.4 million, respectively.

At the same time the Peruvian Congress amended the mining royalty charge, it enacted a new tax for the mining industry. This tax is also based on operating income and its rates range from 2% to 8.4%. For additional information see Note 7 “Income Taxes” to the consolidated financial statements.

Mexico:

In Mexico we have 534,400 hectares in concessions from the Mexican government for our exploration and exploitation activities as outlined on the table below:

|                  | <u>IMMSA</u> | <u>La Caridad</u> | <u>Buenavista</u> | <u>Projects</u> | <u>Total</u> |
|------------------|--------------|-------------------|-------------------|-----------------|--------------|
|                  | (hectares)   |                   |                   |                 |              |
| Mine concessions | 188,899      | 103,821           | 93,706            | 147,974         | 534,400      |

We believe that our Mexican concessions are in full force and in effect under applicable Mexican laws and that we are in compliance with all material terms and requirements applicable to these concessions. Under Mexican law, mineral resources belong to the Mexican nation and a concession from the Mexican federal government is required to explore or mine mineral reserves. Mining concessions have a 50-year term that can be renewed for another 50 years. Holding fees for mining concessions can be from \$0.39 to \$8.58 per hectare depending on the beginning date of the mining concession. Fees paid during 2019, 2018 and 2017 were approximately \$7.1 million, \$6.3 million and \$5.8 million,

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respectively. In addition, all of our operating units in Mexico have water concessions that are in full force and effect. Although ownership is not required in order to explore or mine a concession, we generally own the land related to our Mexican concessions. We also own all of the processing facilities of our Mexican operations and the land on which they are constructed.

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. These charges were effective January 2014 and are deductible for income tax purposes.

### **ITEM 1A. RISK FACTORS**

Every investor or potential investor in Southern Copper Corporation should carefully consider the following risk factors.

#### **Financial risks**

***Our financial performance is highly dependent on the price of copper and the other metals we produce.***

Our financial performance is significantly affected by the market prices of the metals that we produce, particularly the market prices of copper, molybdenum, zinc and silver. Historically, these prices have been subject to wide fluctuations and are affected by numerous factors out of our control, including international economic and political conditions, levels of supply and demand, the availability and costs of substitutes, inventory levels maintained by users, actions of participants in the commodities markets and currency exchange rates. In addition, the market prices of copper and certain other metals have on occasion been subject to rapid short-term changes.

In the last three years, approximately 81% of our revenues came from the sale of copper, 7% from molybdenum and 8% from silver and zinc. Please see the distribution of our revenues per product on Item 8 “Financial Statements and Supplementary Data” Note 18 “Segment and Related Information—Sales value per segment” on page 152.

See also historical average price of our products on Item 1 Business caption “Metals prices”.

We cannot speculate whether metals prices will rise or fall in the future. Future declines in metals prices, and in particular copper, will have an adverse impact on our results of operations and financial condition. In very adverse market conditions, we might consider curtailing or modifying some of our mining and processing operations.

***Our business requires levels of capital investments which we may not be able to maintain.***

Our business is capital intensive. Specifically, the exploration and exploitation of copper and other metal reserves, mining, smelting and refining costs, the maintenance of machinery and equipment and compliance with laws and regulations require significant capital investments. We must continue to invest capital to maintain or increase the amount of copper reserves that we exploit and the amount of copper and other metals we produce. We cannot assure you that we will be able to maintain our production levels to generate sufficient cash, or that we

have access to sufficient financing to continue our exploration, exploitation and refining activities at or above present levels.

***Restrictive covenants in the agreements governing our indebtedness and the indebtedness of our Minera Mexico subsidiary may restrict our ability to pursue our business strategies.***

Our financing instruments and those of our Minera Mexico subsidiary include financial and other restrictive covenants that, among other things, limit our and Minera Mexico's abilities to incur additional debt and sell assets. If either we or our Minera Mexico subsidiary do not comply with these obligations, we could be in default under the applicable agreements which, if not addressed or waived, could require repayment of the indebtedness immediately. Our Minera Mexico subsidiary is further limited by the terms of its outstanding notes, which also restrict the Company's applicable

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incurrence of debt and liens. In addition, future credit facilities may contain limitations on our incurrence of additional debt and liens, on our ability to dispose of assets, or on our ability to pay dividends to our common stockholders.

***We may not pay a significant amount of our net income as cash dividends on our common stock in the future.***

We distributed a significant amount of our net income as dividends since 1996. Our dividend practice is subject to change at the discretion of our Board of Directors at any time. The amount that we pay in dividends is subject to a number of factors, including our results of operations, financial condition, cash requirements, tax considerations, future prospects, legal restrictions, contractual restrictions in credit agreements, limitations imposed by the government of Peru, Mexico or other countries where we have significant operations and other factors that our Board of Directors may deem relevant. In light of our capital investment program and global economic conditions, it is possible that future dividend distributions will be reduced from the levels of recent years.

***Our ability to recognize the benefits of deferred tax assets is dependent on future cash flows and taxable income.***

Through 2019, the Company recognized the expected future tax benefit from deferred tax assets when the tax benefit was considered to be more likely than not of being realized, otherwise, a valuation allowance was applied against deferred tax assets. Assessing the recoverability of deferred tax assets requires management to make significant estimates related to expectations of future taxable income and existing tax laws and there can be no assurance that the Company will be able to recognize the expected future benefits of deferred tax assets; such inability could have a material adverse effect on the Company's results of operations. For more information on the effects of U.S. Tax Reform, please see Note 7 "Income Taxes".

### **Operational risks**

***Our actual reserves may not conform to our current estimates of our ore deposits and we depend on our ability to replenish ore reserves for our long-term viability.***

There is a degree of uncertainty attributable to the calculation of reserves. Until reserves are actually mined and processed, the quantity of ore and grades must be considered as estimates only. The proven and probable ore reserves data included in this report are estimates prepared by us based on evaluation methods generally used in the mining industry. We may be required in the future to revise our reserves estimates based on our actual production. We cannot assure you that our actual reserves conform to geological, metallurgical or other expectations or that the estimated volume and grade of ore will be recovered. Market prices of our metals, increased production costs, reduced recovery rates, short-term operating factors, royalty charges and other factors may render proven and probable reserves uneconomic to exploit and may result in revisions of reserves data from time to time. Reserves data are not indicative of future results of operations. Our reserves are depleted as we mine. We depend on our ability to replenish our ore reserves for our long-term viability. We use several strategies to replenish and increase our ore reserves, including exploration and investment in properties located near our existing mine sites and investing in technology that could extend the life of a mine by allowing us to cost-effectively process ore types that were previously considered uneconomic. Acquisitions may also contribute to increase ore reserves and we review potential acquisition opportunities on a regular basis. However, we cannot assure you that we will be able to continue with our strategy to replenish reserves indefinitely.

***Our operations are subject to risks, some of which are not insurable.***

The business of mining, smelting and refining copper, zinc and other metals is subject to a number of risks and hazards, including industrial accidents, labor disputes, unusual or unexpected geological conditions, changes in the regulatory environment, environmental hazards, weather and other natural phenomena, such as seismic activity, wall failures and rock slides in our open-pit mines, structural collapses of our underground mines or tailings impoundments, and lower than expected ore grades or recovery rates. The Company's operations may also be affected by mudslides and flash floods caused by torrential rains.

Such occurrences could result in damage to, or destruction of, mining operations resulting in monetary losses and possible legal liability. In particular, surface and underground mining and related processing activities present inherent risks of injury to personnel, loss of life and damage to equipment.

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The waste rock and tailings produced in our mining operations represent our largest volume of waste material. Managing the volume of waste rock and tailings presents significant environmental, safety and engineering challenges and risks. We maintain large tailings impoundments containing sand of ground rock, moistened with water, which are effectively large dams that must be engineered, constructed and monitored to assure structural stability and avoid leakages or structural collapse. The failure of tailings and other impoundments at any of our mining operations could cause severe property and environmental damage and loss of life. The importance of careful design, management and monitoring of large impoundments was emphasized in recent years by large scale tailings dam failures at unaffiliated mines, which caused extensive property and environmental damage and resulted in the loss of life. For more information regarding our tailing dams, please see Item 2 “Properties—Slope Stability—Tailing Dams.”

We maintain insurance against many of these and other risks, which in certain circumstances may not provide adequate coverage. Insurance against certain risks, including certain liabilities for environmental damage or hazards as a result of exploration and production, is not generally available to us or other companies within the mining industry. Nevertheless recent environmental legal initiatives have considered future regulations regarding environmental damage insurance. In case such regulations come into force, we will have to analyze the need to obtain such insurance. We do not have, and do not intend to obtain, political risk insurance. We cannot assure you that these and other uninsured events will not have an adverse effect on our business, properties, operating results, financial condition or prospects.

***Changes in the demand level for our products and copper sales agreements could adversely affect our revenues.***

Our financial results are subject to fluctuations on the level of industrial and consumer demand for the refined, semi-refined metal products and concentrates we sell, as well as global economic slow-downs or recessions. Also, changes in technology, industrial processes, concerns over weaknesses in the global economy and consumer habits may affect the level of demand to the extent that those increase or decrease the need for our metal products. Likewise, our revenues could be adversely affected by events of force majeure that could have a negative impact on our sales agreements. These events include acts of nature, labor strikes, fires, floods, wars, transportation delays, government actions or other events that are beyond the control of the parties of the agreement.

***Interruptions of energy supply or increases in energy costs, shortages of water supply, critical parts, equipment, skilled labor and other production costs may adversely affect our results of operations.***

We require substantial amounts of fuel oil, electricity, water and other resources for our operations. Fuel, gas and power costs constituted approximately 28%, 29% and 31% of our total production cost in 2019, 2018 and 2017, respectively. We rely upon third parties for our supply of the energy resources consumed in our operations so that prices for and availability of energy resources may be subject to change or curtailment, due to, among other things, new laws or regulations, imposition of new taxes or tariffs, interruptions in production by suppliers, worldwide price levels and market conditions. Regarding water consumption, although each operation currently has sufficient water rights to cover its operational demands, the loss of some or all water rights for any of our mines or operations, in whole or in part, or shortages of water to which we have rights could require us to curtail or shut down mining production and could prevent us from pursuing expansion opportunities. In addition,

future shortages of critical parts, equipment and skilled labor could adversely affect our operations and development projects.

***Our Company is subject to health and safety laws which may restrict our operations, result in operational delays or increase our operating costs and adversely affect our financial results of operations.***

We are required to comply with occupational health and safety laws and regulations in Peru and Mexico where our operations are subject to periodic inspections by the relevant governmental authorities. These laws and regulations govern, among others, health and safety work place conditions, including high risk labor and the handling, storage and disposal of chemical and other hazardous substances. We believe our operations are in compliance in all material respects with applicable health and safety laws and regulations in the countries in which we operate. Compliance with these laws and regulations and new or existing regulations that may be applicable to us in the future could increase our operating costs and adversely affect our financial results of operations and cash flows.

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Our efforts are focused on the health and safety of our workforce in order to consistently improve performance and compliance through the implementation of occupational health programs, adequate training and safety incentives at our operations. Despite the Company's efforts, we are not exempt from accidents. These are reported to Mexican and Peruvian authorities as required. Regarding non-fatal accidents, in the last three years, the Company's Dart rate (rate to measure workplace injuries severe enough to warrant Day Away from work, job Restrictions and/or job Transfers) was much lower than the MSHA Dart rate (the MSHA Dart rate is published by the U.S.'s Mine Safety and Health Administration, and is used as an industry benchmark).

Unfortunately, in 2019 we had four fatalities in Mexico and Peru. In 2018, we did not have fatalities; but in 2017, we had two fatalities in Mexico and Peru. The amounts paid to the Mexican and Peruvian authorities for reportable accidents did not have an adverse effect on our results. Under Mexican and Peruvian law penalties and fines for safety violations are generally monetary, but in certain cases may lead to the temporary or permanent shutdown of the affected facility or the suspension or revocation of permits or licenses. Also, violations of security and safety laws and regulations in our Peruvian operations can be considered a crime, punishable with a sentence of up to 10 years of prison.

### ***Our metals exploration efforts are highly speculative in nature and may be unsuccessful.***

Metals exploration is highly speculative in nature. It involves many risks and is frequently unsuccessful. Once mineralization is discovered, it may take a number of years from the initial phases of drilling until production is possible, during which time the economic feasibility of production may change. Substantial expenditures are required to establish proven and probable ore reserves through drilling, to determine metallurgical processes to extract the metals from the ore and, in the case of new properties, to construct mining and processing facilities. We cannot assure you that our exploration programs will result in the expansion or replacement of current production with new proven and probable ore reserves.

Development projects have no operating history upon which we can base estimates of proven and probable ore reserves and estimates of future cash operating costs. Estimates are, to a large extent, based upon the interpretation of geological data obtained from drill holes and other sampling techniques, and feasibility studies that derive estimates of cash operating costs based upon anticipated tonnage and grades of ore to be mined and processed, the configuration of the ore body, expected recovery rates of the mineral from the ore, comparable facility and equipment operating costs, anticipated climatic conditions and other factors. As a result, actual cash operating costs and economic returns based upon development of proven and probable ore reserves may differ significantly from those originally estimated. Moreover, significant decreases in actual or expected prices may mean reserves, once found, will be uneconomical to produce.

### ***We may be adversely affected by challenges relating to slope stability.***

Our open-pit mines get deeper as we mine them, presenting certain geotechnical challenges including the possibility of slope failure. If we are required to decrease pit slope angles or provide additional road access to prevent such a failure, our stated reserves could be negatively affected. Furthermore, hydrological conditions relating to pit slopes, renewal of material displaced by slope failures and increased stripping requirements could also negatively affect our stated reserves. We have taken actions in order to maintain slope stability, but we cannot assure you that we will not have to take additional action in the future or that our actions taken to date will be sufficient. Unexpected failure or additional

requirements to prevent slope failure may negatively affect our results of operations and financial condition, as well as have the effect of diminishing our stated ore reserves.

***We may be adversely affected by labor disputes.***

In the last several years we have experienced a number of strikes or other labor disruptions that have had an adverse impact on our operations and operating results. As of December 31, 2019, unions represented approximately 71% of our workforce. Currently, we have labor agreements in effect for our Mexican and Peruvian operations.

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During 2017, the Unified Labor Union of SPCC workers and one of Toquepala's unions held three separate strikes. The Company estimates that the loss of copper production resulting from the 2017 strikes was not significant and our sales contracts were not affected.

Our Taxco mine in Mexico has been on strike since July 2007. It is expected that operations at this mine will remain suspended until these labor issues are resolved. In addition, the workers of the San Martin mine were on strike from July 2007 to August 2018. After eleven years of an illegal stoppage, we resumed control of the San Martin mine in August 2018. The San Martin facilities deteriorated during this period and we undertook a major renovation in order to restart operations during the second quarter of 2019, with an estimated capital budget of \$97.7 million. For additional information, see Item 2, "Properties—Mexican IMMSA Unit—San Martin and Taxco", and Note 13, "Commitments and Contingencies—Labor matters", to our consolidated financial statements.

We cannot assure you when the pending strike will be settled, or that in the future we will not experience strikes or other labor related work stoppages that could have a material adverse effect on our financial condition and results of operations.

### ***Our mining or metal production projects may be subject to additional costs due to community actions and other factors.***

In recent years, worldwide mining activity has been pressured by neighboring communities for financial commitments to fund social benefit programs and infrastructure improvements. Our projects in Peru are not exempt from these pressures. Our Tia Maria project in Peru has experienced delays while trying to resolve issues with community groups.

It appears that it is becoming a part of the Peruvian mining environment that in order to obtain acceptance from local communities for projects in their localities, demands for substantial investments in community infrastructure and upgrades must be met in order to proceed with the mining projects.

We are confident that we will move forward with the Tia Maria project. However, we cannot assure you when and that we will not continue to incur additional costs for community infrastructure and upgrades in order to obtain the approval of current or future mining projects.

In addition, there are a number of collective action lawsuits and civil action lawsuits, filed against the Company in Mexico's federal courts and the state courts of Sonora. A number of constitutional lawsuits have also been filed against various governmental authorities and against the Company. These lawsuits are seeking damages and requesting remedial actions to restore the environment. The Company believes that it is not possible to determine the extent of the damages sought and considers the lawsuits without merit. However the Company cannot offer any assurances that the outcome of these lawsuits will not have an adverse effect on the Company.

### ***Environmental, regulatory response to climate change, and other regulations may increase our costs of doing business, restrict our operations or result in operational delays.***

Our exploration, mining, milling, smelting and refining activities are subject to a number of Peruvian and Mexican laws and regulations, including environmental laws and regulations, and certain industry technical standards. Additional matters subject to regulation include, but are not limited to, concession fees, transportation, production, water use and discharge, power use and generation, use and storage of explosives, surface rights, housing and other

facilities for workers, reclamation, taxation, labor standards, mine safety and occupational health.

Environmental regulations in Peru and Mexico have become increasingly stringent over the last decade and we have been required to dedicate more time and money to compliance and remediation activities. Furthermore, the Mexican authorities have become more rigorous and strict in enforcing Mexican environmental laws. We expect additional laws and regulations will be enacted over time with respect to environmental matters.

Please refer to Note 13 “Commitments and Contingencies—Environmental matters” of our financial statements for further information on this subject.

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The potential physical impacts of climate change on our operations are highly uncertain, and would be particular to the geographic location of our facilities. These may include changes in rainfall patterns, water shortages, changing sea levels, changing storm patterns and intensities, and changing temperatures. These effects may adversely impact the cost, production and financial performance of our operations.

We are aware of fluctuations in weather patterns in the areas where we operate. Aligned with government efforts, we are working in measuring its carbon footprint in order to reduce any contribution to greenhouse gases generated by our operations. Similarly, we evaluate our water demand, as weather changes may result in increase/decrease scenarios that affect our needs.

The development of more stringent environmental protection programs in Peru and Mexico and in relevant trade agreements could impose constraints and additional costs on our operations requiring us to make significant investments in the future. We cannot assure you that current or future legislative, regulatory or trade developments will not have an adverse effect on our business, properties, operating results, financial condition or prospects.

### ***Our mining and metal production projects may subject us to new risks.***

Our Company is in the midst of a large expansion program, which may subject us to additional risks of industrial accidents. While we believe our contractors employ safety standards and other procedures to ensure these projects are completed with proper governance, it is possible that the increased activity occurring at our sites could cause accidents of an environmental nature or danger to human life.

### ***Our business depends upon information technology systems which may be adversely affected by disruptions, damage, failure and risks associated with implementation and integration.***

Our operations depend upon information technology systems which may be subject to disruption, damage or failure from different sources, including, without limitation, installation of malicious software, computer viruses, security breaches, cyber-attacks and defects in design. In recent years, cybersecurity incidents have increased in frequency and include, but are not limited to, malicious software, attempts to gain unauthorized access to data and other electronic security breaches that could lead to disruptions in systems, unauthorized release of confidential or otherwise protected information and the corruption of data.

However, given the unpredictability of the timing, nature and scope of information technology disruptions, we could potentially be subject to manipulation or improper use of our systems and networks, operational delays, the compromising of confidential or otherwise protected information, destruction or corruption of data, security breaches, financial losses from remedial actions, any of which could have a material adverse effect on our cash flows, competitive position, financial condition or results of operations.

### **Other risks**

#### ***Applicable law restricts the payment of dividends from our Minera Mexico subsidiary to us.***

Our subsidiary, Minera Mexico, is a Mexican company and, as such, may pay dividends only out of net income that has been approved by the shareholders. Shareholders must also

approve the actual dividend payment, after mandatory legal reserves have been created and losses for prior fiscal years have been satisfied. These legal constraints may limit the ability of Minera Mexico to pay dividends to us, which in turn, may have an impact on our ability to pay stockholder dividends or to service debt.

***Global and local market conditions, including the high competitiveness in the copper mining industry, may adversely affect our profitability.***

Our industry is cyclical by nature and fluctuates with economic cycles. Therefore, we are subject to the risks arising from adverse changes in domestic and global economic and political conditions, such as lower levels of consumer and corporate confidence, decreased business investment, increased unemployment, reduced income and asset values in

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many areas, currency volatility and limited availability of credit and access to capital. Additionally, we face competition from other copper mining and producing companies around the world; significant competition exists to acquire properties producing or capable of producing copper and other metals as well as consolidation among some of our main competitors that make them more diversified than we are.

We cannot assure you that changes in market conditions, including competition, will not adversely affect us to compete in the future on the basis of price or other factors with companies that may benefit from future favorable trading or other arrangements.

***We are controlled by Grupo Mexico, which exercises control over our affairs and policies and whose interests may be different from yours.***

At December 31, 2019, Grupo Mexico owned indirectly 88.9% of our capital stock. Certain of our and Minera Mexico's officers and directors are also directors and/or officers of Grupo Mexico and/or of its affiliates. We cannot assure you that the interests of Grupo Mexico will not conflict with our minority stockholders.

Grupo Mexico has the ability to determine the outcome of substantially all matters submitted for a vote to our stockholders and thus exercises control over our business policies and affairs, including the following:

- the composition of our Board of Directors and, as a result, any determinations of our Board with respect to our business direction and policy, including the appointment and removal of our officers;
- determinations with respect to mergers and other business combinations, including those that may result in a change of control;
- whether dividends are paid or other distributions are made and the amount of any dividends or other distributions;
- sales and dispositions of our assets;
- the amount of debt financing that we incur; and
- the approval of capital projects.

We cannot assure you that increased financial obligations of Grupo Mexico or AMC resulting from financings or for other reasons will not result in our parent corporations obtaining loans, increased dividends or other funding from us.

In addition, we have in the past engaged in, and expect to continue to engage in, transactions with Grupo Mexico and its other affiliates which are related party transactions and may present conflicts of interest. For additional information regarding the share ownership of, and our relationships with, Grupo Mexico and its affiliates, see Note 17 "Related Party Transactions."

***Unanticipated litigation or negative developments in pending litigation or with respect to other contingencies may adversely affect our financial condition and results of operations.***

We are currently, and may in the future become, subject to litigation, arbitration or other legal proceedings with other parties. If decided adversely to the Company, these legal proceedings, or others that could be brought against us in the future, may adversely affect our financial position or prospects. For further detailed discussion of pending litigation, please see Note 13 "Commitment and Contingencies—Litigation matters".

***Developments in the United States, Europe and emerging market countries may adversely affect the Company business, our common stock price and our debt securities.***

The business and market value of securities of companies with significant operations in Peru and Mexico is, to varying degrees, affected by the economic policies and market conditions in the United States, Europe and emerging market countries. Although economic policies and conditions in such countries may significantly differ from economic conditions in Peru or Mexico, as the case may be, the business community reactions to developments in any of these countries may adversely effect the Company business or the market value or trading price of the securities, including debt securities, of issuers that have significant operations in Peru or Mexico.

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In addition, in recent years economic conditions in Mexico have increasingly become correlated to U.S. economic conditions. Therefore, changes in economic policies and conditions in the United States could also have a significant adverse effect on Mexican economic conditions, affecting our business, the price of our common stock or debt securities. In 2017, the United States, Canada and Mexico began a discussion leading towards an update of the North American Free Trade Agreement (“NAFTA”). In September 2018, the three countries reached an agreement on a new trade deal, which will be known as the United States—Mexico—Canada Agreement (“USMCA”). In June 2019, Mexico’s senate ratified the USMCA. During December 2019, the three countries agreed to a new revision of its regional trade pact, also concluding that the USMCA would replace NAFTA. On January 29, 2020, the U.S. ratified the USMCA and its President signed the USMCA into law. The ratification process by the Canadian parliament continues.

In addition, rising trade tensions between the U.S. and China and efforts by the Chinese government to reduce debt levels contributed to a recent slowdown in China’s growth. A continued slowing in China’s economic growth and copper demand and continued trade tensions between the U.S. and China could result in lower copper prices which could have a material adverse impact on our business and results of operations. The adoption and expansion of trade restrictions, changes in the state of China-U.S. relations, including the current trade tensions, or other governmental action related to tariffs or trade agreements or policies are difficult to predict and could adversely affect demand for our products, our costs, our customers, our suppliers, and the U.S. economy, which in turn could have a material adverse effect on our cash flows, competitive position, financial condition or results of operations.

Additionally, there is uncertainty in global markets arising from the June 2016 referendum in the United Kingdom, the result of which was a vote to leave the European Union (“Brexit”) which has resulted in the United Kingdom leaving the European Union after an 11-month transition period, that started in January. Brexit may adversely affect global political, regulatory, economic and market conditions, including capital markets and foreign exchange markets, which could adversely affect our business, financial condition and results of operations. It is likely that there will continue to be a period of instability and volatility in global financial markets until the terms and timing of Brexit are clear.

We cannot assure you that the market value or trading prices of our common stock and debt securities, will not be adversely affected by events in the United States or elsewhere, including in emerging market countries.

### **Other international risks.**

We are a company with substantial assets located outside of the United States. We conduct production operations in Peru and Mexico and exploration activities in these countries as well as in Chile, Argentina and Ecuador. Accordingly, in addition to the usual risks associated with conducting business in foreign countries, our business may be adversely affected by political, economic and social uncertainties in each of these countries. Such risks include possible expropriation or nationalization of property, confiscatory taxes or royalties, possible foreign exchange controls, changes in the national policy toward foreign investors, extreme environmental standards, etc.

Our international operations must comply with the U.S. Foreign Corrupt Practices Act and similar anti-corruption and anti-bribery laws of the other jurisdictions in which we operate.

There has been a substantial increase in the global enforcement of these laws in recent years. As such, our corporate policies and processes may not prevent or detect all potential breaches of law. Any violation of those laws could result in significant criminal or civil fines and penalties, litigation, and loss of operating licenses or permits, and may damage our reputation, which could have a material adverse effect on our cash flows, results of operations and financial condition.

Our insurance does not cover most losses caused by the above described risks. Consequently, our production, development and exploration activities in these countries could be substantially affected by factors out of control, some of which could materially and adversely affect our financial position or results of operations.

***We may be adversely affected by natural disasters, pandemics (including the recent coronavirus outbreak) and other catastrophic events, and by man-made problems such as terrorism, that could disrupt our business operations, and our business continuity and disaster recovery plans may not adequately protect us from a serious disaster.***

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Natural disasters, adverse weather conditions, floods, pandemics (including the recent coronavirus outbreak), acts of terrorism and other catastrophic or geo-political events may cause damage or disruption to our operations, international commerce, and the global economy, and could have an adverse effect on our business, operating results, and financial condition.

### **Risks Associated with Doing Business in Peru and Mexico**

#### ***There is uncertainty as to the termination and renewal of our mining concessions.***

Under the laws of Peru and Mexico, mineral resources belong to the state and government and concessions are required in both countries to explore for or exploit mineral reserves. In Peru, our mineral rights derive from concessions from Ministry of Energy and Mines (“MINEM”) for our exploration, exploitation, extraction and/or production operations. In Mexico, our mineral rights derive from concessions granted, on a discretionary basis, by the Ministry of Economy, pursuant to Mexican mining law and regulations thereunder. Mining concessions in both Peru and Mexico may be terminated if the obligations of the concessioner are not satisfied. In Peru, we are obligated to pay certain fees for our mining concession. In Mexico, we are obligated, among other things, to explore or exploit the relevant concession, to pay any relevant fees, to comply with all environmental and safety standards, to provide information to the Ministry of Economy and to allow inspections by the Ministry of Economy. Any termination or unfavorable modification of the terms of one or more of our concessions, or failure to obtain renewals of such concessions subject to renewal or extensions, could have a material adverse effect on our financial condition and prospects.

#### ***Peruvian economic and political conditions may have an adverse impact on our business.***

A significant part of our operations are conducted in Peru. Accordingly, our business, financial condition or results of operations could be affected by changes in economic or other policies of the Peruvian government or other political, regulatory or economic developments in the country. During the past several decades, Peru has had a succession of regimes with differing policies and programs. Past governments have frequently intervened in the nation’s economy and social structure. Among other actions, past governments have imposed controls on prices, exchange rates and local and foreign investments, as well as limitations on imports, have restricted the ability of companies to dismiss employees and have prohibited the remittance of profits to foreign investors.

In 2019 Peru continued experiencing heightened political instability derived from various currently ongoing investigations into allegations of money laundering and corruption linked to the Operation Car Wash investigation that was initiated by Brazilian authorities. Because we have significant operations in Peru, we cannot provide any assurance that political developments and economic conditions, including any changes to economic policies or the adoption of other reforms proposed by existing or future administrations, in Peru and/or other factors will not have a material adverse effect on market conditions, prices of our securities, our ability to obtain financing and our results of operations and financial condition.

#### ***Mexican economic and political conditions, as well as drug-related violence, may have an adverse impact on our business.***

The Mexican economy is highly sensitive to economic developments in the United States, mainly because of its high level of exports to this market. Other risks in Mexico are

increases in taxes on the mining sector and higher royalties as were enacted in 2013. As has occurred in other metal producing countries, the mining industry may be perceived as a source of additional fiscal revenue.

In addition, security institutions in Mexico are under significant stress, as a result of drug-related violence. This situation creates potential risks especially for transportation of minerals and finished products, which affect a small part of our production. However, drug-related violence has had a limited impact on our operations as it has tended to concentrate outside our areas of production. The potential risks to our operations might increase if the violence was to spread to our areas of production.

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Because we have significant operations in Mexico, we cannot provide any assurance that political developments and economic conditions, including any changes to economic policies or the adoption of other reforms proposed by existing or future administrations, or drug-related violence, in Mexico will not have a material adverse effect on market conditions, prices of our securities, on our ability to obtain financing, and on our results of operations and financial condition.

### ***Peruvian inflation and fluctuations in the sol exchange rate may adversely affect our financial condition and results of operations.***

Although the U.S. dollar is our functional currency and our revenues are primarily denominated in U.S. dollars, as we operate in Peru, portions of our operating costs are denominated in Peruvian soles. Accordingly, when inflation or deflation in Peru is not offset by a change in the exchange rate of the sol, our financial position, results of operations, cash flows and the market price of our common stock could be affected.

Inflation in Peru in 2019, 2018 and 2017 was 1.9%, 2.5% and 1.5%, respectively. The value of the sol appreciated against the U.S. dollar 1.8% and 3.4% in 2019 and 2017, respectively, and it depreciated 4.1% in 2018. Although the Peruvian government's economic policy reduced inflation and the economy has experienced significant growth in recent years, we cannot assure you that inflation will not increase from its current level or that such growth will continue in the future at similar rates or at all. Additionally a global financial economic crisis could negatively affect the Peruvian economy.

To manage the volatility related to the risk of currency rate fluctuations, we may enter into forward exchange contracts. We cannot assure you, however, that currency fluctuations will not have an impact on our financial condition and results of operations.

### ***Mexican inflation, restrictive exchange control policies and fluctuations in the peso exchange rate may adversely affect our financial condition and results of operations.***

Although all of our Mexican operations' sales of metals are priced and invoiced in U.S. dollars, a substantial portion of its costs are denominated in pesos. Accordingly, when inflation in Mexico increases without a corresponding depreciation of the peso, the net income generated by our Mexican operations is adversely affected. The annual inflation rate in Mexico was 2.8% in 2019, 4.8% in 2018 and 6.8% in 2017.

At the same time, the peso has been subject in the past to significant volatility, which may not have been proportionate to the inflation rate and may not be proportionate to the inflation rate in the future. The value of the peso relative to the U.S. dollar increased by 4.3%, 0.3% and 4.5% in 2019, 2018 and 2017, respectively.

The Mexican government does not currently restrict the ability of Mexican companies or individuals to convert pesos into dollars or other currencies. While we do not expect the Mexican government to impose any restriction or exchange control policies in the future, it is an area we closely monitor. We cannot assure you the Mexican government will maintain its current policies with regard to the peso or that the peso's value will not fluctuate significantly in the future. The imposition of exchange control policies could impair Minera Mexico's ability to obtain imported goods and to meet its U.S. dollar denominated obligations and could have an adverse effect on our business and financial condition.

## **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

We were incorporated in Delaware in 1952. Our corporate offices in the United States are located at 1440 East Missouri Avenue Suite 160, Phoenix, Arizona 85014. Our Phoenix telephone number is (602) 264-1375. Our corporate offices in Mexico are located in Mexico City and our corporate offices in Peru are located in Lima. Our website is

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www.southerncoppercorp.com. We believe that our existing properties are in good condition and suitable for the conduct of our business.

### REVIEW OF OPERATIONS

The following maps set forth the locations of our principal mines, smelting facilities and refineries. We operate open-pit copper mines in the southern part of Peru—at Toquepala and Cuajone—and in Mexico, at La Caridad and Buenavista. We also operate five underground mines that produce zinc, copper, silver and gold, as well as a coal mine and a coke oven.

Graphic

### EXTRACTION, SMELTING AND REFINING PROCESSES

Our operations include open-pit and underground mining, concentrating, copper smelting, copper refining, copper rod production, solvent extraction/electrowinning (“SX-EW”), zinc refining, sulfuric acid production, molybdenum concentrate production and silver and gold refining. The extraction and production process are summarized below.

#### OPEN-PIT MINING

In an open-pit mine, the production process begins at the mine pit, where waste rock, leaching ore and copper ore are drilled and blasted and then loaded onto diesel-electric trucks by electric shovels. Waste is hauled to dump areas and leaching ore is hauled to leaching dumps. The ore to be milled is transported to the primary crushers.

#### UNDERGROUND MINING

In an underground mine, the production process begins at the stopes, where copper, zinc and lead veins are drilled and blasted and the ore is hauled to the underground crusher station. The crushed ore is then hoisted to the surface for processing.

#### CONCENTRATING

The copper ore with a copper grade over 0.4% from the primary crusher or the copper, zinc and lead-bearing ore from the underground mines is transported to a concentrator plant where gyratory crushers break the ore into sizes no larger than three-quarter of an inch. The ore is then sent to a mill section where it is ground to the consistency of fine powder. The finely ground ore is mixed with water and chemical reagents and pumped as a slurry to the flotation separator where

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it is mixed with certain chemicals. In the flotation separator, reagent solutions and air pumped into the flotation cells cause the minerals to separate from the waste rock and bubble to the surface where they are collected and dried.

If the bulk concentrated copper contains molybdenum, it is first processed in a molybdenum plant as described below under “Molybdenum Production.”

### COPPER SMELTING

Copper concentrates are transported to a smelter, where they are smelted using a furnace, converter and anode furnace to produce either blister copper (which is in the form of cakes with air pockets) or copper anodes (which are cleaned of air pockets). At the smelter, the concentrates are mixed with flux (a chemical substance intentionally included for high temperature processing) and then sent to reverberatory furnaces producing copper matte and slag (a mixture of iron and other impurities). Copper matte contains approximately 65% copper. Copper matte is then sent to the converters, where the material is oxidized in two steps: (i) the iron sulfides in the matte are oxidized with silica, producing slag that is returned to the reverberatory furnaces, and (ii) the copper contained in the matte sulfides is then oxidized to produce copper that, after casting, is called blister copper, containing approximately 98% to 99% copper, or anodes, containing approximately 99.7% copper. Most of the blister and anode production is sent to the refinery and the remainder is sold to customers.

### COPPER REFINING

Anodes are suspended in tanks with a solution containing water, sulfuric acid and copper sulfate. A weak electrical current is passed through the anodes and chemical solution and the dissolved copper is deposited on very thin starting sheets to produce copper cathodes containing approximately 99.99% copper. During this process, silver, gold and other metals (for example, palladium, platinum and selenium), along with other impurities, settle on the bottom of the tank (anodic muds). This anodic mud is processed at a precious metal plant where selenium, silver and gold are recovered.

### COPPER ROD PLANT

To produce copper rod, copper cathodes are first smelted in a furnace and then dosified in a casting machine. The dosified copper is then extruded and passed through a cooling system that begins solidification of copper into a 60×50 millimeter copper bar. The resulting copper bar is gradually stretched in a rolling mill to achieve the desired diameter. The rolled bar is then cooled and sprayed with wax as a preservation agent and collected into a rod coil that is compacted and sent to market.

### SOLVENT EXTRACTION/ELECTROWINNING (“SX-EW”)

A complementary processing method is the leaching and SX-EW process. During the SX-EW process, low-grade sulfides ore and copper oxides are leached with sulfuric acid to allow copper content recovery. The acid and copper solution is then agitated with a solvent that contains chemical additives that attract copper ions. As the solvent is lighter than water, it floats to the surface carrying with it the copper content. The solvent is then separated using an acid solution, freeing the copper. The acid solution containing the copper is then moved to electrolytic extraction tanks to produce copper cathodes.

### MOLYBDENUM PRODUCTION

Molybdenum is recovered from copper-molybdenum concentrates produced at the concentrator. The copper-molybdenum concentrate is first treated with a thickener until it becomes slurry with 60% solids. The slurry is then agitated in a chemical and water solution and pumped to the flotation separator. The separator creates a froth that carries molybdenum to the surface but not the copper mineral (which is later filtered to produce copper concentrates containing approximately 27% copper). The molybdenum froth is skimmed off, filtered and dried to produce molybdenum concentrates of approximately 58% contained molybdenum.

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ZINC REFINING

Metallic zinc is produced through electrolysis using zinc concentrates and zinc oxides. Sulfur is eliminated from the concentrates by roasting and the zinc oxide is dissolved in sulfuric acid solution to eliminate solid impurities. The purified zinc sulfide solution is treated by electrolysis to produce refined zinc and to separate silver and gold, which are recovered as concentrates.

SULFURIC ACID PRODUCTION

Sulfur dioxide gases are produced in the copper smelting and zinc roasting processes. As a part of our environmental preservation program, we treat the sulfur dioxide emissions at two of our Mexican plants and at our Peruvian processing facilities to produce sulfuric acid, some of which is, in turn, used for the copper leaching process, with the balance sold to mining and fertilizer companies located principally in Mexico, Peru, United States and Chile.

SILVER AND GOLD REFINING

Silver and gold are recovered from copper, zinc and lead concentrates in the smelters and refineries, and from slimes through electrolytic refining.

KEY PRODUCTION CAPACITY DATA

All production facilities are owned by us. The following table sets forth as of December 31, 2019, the locations of production facilities by reportable segment, the processes used, as well as the key production and capacity data for each location:

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| Facility Name                            | Location         | Process   | Nominal Capacity(1)           | 2019       | 2019 Capacity |
|--|------------------|---|-------------------------------|------------|---------------|
|  |                  |   |                               | Production | Use(4)        |
| <b>PERUVIAN OPEN/PIT UNIT</b>            |                  |   |                               |            |               |
| <b>Mining Operations</b>                 |                  |   |                               |            |               |
| Cuajone open/pit mine                    | Cuajone (Peru)   | Copper ore milling and recovery, copper and molybdenum concentrate production | 90.0 ktpd—ore milled          | 83.1       | 92.3 %        |
| Toquepala open/pit mine; Concentrator I  | Toquepala (Peru) | Copper ore milling and recovery, copper and molybdenum concentrate production | 60.0 ktpd—ore milled          | 63.9       | 106.4 %       |
| Concentrator II                          |                  |   | 60.0 ktpd—ore milled          | 57.9       | 96.5 %        |
| Toquepala SX/EW plant                    | Toquepala (Peru) | Leaching, solvent extraction and cathode electrowinning                       | 56.0 ktpy—refined             | 26.3       | 47.0 %        |
| <b>Processing Operations</b>             |                  |   |                               |            |               |
| Ilo copper smelter                       | Ilo (Peru)       | Copper smelting, blister, anodes production                                   | 1,200.0 ktpy—concentrate feed | 1,075.5    | 89.6 %        |
| Ilo copper refinery                      | Ilo (Peru)       | Copper refining   | 280 ktpy—refined cathodes     | 256.7      | 91.7 %        |
| Ilo acid plants                          | Ilo (Peru)       | Sulfuric acid   | 1,050 ktpy—sulfuric acid      | 1,072.6    | 102.2 %       |
| Ilo precious metals refinery             | Ilo (Peru)       | Slime recovery & processing, gold & silver refining                           | 320 tpy                       | 342.0      | 106.9 %       |
| <b>MEXICAN OPEN/PIT UNIT</b>             |                  |   |                               |            |               |
| <b>Mining Operations</b>                 |                  |   |                               |            |               |
| Buenavista open/pit mine; Concentrator I | Sonora (Mexico)  | Copper ore milling & recovery, copper concentrate production                  | 82.0 ktpd—milling             | 81.0       | 98.8 %        |
| Concentrator II                          |                  |   | 100.0 ktpd—milling            | 111.8      | 111.8 %       |
| Buenavista: SX/EW plant I                | Sonora (Mexico)  | Leaching, solvent extraction & refined cathode electrowinning                 | 11.0 ktpy—refined             | —          | — %           |
| SX/EW plant II                           |                  |   | 43.8 ktpy—refined             | 21.5       | 49.2 %        |
| SX/EW plant III                          |                  |   | 120.0 ktpy—refined            | 78.6       | 65.5 %        |
| La Caridad open/pit mine                 | Sonora (Mexico)  | Copper ore milling & recovery,  | 94.5 ktpd—milling             | 94.9       | 100.5 %       |

|                                     |                          |   |                             |  |         |         |
|-------------------------------------|--------------------------|---|-----------------------------|--|---------|---------|
|                                     |                          | copper & molybdenum concentrate production                                    |                             |  |         |         |
| La Caridad SX/EW plant              | Sonora (Mexico)          | Leaching, solvent extraction & cathode electrowinning                         | 21.9 ktpy—refined           |  | 25.9    | 118.4 % |
| <b>Processing Operations</b>        |                          |   |                             |  |         |         |
| La Caridad copper smelter           | Sonora (Mexico)          | Concentrate smelting, anode production  | 1,000 ktpy—concentrate feed |  | 1,011.4 | 101.1 % |
| La Caridad copper refinery          | Sonora (Mexico)          | Copper refining   | 300 ktpy copper cathode     |  | 231.6   | 77.2 %  |
| La Caridad copper rod plant         | Sonora (Mexico)          | Copper rod production   | 150 ktpy copper rod         |  | 142.7   | 95.2 %  |
| La Caridad precious metals refinery | Sonora (Mexico)          | Slime recovery & processing, gold & silver refining                           | 1.8 ktpy—slime              |  | 1.0     | 57.6 %  |
| La Caridad sulfuric acid plant      | Sonora (Mexico)          | Sulfuric acid   | 1,565.5 ktpy—sulfuric acid  |  | 966.2   | 61.7 %  |
| <b>IMMSA UNIT</b>                   |                          |   |                             |  |         |         |
| <b>Underground mines</b>            |                          |   |                             |  |         |         |
| Charcas                             | San Luis Potosi (Mexico) | Copper, zinc, lead milling, recovery & concentrate production                 | 1,460 ktpy—ore milled       |  | 1,293.1 | 88.6 %  |
| San Martin                          | Zacatecas (Mexico)       | Lead, zinc, copper & silver mining, milling recovery & concentrate production | 1,606 ktpy—ore milled       |  | 653.7   | 40.7 %  |
| Santa Barbara                       | Chihuahua (Mexico)       | Lead, copper and zinc mining & concentrates production                        | 2,190 ktpy—ore milled       |  | 1,636.6 | 74.7 %  |
| Santa Eulalia                       | Chihuahua (Mexico)       | Lead & zinc mining and milling recovery & concentrate production              | 547.5 ktpy—ore milled       |  | 327.1   | 59.7 %  |
| Taxco(2)                            | Guerrero (Mexico)        | Lead, zinc silver & gold mining recovery & concentrate production             | 730 ktpy—ore milled         |  | —       | — %     |
| Nueva Rosita coal & coke complex(3) | Coahuila (Mexico)        | Clean coal production   | 900 ktpy clean coal         |  | 25.2    | 2.8 %   |
|                                     |                          |   | 100 ktpy coke               |  | —       | — %     |
| <b>Processing Operations</b>        |                          |   |                             |  |         |         |
| San Luis Potosi zinc refinery       | San Luis Potosi (Mexico) | Zinc concentrates refining  | 105.0 ktpy zinc cathode     |  | 105.0   | 100.0 % |
| San Luis Potosi sulfuric acid plant | San Luis Potosi (Mexico) | Sulfuric acid   | 180.0 ktpy sulfuric acid    |  | 187.2   | 104.0 % |

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ktpd = thousands of tons per day

ktpy = thousands of tons per year

Tpy = tons per year

- (1) Our estimates of actual capacity under normal operating conditions with allowance for normal downtime for repairs and maintenance and based on the average metal content for the relevant period.
- (2) The Taxco mine has been on strike since July 2007. The Company restored production from the San Martin mine in the second quarter of 2019.
- (3) At December 31, 2019, the coal reserves for the Nueva Rosita coal plant were 94.8 million tons with average sulfur content of 1.38% and a BTU content of 10,022 per pound.
- (4) In some cases, real production exceeds the nominal capacity due to higher grades and recovery rates.

### PROPERTY BOOK VALUE

At December 31, 2019, net book values of property and mine development are as follows (in millions):

|   |           |
|---|-----------|
| <b>Peruvian operations:</b>                   |           |
| Cuajone                                       | \$ 730.3  |
| Toquepala                                     | 2,084.4   |
| Tia Maria project                             | 336.3     |
| Ilo and other support facilities              | 660.3     |
| Construction in progress                      | 544.7     |
|   | <hr/>     |
| Total Peru                                    | \$4,356.0 |
| <b>Mexican open/pit operations:</b>           |           |
| Buenavista mine and concentrator plants       | \$2,310.6 |
| Buenavista SX/EW and Quebalix                 | 987.5     |
| La Caridad mine and concentrator plant        | 335.2     |
| La Caridad support facilities                 | 377.7     |
| Construction in progress                      | 282.5     |
|   | <hr/>     |
| Total Mexico Open Pit                         | \$4,293.5 |
| <b>Mexican IMMSA unit:</b>                    |           |
| San Luis Potosi                               | \$ 96.8   |
| Zinc electrolytic refinery                    | 74.5      |
| Charcas                                       | 65.8      |
| San Martin                                    | 71.3      |
| Santa Barbara                                 | 59.9      |
| Taxco   | 1.9       |
| Santa Eulalia                                 | 41.2      |
| Nueva Rosita                                  | 7.9       |
| Construction in progress and other facilities | 73.5      |
|   | <hr/>     |
| Total IMMSA Unit                              | \$ 492.8  |
| <b>Other property:</b>                        |           |
| El Pilar                                      | \$ 87.1   |

|  |                                |
|--|--------------------------------|
| Mexicana del Arco                        | 39.1                           |
| Total                                    | <u>\$ 126.2</u>                |
| Mexican administrative offices           | <u>\$ 102.5</u>                |
| Total Mexico                             | <u>\$5,015.0</u>               |
| <b>Total Southern Copper Corporation</b> | <b><u><u>\$9,371.0</u></u></b> |

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SUMMARY OPERATING DATA

The following table sets out certain operating data underlying our financial and operating information for each of the periods indicated.

|                                     | Year Ended December 31, |                  |                  | Variance        |               |                 |               |
|-------------------------------------|-------------------------|------------------|------------------|-----------------|---------------|-----------------|---------------|
|                                     |                         |                  |                  | 2019 -2018      |               | 2018 -2017      |               |
|                                     | 2019                    | 2018             | 2017             | Volume          | %             | Volume          | %             |
| <b>COPPER (thousand pounds):</b>    |                         |                  |                  |                 |               |                 |               |
| <i>Mined</i>                        |                         |                  |                  |                 |               |                 |               |
| <b>Peru open/pit</b>                |                         |                  |                  |                 |               |                 |               |
| Toquepala                           | 510,752                 | 316,849          | 271,056          | 193,903         | 61.2 %        | 45,793          | 16.9 %        |
| Cuajone                             | 344,787                 | 354,016          | 348,562          | (9,229)         | (2.6)%        | 5,454           | 1.6 %         |
| SXÆW Toquepala                      | 58,045                  | 58,480           | 55,320           | (435)           | (0.7)%        | 3,160           | 5.7 %         |
| <b>Mexico open/pit</b>              |                         |                  |                  |                 |               |                 |               |
| La Caridad                          | 236,249                 | 233,882          | 234,287          | 2,367           | 1.0 %         | (405)           | (0.2)%        |
| Buenavista                          | 745,073                 | 716,239          | 703,074          | 28,834          | 4.0 %         | 13,165          | 1.9 %         |
| SXÆW La Caridad                     | 57,160                  | 58,232           | 62,586           | (1,072)         | (1.8)%        | (4,354)         | (7.0)%        |
| SXÆW Buenavista                     | 220,711                 | 196,788          | 246,426          | 23,923          | 12.2 %        | (49,638)        | (20.1)%       |
| <b>IMMSA unit</b>                   | <b>18,222</b>           | <b>13,715</b>    | <b>12,093</b>    | <b>4,507</b>    | <b>32.9 %</b> | <b>1,622</b>    | <b>13.4 %</b> |
| <b>Total Mined</b>                  | <b>2,190,999</b>        | <b>1,948,201</b> | <b>1,933,404</b> | <b>242,798</b>  | <b>12.5 %</b> | <b>14,797</b>   | <b>0.8 %</b>  |
| <i>Smelted</i>                      |                         |                  |                  |                 |               |                 |               |
| <b>Peru open/pit</b>                |                         |                  |                  |                 |               |                 |               |
| Blister Ilo                         | —                       | 5,799            | 3,953            | (5,799)         | (100.0)%      | 1,846           | 46.7 %        |
| Anodes Ilo                          | 700,009                 | 760,060          | 762,460          | (60,051)        | (7.9)%        | (2,400)         | (0.3)%        |
| <b>Mexico open/pit</b>              |                         |                  |                  |                 |               |                 |               |
| Anodes La Caridad                   | 612,122                 | 631,056          | 595,717          | (18,934)        | (3.0)%        | 35,339          | 5.9 %         |
| <b>Total Smelted</b>                | <b>1,312,131</b>        | <b>1,396,915</b> | <b>1,362,130</b> | <b>(84,784)</b> | <b>(6.1)%</b> | <b>34,785</b>   | <b>2.6 %</b>  |
| <i>Refined</i>                      |                         |                  |                  |                 |               |                 |               |
| <b>Peru Open/pit</b>                |                         |                  |                  |                 |               |                 |               |
| Cathodes Ilo                        | 565,810                 | 645,191          | 642,367          | (79,381)        | (12.3)%       | 2,824           | 0.4 %         |
| SXÆW Toquepala                      | 58,045                  | 58,480           | 55,320           | (435)           | (0.7)%        | 3,160           | 5.7 %         |
| <b>Mexico Open/pit</b>              |                         |                  |                  |                 |               |                 |               |
| Cathodes La Caridad                 | 510,602                 | 527,306          | 502,783          | (16,704)        | (3.2)%        | 24,523          | 4.9 %         |
| SXÆW La Caridad                     | 57,160                  | 58,232           | 62,586           | (1,072)         | (1.8)%        | (4,354)         | (7.0)%        |
| SXÆW Buenavista                     | 220,712                 | 196,788          | 246,426          | 23,924          | 12.2 %        | (49,638)        | (20.1)%       |
| <b>Total Refined</b>                | <b>1,412,329</b>        | <b>1,485,997</b> | <b>1,509,482</b> | <b>(73,668)</b> | <b>(5.0)%</b> | <b>(23,485)</b> | <b>(1.6)%</b> |
| <b>Rod Mexico Open/pit</b>          |                         |                  |                  |                 |               |                 |               |
| —La Caridad                         | 314,661                 | 324,403          | 293,435          | (9,742)         | (3.0)%        | 30,968          | 10.6 %        |
| <b>SILVER (thousand ounces)</b>     |                         |                  |                  |                 |               |                 |               |
| <i>Mined</i>                        |                         |                  |                  |                 |               |                 |               |
| <b>Peru Open/pit</b>                |                         |                  |                  |                 |               |                 |               |
| Toquepala                           | 3,421                   | 2,132            | 1,779            | 1,289           | 60.5 %        | 353             | 19.8 %        |
| Cuajone                             | 2,207                   | 2,280            | 2,390            | (73)            | (3.2)%        | (110)           | (4.6)%        |
| <b>Mexico Open/pit</b>              |                         |                  |                  |                 |               |                 |               |
| La Caridad                          | 1,947                   | 2,085            | 2,009            | (138)           | (6.6)%        | 76              | 3.8 %         |
| Buenavista                          | 5,755                   | 5,162            | 4,988            | 593             | 11.5 %        | 174             | 3.5 %         |
| <b>IMMSA unit</b>                   | <b>6,943</b>            | <b>5,649</b>     | <b>4,760</b>     | <b>1,294</b>    | <b>22.9 %</b> | <b>889</b>      | <b>18.7 %</b> |
| <b>Total Mined</b>                  | <b>20,273</b>           | <b>17,308</b>    | <b>15,926</b>    | <b>2,965</b>    | <b>17.1 %</b> | <b>1,382</b>    | <b>8.7 %</b>  |
| <i>Refined</i>                      |                         |                  |                  |                 |               |                 |               |
| Peru—Ilo                            | 3,344                   | 3,884            | 3,953            | (540)           | (13.9)%       | (69)            | (1.7)%        |
| Mexico—La Caridad                   | 8,049                   | 8,496            | 7,152            | (447)           | (5.3)%        | 1,344           | 18.8 %        |
| IMMSA unit                          | 1,195                   | 1,203            | 2,583            | (8)             | (0.7)%        | (1,380)         | (53.4)%       |
| <b>Total Refined</b>                | <b>12,588</b>           | <b>13,583</b>    | <b>13,688</b>    | <b>(995)</b>    | <b>(7.3)%</b> | <b>(105)</b>    | <b>(0.8)%</b> |
| <b>MOLYBDENUM (thousand pounds)</b> |                         |                  |                  |                 |               |                 |               |

| <b>Mined</b>                  |               |               |               |               |               |              |              |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|--------------|--------------|
| Toquepala                     | 16,043        | 9,169         | 9,224         | 6,874         | 75.0 %        | (55)         | (0.6)%       |
| Cuajone                       | 7,242         | 6,832         | 8,259         | 410           | 6.0 %         | (1,427)      | (17.3)%      |
| Buenavista                    | 13,487        | 10,842        | 7,636         | 2,645         | 24.4 %        | 3,206        | 42.0 %       |
| La Caridad                    | 22,500        | 21,626        | 21,900        | 874           | 4.0 %         | (274)        | (1.3)%       |
| <b>Total Mined</b>            | <b>59,272</b> | <b>48,469</b> | <b>47,019</b> | <b>10,803</b> | <b>22.3 %</b> | <b>1,450</b> | <b>3.1 %</b> |
| <b>ZINC (thousand pounds)</b> |               |               |               |               |               |              |              |
| Mined IMMSA                   | 162,970       | 156,038       | 151,380       | 6,932         | 4.4 %         | 4,658        | 3.1 %        |
| Refined IMMSA                 | 231,435       | 237,076       | 230,166       | (5,641)       | (2.4)%        | 6,910        | 3.0 %        |

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### SLOPE STABILITY:

#### Peruvian Operations

The Toquepala and Cuajone pits are each approximately 930 meters deep. Under the present mine plan configuration the Toquepala pit will reach a depth of 1,605 meters and the Cuajone pit will reach a depth of 1,380 meters. The deepening pits present us with a number of geotechnical challenges. Perhaps the foremost concern is the possibility of slope failure, a possibility that all open-pit mines face. In the past, in order to maintain slope stability, we have decreased pit slope angles, installed additional or duplicate haul road access, and increased stripping requirements. We have also responded to hydrological conditions and removed material displaced by slope failures. To meet the geotechnical challenges relating to slope stability of the open-pit mines, we have taken the following steps:

In the late 1990s, we hosted round table meetings with a group of specialists to review pit designs for mines with greater than 700 meter depth. Based on the concepts defined at these meetings, we initiated slope stability studies to define the mining of reserves by optimum design. The studies were completed in 2000 and we believe we implemented the study recommendations. One of the major changes implemented was slope angle reduction at both mines.

Since 1998, a wall depressurization program has been in place in both pits. This consists of a horizontal drilling program, which improves drainage thereby reducing saturation and increasing wall stability. Additionally, a new blasting control program was put in place and a new slope monitoring system was implemented.

#### *Toquepala:*

In 2007, we installed 20 meter wide geotechnical berms every 10 benches at the Toquepala mine. We believe this will further strengthen the stability of the Toquepala pit. In October 2012, two interferometric radars were put in place to monitor slope stability at the Toquepala mine, and in September 2013, new full monitoring software (FMS360) was installed. These systems improve the reliability of instrumentation, the information quality for assessing the behavior of the slopes and anticipates the risks of instability.

In 2013, a mining consulting group began a study of dump stability at the Toquepala mine. This study assessed the current stability of the dumps and is developing a geotechnical campaign to obtain information to assess the stability of the future and final stages of the dumps. In 2016, the stability study was resumed by executing geophysical test and test pits for the characterization of the dumps. The execution of sonic perforations and complementary geophysical tests are currently pending. On December 2016, the consultants also presented the report "*Slope Stability Analysis in Deposits of Waste and Leachable Material*".

In 2016, the mining consultants presented the final report "*Physical Stability of the Quebrada Honda tailings dam*". This study consisted in the development of geotechnical investigations, static, seismic and post-seismic stability analysis, filtration analysis, deformation analysis, liquefaction potential analysis and dynamic analysis.

In 2016, as part of the slope stability upgrade study, a geotechnical and hydrological oriented drill program of 3,470 meters was executed at the Toquepala mine. This program was conducted in order to complement the study and to get a better understanding of the behavior of the rock mass. The geotechnical drilling program involved 11 diamond drill holes, six

geotechnical drills and five hydrogeological drills, all of them with geological and geotechnical logging. During the execution of these hydrogeological drills, permeability tests in the rock were executed as well as slug tests and constant load tests. Additionally, instrumentation was implemented with five vibrating wire piezometers for the monitoring of water table and to give support to the hydrogeological model. Also in 2016, the external mining consultants began the report for phase three of this study, which was concluded in 2017. They submitted and updated the block models of inter-ramp angles, the model of rock mass, the hydrogeological model and the 3D structural model. In addition, fieldwork continued on the “*Slope Stability Analysis in Deposits of Waste and Leachable Material*” study by executing geophysical tests, sampling and laboratory tests of soil mechanics. This study was concluded and submitted by the external consultants in 2018.

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Additionally, in 2018 we dedicated efforts to update the geotechnical pit models, which are essential to perform the analysis of slope stability. Related to this, we have carried out actions, including the completion of the geotechnical database implementation, laboratory testing, training, and other important aspects. In 2019, external consultants performed the “2019 Update of Slope Stability Analysis in Deposits of Waste and Leachable Material” study. In addition, an IBIS ArcSAR radar was incorporated into the pit slope monitoring system; this radar equipment gives greater coverage, five kilometers of maximum range and reduced scanning time. Sub- horizontal drains were also implemented for pit slope depressurization.

In recent years, we have destined efforts for the development of stability studies of slopes of the pit, dumps and leachable deposits and tailings; thus guaranteeing the safety of personnel and equipment, the continuity of the operation, and complying with Peruvian regulations.

### *Cuajone:*

At the Cuajone mine, in 2007 in order to minimize the damage to the slopes caused by production blast vibrations, blasting control using three pre-split drills was implemented. Also, the slope monitoring system with reflection prisms has been replaced by a system using slope monitoring radar. In February 2012, the first radar equipment was put in service followed in August 2013 with the second radar installation and a geotechnical surveillance camera was added. This system improved the reliability and continuity of monitoring, improved the quality of information used to evaluate the performance of the slopes and helped better anticipate the risk of instability. The sub-surface deformation and the water level are still monitored with inclinometers and piezometers. In September 2012, we completed a program of oriented geotechnical drilling totaling 17,938 meters, and in May 2013 we completed a program of vertical geotechnical drilling totaling 2,814 meters, with hydraulic tests performed on rock and subsequently instrumented with inclinometers/ piezometers. The geotechnical and hydraulic information obtained from the two programs will be used in the development of a geotechnical study for the new 15 year mine development plan (2015-2029). Also during 2013, we drilled 772 meters of sub-horizontal holes in order to drain the east slope of the pit. The geotechnical study for the new 15-year mine development plan was completed at the end of 2015 and the result of this study is the increase by an average of three degrees of the inter ramp angle and include 40 meters wide geotechnical berms for inter ramp heights above 150 meters. This study also contains recommendations for improving the stability of the pit slopes.

In 2013, the Board of Directors approved a project to improve slope stability at the south area of the Cuajone mine, which will remove approximately 148 million tons of waste material in order to improve the mine design without reducing our actual production level. As of December 31, 2019, 129.1 million tons of waste material have been removed. For further information see Item 7 “Management Discussion and Analysis—Capital Investment Program.”

In 2017, we installed three vibration monitoring stations and ten digital extensometers to monitor surface deformations on waste dumps in real time. We also completed the detailed engineering for the construction of the coronation channel in the west Torata waste dump. In 2018, we began to operate the first radar for monitoring blasting vibrations and a second geotechnical surveillance camera. This equipment will allow us to improve control over the walls of the pit and to anticipate possible damages.

To increase the possibility of mining in the event of a slide, we have provided for two extraction ramps for each open-pit mine. While these measures cannot guarantee that a slope

failure will not occur, we believe that our mining practices are sound and that the steps taken and the ongoing reviews performed are a prudent methodology for open-pit mining.

#### Mexican operations

In 2004, our 15-year mine plan study for the La Caridad mine was awarded to an independent consulting firm to conduct a geotechnical evaluation. The purpose of the plan was to develop a program of optimum bench design and inter-ramp slope angles for the open-pit. The results of the evaluation presented by the consultants included a recommendation of a maximum average bench face angle of 72 degrees. Additionally, single benching was recommended for the upper sections of the west, south and east walls of the main pit. Likewise, double benching was recommended for the lower levels of the main pit and single benching for the upper slope segments that consist of either alluvial material, mine waste dumps or mineralized stockpile material. Alternatively, slopes in these types of materials, may be designed with

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an overall 37 degree slope. The geostructural and geotechnical parameters recommended were applied in the pit design for the new life of the mine plan for La Caridad mine prepared in 2015. This mine plan replaced the 15-year mine plan prepared in 2010. However, since final pit limits have not been yet established at La Caridad, all current pit walls are effectively working slopes. Geostructural and geotechnical data collected at the open-pit mine from cell-mapping and oriented-core drilling databases provided the basis for the geotechnical evaluation and recommendations. We continue to collect new information related to geotechnical data and other geology features from the mine pit and diamond drill hole, in order to ensure the structural security and also to improve the geotechnical data base for future studies.

In 2019, we assigned an independent consulting firm to conduct a geotechnical study of La Caridad, which included the Bella Union area, based on a 15-year mining plan. We expect to receive the results of this study during 2020.

At the Buenavista mine, we are following the recommendations of a geotechnical evaluation of design slope for the 15-year pit plan. This evaluation was prepared by an independent mine consulting firm. This evaluation included the determination of optimum pit slope design angles and bench design parameters for the proposed mine plan. The objective of the study was: (1) to determine optimum inter-ramp slope angles and bench design parameters for the 15-year plan and (2) to identify and analyze any potential major instability that could adversely impact mine operation. In 2012, we installed a radar system to monitor the walls of the mine.

The following recommendations were made for the Buenavista mine: inter-ramp slope design angles for the 15-year pit plan, for all of the 21 design sectors, defined on a rock-fabric-based catch bench analysis, using double bench, can range from 48° and 55°, and the inter-ramp slope angles are based on geometries that resulted from the back-break analysis using 80% reliability of achieving the required 7.5 meter catch bench width for a single bench configuration and 10.6 meter catch bench width for a double bench configuration. Preliminary observations suggest the 15-year pit walls may be relative free-draining, the back-break analysis assumed depressurized conditions of mine benches, and the inter-ramp stability analysis were performed for both, saturated and depressurized conditions.

A pit dewatering/depressurization plan for the Buenavista mine was also recommended to address the issues of open-pit drainage, dewatering plan and future slope depressurization. Phase I of the geohydrological study was completed by an independent consultant. The analysis included a preliminary assessment and work plan implementations.

In 2011, five wells for extraction and monitoring were drilled close to the mine. Also, we began a drilling program to monitor possible water filtration beyond the limits of the open-pit mine. All the information obtained from these well drilling programs has been analyzed and included in the hydrologic model. The open-pit dewatering program from the bottom benches also continued during 2012 with a drilling program of 3,797 meters in several monitoring wells in order to allow us to continue with the current mining plan.

In 2013, Buenavista continued the drilling program monitoring the extraction wells in the area of Increment (Phase) five of the mine and beyond the current limits of the open pit mine.

During 2013, the program to dewater the Buenavista pit bottom was continued in accordance with the short and medium term mine plans. Pumping from sumps located in Increment five, permitted mining of high grade copper blocks. Concurrent with this operational task, a

geophysical study was conducted to determine the best locations for water extraction wells to control the inflow of water to the pit bottom and thus allow us to continue our mining operations. The water extracted is being used for various purposes, including road irrigation for dust mitigation. The geophysical investigation also permitted the location of underground workings and the filtration and seepage through fractures.

A total of 7,339 meters were drilled during 2013 for 30 extraction wells, three of these wells are located in the area of Increment (Phase) five. The rest were drilled at various locations outside of the current open pit mine limit.

In 2014, we continued collecting new geotechnical information from two exploration drilling projects; this data is available to analyze the geotechnical data base for new studies in accordance with slope angle for the open pit excavations. In the free face benches at the open pit mine operations, the cell-mapping were prepared to increment the geotechnical data base. Following the recommendations of geotechnical evaluation we continued monitoring the walls using the radar system.

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Various studies are now being conducted by outside specialized consultants in order to establish long-range mine water management objectives and to implement recommendations for the efficient use of this resource. We are also conducting a geotechnical study and a diamond drilling program with an independent consulting firm in order to obtain additional geotechnical information, which will allow us to verify the slope stability for the long-term mine plan. In addition, slope monitoring continues with the SSR 160 radar.

Tailings Dams

Tailings are comprised of solid particles originating at the concentrator plants during the grinding process that, combined with water, are sent to specially built structures where they are impounded. The water is recovered to be reused in the process.

Tailings dams are basically built in two manners: by using the coarse fraction from the same tailings or by using external material, often known as “borrowed material” such as rock, clay etc. We believe SCC’s tailings dams are built with the highest quality standards and engineering practices. We comply with and at times exceed the national norms and recommendations of the International Commission on Large Dams (ICOLD). In addition we maintain a committee including both internal and external specialists, which periodically review the safety and operation of each dam.

We have six tailings dams in operation in Mexico and one in Peru as follows:

| <u>Country</u> | <u>Operation</u>      | <u>Name</u>      | <u>Current Height</u> | <u>Material</u> | <u>Method</u> |
|----------------|-----------------------|------------------|-----------------------|-----------------|---------------|
| Mexico         | Buenavista            | Tailings dam # 3 | 90 meters             | Borrowed        | Downstream    |
| Mexico         | Buenavista            | New tailings dam | 70 meters             | Borrowed        | Downstream    |
| Mexico         | La Caridad            | Tailings dam # 7 | 168 meters            | Borrowed        | Downstream    |
| Mexico         | Charcas               | Tailings dam     | 50 meters             | Coarse tailings | Upstream      |
| Mexico         | Santa Barbara         | Noriega dam      | 45 meters             | Coarse tailings | Upstream      |
| Mexico         | Santa Eulalia         | Tailings dam     | 70 meters             | Coarse tailings | Upstream      |
| Peru           | Cuajone and Toquepala | Quebrada Honda   | 128 meters            | Coarse tailings | Downstream    |

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METAL PRODUCTION BY SEGMENTS

Set forth below are descriptions of the operations and other information relating to the operations included in each of our three segments.

PERUVIAN OPERATIONS

Our Peruvian segment operations include the Cuajone and Toquepala mine complexes and the smelting and refining plants, industrial railroad which links Ilo, Toquepala and Cuajone and the port facilities.

Following is a map indicating the approximate location of, and access to, our Cuajone and Toquepala mine complexes, as well as our Ilo processing facilities:

Graphic

We have ongoing maintenance and improvement programs to ensure the satisfactory performance of our equipment. We believe all our Peruvian plant's equipment is in good physical condition and suitable for our operations.

Cuajone

Our Cuajone operations consist of an open-pit copper mine and a concentrator located in southern Peru, 30 kilometers from the city of Moquegua and 840 kilometers from Lima, at an altitude of 3,430 meters above sea level. Access to the Cuajone property is by plane from Lima to Tacna (1:40 hours) and then by highway to Moquegua and Cuajone (3:30 hours). The concentrator has a milling capacity of 90,000 tons per day. Overburden removal commenced in 1970 and ore production commenced in 1976. Our Cuajone operations utilize

a conventional open-pit mining method to collect copper ore for further processing at the concentrator.

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The table below sets forth 2019, 2018 and 2017 production information for our Cuajone operations:

|                                      |      | 2019    | 2018    | 2017    | Variance 2019 - 2018 |         |
|--------------------------------------|------|---------|---------|---------|----------------------|---------|
|                                      |      |         |         |         | Volume               | %       |
| Mine annual operating days           |      | 365     | 365     | 365     |                      |         |
| <i>Mine</i>                          |      |         |         |         |                      |         |
| Total ore mined                      | (kt) | 29,017  | 29,571  | 29,769  | (554)                | (1.9)%  |
| Copper grade                         | (%)  | 0.644   | 0.651   | 0.617   | (0.007)              | (1.1)%  |
| Leach material mined                 | (kt) | 1,513   | 1,122   | —       | 391                  | 34.8 %  |
| Leach material grade                 | (%)  | 0.483   | 0.456   | —       | 0.027                | 5.9 %   |
| Stripping ratio                      | (x)  | 4.04    | 4.71    | 4.01    | (0.67)               | (14.2)% |
| Total material mined                 | (kt) | 153,911 | 175,177 | 149,265 | (21,266)             | (12.1)% |
| <i>Concentrator</i>                  |      |         |         |         |                      |         |
| Total material milled                | (kt) | 29,056  | 29,575  | 29,751  | (519)                | (1.8)%  |
| Copper recovery                      | (%)  | 83.65   | 83.40   | 86.10   | 0.25                 | 0.3 %   |
| Copper concentrate                   | (kt) | 625.5   | 660.7   | 607.5   | (35.2)               | (5.3)%  |
| Copper in concentrate                | (kt) | 156.4   | 160.6   | 158.1   | (4.2)                | (2.6)%  |
| Copper concentrates average grade    | (%)  | 25.00   | 24.31   | 26.03   | 0.69                 | 2.8 %   |
| <i>Molybdenum</i>                    |      |         |         |         |                      |         |
| Molybdenum grade                     | (%)  | 0.019   | 0.019   | 0.019   | —                    | —       |
| Molybdenum recovery                  | (%)  | 59.23   | 55.63   | 66.62   | 3.60                 | 6.5 %   |
| Molybdenum concentrate               | (kt) | 6.1     | 5.8     | 6.9     | 0.3                  | 5.2 %   |
| Molybdenum concentrate average grade | (%)  | 54.03   | 53.30   | 54.16   | 0.73                 | 1.4 %   |
| Molybdenum in concentrate            | (kt) | 3.3     | 3.1     | 3.7     | 0.2                  | 6.0 %   |

Key: kt = thousand tons

x = Stripping ratio obtained dividing waste by leachable material plus ore mined.

Copper and molybdenum grades are referred to as total copper grade and total molybdenum grade, respectively.

*Geology*

The Cuajone porphyry copper deposit is located on the western flank of Cordillera Occidental, in the southern-most region of the Andes mountains range of Peru. The deposit is part of a mineral district that contains two additional known deposits, Toquepala and Quellaveco. The copper mineralization at Cuajone is typical of porphyry copper deposits.

The Cuajone deposit is located approximately 30 kilometers north-west from the Toquepala deposit and is part of the Toquepala Group dated approximately 60 to 100 million years (Upper Cretaceous to Lower Tertiary). The Cuajone lithology contains volcanic rocks from the Cretaceous to the Quaternary period. The deposit contains 50 rock types including, pre-mineral rocks, basaltic andesite, porphyritic rhyolite, Toquepala dolerite, Toquepala rhyolite and intrusive rocks, including diorite, porphyritic latite, breccias and dikes. In addition, the following post-mineral rocks are present: the Huaylillas and Chuntacala formations that have been formed by conglomerates, tuffs sequence, traquites and agglomerates. These formations date from nine to 23 million years. There is also the occurrence of Quaternary rocks formed by alluvial and colluvial mainly located in slopes of hills and streams.

The mineralogy is simple and is evenly distributed. It is mainly composed of minerals such as chalcopyrite ( $\text{CuFeS}_2$ ), chalcosine ( $\text{Cu}_2\text{S}$ ) and molybdenite ( $\text{MoS}_2$ ) with occasional presence of galena, enargite and tetraedrite without economic value.

*Mine exploration*

Exploration activities during the drill campaign in 2019 were as follows:

| <b>Studies</b>  | <b>Meters</b> | <b>Holes</b> | <b>Notes</b>  |
|-----------------|---------------|--------------|---|
| Infill drilling | 7,000         | 16           | To obtain additional information to improve confidence in our block model.  |
| Geotechnical    | 3,001         | 11           | To confirm the continuity of major structures and the quality of rock mass. |

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### *Concentrator*

Our Cuajone operations use state-of-the-art computer monitoring systems at the concentrator, the crushing plant and the flotation circuit in order to coordinate inflows and optimize operations. Material with a copper grade over 0.35% is loaded onto an overland conveyor belt and sent to the milling circuit, where giant rotating crushers reduce the size of the rocks to approximately one-half of an inch. The ore is then sent to the ball mills, which grind it to the consistency of fine powder. The finely ground powder is agitated in a water and reagents solution and is then transported to flotation cells. Air is pumped into the cells to produce foam for floating the copper and molybdenum minerals, but separating waste material called tailings. This copper-molybdenum bulk concentrate is then treated by inverse flotation where molybdenum is floated and copper is depressed. The copper concentrate is shipped by rail to the smelter at Ilo and the molybdenum concentrate is packaged for shipment to customers. Sulfides under 0.35% copper are considered waste.

Tailings are sent to thickeners where water is recovered. The remaining tailings are sent to the Quebrada Honda dam, our principal tailings storage facility.

A major mill expansion was completed in 1999 and the eleventh primary mill was put in operation in January 2008. In December 2013, the high pressure grinding roll was put in operation. At the end of 2016, the Larox filter press for molybdenum concentrate began operations. The overland primary crusher began operations in May 2018. The new tailings thickener began operations in September 2019.

### Toquepala

Our Toquepala operations consist of an open-pit copper mine and two concentrators. We also refine copper at the SX-EW facility through a leaching process. Toquepala is located in southern Peru, 30 kilometers from Cuajone and 870 kilometers from Lima, at an altitude of 3,220 meters above sea level. Access is by plane from Lima to the city of Tacna (1:40 hours) and then by the Pan-American highway to Camiara (1:20 hours) and by road to Toquepala (1 hour). Each concentrator has a milling capacity of 60,000 tons per day. The SX-EW facility has a production capacity of 56,000 tons per year of LME grade A copper cathodes. Overburden removal commenced in 1957 and ore production commenced in 1960. Our Toquepala operations utilize a conventional open-pit mining method to collect copper ore for further processing in our concentrators. The second concentrator began operations in the fourth quarter of 2018.

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The table below sets forth 2019, 2018 and 2017 production information for our Toquepala operations:

|                                      |      | 2019    | 2018    | 2017    | Variance 2019 - 2018 |         |
|--------------------------------------|------|---------|---------|---------|----------------------|---------|
|                                      |      |         |         |         | Volume               | %       |
| Mine annual operating days           |      | 365     | 365     | 365     |                      |         |
| <i>Mine</i>                          |      |         |         |         |                      |         |
| Total ore mined                      | (kt) | 38,248  | 22,701  | 20,411  | 15,547               | 68.5 %  |
| Copper grade                         | (%)  | 0.682   | 0.686   | 0.663   | (0.004)              | (0.6)%  |
| Leach material mined                 | (kt) | 96,700  | 104,126 | 85,048  | (7,426)              | (7.1)%  |
| Leach material grade                 | (%)  | 0.161   | 0.160   | 0.201   | 0.001                | 0.6 %   |
| Stripping ratio                      | (x)  | 0.85    | 0.90    | 0.93    | (0.05)               | (5.6)%  |
| Total material mined                 | (kt) | 249,083 | 241,514 | 203,778 | 7,569                | 3.1 %   |
| <i>Concentrator</i>                  |      |         |         |         |                      |         |
| Total material milled                | (kt) | 38,121  | 23,060  | 20,392  | 15,061               | 65.3 %  |
| Copper recovery                      | (%)  | 89.64   | 90.99   | 90.94   | (1.35)               | (1.5)%  |
| Copper concentrate                   | (kt) | 885.2   | 528.2   | 451.9   | 357.0                | 67.6 %  |
| Copper in concentrate                | (kt) | 231.7   | 143.7   | 122.9   | 88.0                 | 61.2 %  |
| Copper concentrate average grade     | (%)  | 26.20   | 27.21   | 27.21   | (1.01)               | (3.7)%  |
| <i>SXÆW plant</i>                    |      |         |         |         |                      |         |
| Estimated leach recovery             | (%)  | 23.72   | 24.11   | 24.62   | (0.39)               | (1.6)%  |
| SXÆW cathode production              | (kt) | 26.3    | 26.5    | 25.1    | (0.2)                | (0.8)%  |
| <i>Molybdenum</i>                    |      |         |         |         |                      |         |
| Molybdenum grade                     | (%)  | 0.033   | 0.028   | 0.029   | 0.005                | 17.9 %  |
| Molybdenum recovery                  | (%)  | 57.84   | 68.42   | 69.69   | (10.58)              | (15.5)% |
| Molybdenum concentrate               | (kt) | 13.1    | 7.5     | 7.5     | 5.6                  | 74.7 %  |
| Molybdenum concentrate average grade | (%)  | 55.64   | 55.54   | 55.76   | 0.10                 | 0.2 %   |
| Molybdenum in concentrate            | (kt) | 7.3     | 4.2     | 4.2     | 3.1                  | 73.3 %  |

Key: kt = thousand tons

x = Stripping ratio obtained dividing waste by leachable material plus ore mined.

Copper and molybdenum grades are referred to as total copper grade and total molybdenum grade, respectively.

### *Geology*

The Toquepala porphyry deposit is located on the western slopes of Cordillera Occidental, in the southern-most region of the Andes mountains range of Peru, approximately 120 kilometers from the border with Chile. This region extends into Chile and is home to many of the world's most significant known copper deposits. The deposit is part of a mineral district that contains two additional known deposits, Cuajone and Quellaveco. The deposit is in a territory with intrusive and eruptive activities of rhyolitic and andesitic rocks which are 70 million years old (Cretaceous-Tertiary) and which created a series of volcanic lava. The lava is composed of rhyolites, andesites and volcanic agglomerates with a western dip and at an altitude of 1,500 meters. These series are known as the Toquepala Group. Subsequently, different intrusive activities occurred which broke and smelted the rocks of the Toquepala

Group. These intrusive activities resulted in diorites, granodiorites and dikes of porphyritic dacite. Toquepala has a simple mineralogy with regular copper grade distribution. Economic ore is found as disseminated sulfurs throughout the deposit as veinlets, replenishing empty places or as small aggregates. Ore minerals include chalcocite ( $\text{Cu}_2\text{S}$ ), chalcosine ( $\text{Cu}_2\text{S}$ ) and molybdenite ( $\text{MoS}_2$ ). A secondary enrichment zone is also found with thicknesses between 0 and 150 meters.

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### *Mine Exploration*

Exploration activities during the drill campaign in 2019 were as follows:

| <b>Studies</b>                                     | <b>Meters</b> | <b>Holes</b> | <b>Notes</b>   |
|--|---------------|--------------|--|
| Ore and leach confirmation to reserves and phases  | 24,479        | 30           | To confirm the continuity of the ore and leach material.                   |
| Study of Slopes Stability Instability/West Sector  | 1,500         | 8            | For slope depressurization.  |
| Exploration geotechnical and hydrogeological drill | 7,931         | 15           | To define rock mass quality and verify the continuity of the major faults. |
| <b>Total</b>                                       | <b>33,910</b> | <b>53</b>    |  |

### *Concentrator*

Our Toquepala concentrator operations use state-of-the-art computer monitoring systems in order to coordinate inflows and optimize operations. Material with a copper grade over 0.22% is loaded onto an overland conveyor belt and sent to the crushing circuit, where rotating crushers reduce the size of the rocks by approximately 85%, to less than one-half of an inch. The ore is then sent to the rod and ball mills, which grind it in a mix with water to the consistency of fine powder. The finely ground powder mixed with water is then transported to flotation cells. Air is pumped into the cells producing a froth, which carries the copper mineral to the surface but not the waste rock, or tailings. The bulk concentrate with sufficient molybdenum content is processed to recover molybdenum by inverse flotation. This final copper concentrate with a content of approximately 26.5% of copper is filtered in order to reduce moisture to 8.5% or less. Concentrates are then shipped by rail to the Ilo smelter.

Tailings are sent to thickeners where water is recovered. The remaining tailings are sent to the Quebrada Honda dam, our principal tailings storage facility.

### *SX-EW Plant*

The SX-EW facility at Toquepala produces grade A LME electrowon copper cathodes of 99.999% purity from solutions obtained by leaching low-grade ore stored at the Toquepala and Cuajone mines. The leach plant commenced operations in 1995 with a design capacity of 35,629 tons per year of copper cathodes. In 1999, the capacity was expanded to 56,000 tons per year.

Copper oxides from Cuajone with a copper grade higher than 0.467%, with an acid solubility index higher than 50% and a cyanide solubility index higher than 23% are leached. In Toquepala, the copper sulfides cutoff grade is 0.041% and therefore material with a total copper grade between 0.080% and 0.295% are leached. Copper in solution produced at Cuajone is sent to Toquepala through an eight-inch pipe laid alongside the Cuajone-Toquepala railroad track.

Plant and equipment are supported by a maintenance plan and a quality management system to assure good physical condition and high availability. The SX-EW plant management quality system (including leaching operations) has been audited periodically since 2002 by an external audit company, and found to be in compliance with the requirements of the ISO 9001-2008 standard. In 2012, we obtained the certification OHSAS 18001-2007 of our occupational health and safety system and the ISO14001-2015 for our environmental standards at the SX-EW plant.

### Processing Facilities—Ilo

Our Ilo smelter and refinery complex is located in the southern part of Peru, 17 kilometers north of the city of Ilo, 121 kilometers from Toquepala, 147 kilometers from Cuajone and 1,240 kilometers from the city of Lima. Access is by plane from Lima to Tacna (1:40 hours) and then by highway to the city of Ilo (2:00 hours). Additionally, we maintain a port facility in Ilo, from which we ship our products and receive supplies. Products shipped and supplies received are moved between Toquepala, Cuajone and Ilo on our industrial railroad.

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*Smelter*

Our Ilo smelter produces copper anodes for the refinery we operate as part of the same facility. When the copper produced by the smelter exceeds the refinery's capacity, the excess is sold to other refineries around the world. In 2007, we completed a major modernization of the smelter. The nominal installed capacity of the smelter is 1,200,000 tons of copper concentrate per year. Copper concentrates from Toquepala and Cujone are transported by railroad to the smelter, where they are smelted using an ISASMELT furnace, converters and anode furnaces to produce copper anodes with 99.7% copper. At the smelter, the concentrates are mixed with flux and other material and sent to the ISASMELT furnace producing a mixture of copper matte and slag, which is tapped through a taphole to either of two rotary holding furnaces, where these smelted phases will be separated. Copper matte contains approximately 63% copper. Copper matte is then sent to the four Pierce Smith converters, where the material is oxidized in two steps: (1) the iron sulfides in the matte are oxidized with oxygen enriched air and silica is added producing slag that is sent to the slag cleaning furnaces, and (2) the copper contained in the matte sulfides is then oxidized to produce blister copper, containing approximately 99.3% copper. The blister copper is refined in two anode furnaces by oxidation to remove sulfur with compressed air injected into the bath. Finally, the oxygen content of the molten copper is adjusted by reduction with injection of liquefied petroleum gas with steam into the bath. Anodes, containing approximately 99.7% copper, are cast in two casting wheels. The smelter also can produce blister copper bars, especially when an anode furnace is in general repair.

The table below sets forth 2019, 2018 and 2017 production and sales information for our Ilo smelter plant:

| Smelter                 |      | 2019    | 2018    | 2017    | Variance 2019 - 2018 |          |
|-------------------------|------|---------|---------|---------|----------------------|----------|
|                         |      |         |         |         | Volume               | %        |
| Concentrate smelted     | (kt) | 1,075.5 | 1,187.7 | 1,153.5 | (112.2)              | (9.4) %  |
| Average copper recovery | (%)  | 97.4    | 97.4    | 97.4    | —                    | —        |
| Anode production        | (kt) | 318.2   | 345.6   | 346.6   | (27.4)               | (7.9)%   |
| Average anode grade     | (%)  | 99.78   | 99.77   | 99.77   | 0.01                 | — %      |
| Blister production      | kt   | —       | 2.7     | 1.8     | (2.7)                | (100.0)% |
| Average blister grade   | (%)  | —       | 99.24   | 99.32   | (99.24)              | (100.0)% |
| Sulfuric acid produced  | (kt) | 1,072.6 | 1,169.1 | 1,119.6 | (96.5)               | (8.3)%   |

Key: kt = thousand tons

The off gases from the smelter are treated to recover over 92% of the incoming sulfur received in the concentrates producing 98.5% sulfuric acid. The gas stream from the smelter with 11.34% SO<sub>2</sub> is split between two plants: The No. 1 acid plant (single absorption/single contact) and the No. 2 plant (double absorption/double contact). Approximately, 16% of the acid produced is used at our facilities with the balance sold to third parties. We anticipate that our internal usage will be over 80% when the Tia Maria project begins operation. The smelter also has two oxygen plants. Plant No. 1, with 272 tons per day of production capacity, and Plant No.2, with 1,045 tons per day of capacity.

In 2010, the Ilo smelter marine trestle started operation. This facility allows us to offload directly to offshore ships the sulfuric acid produced, avoiding hauling cargo through the city of Ilo. The 500 meter long marine trestle is the last part of the Ilo smelter modernization project. Currently all overseas shipments of sulfuric acid are being made using the marine trestle.

### *Refinery*

The Ilo refinery consists of an electrolytic plant, a precious metal plant and a number of ancillary installations. The refinery is producing grade A copper cathode of 99.998% purity. The nominal capacity is 280,000 tons per year. Anodic slimes are recovered from the refining process and then sent to the precious metals facility to produce refined silver, refined gold and commercial grade selenium.

Anodes are suspended in tanks containing a solution of sulfuric acid and copper sulfate. A low voltage but high amperage electrical current is passed through the anodes, chemical solution and cathodes in order to dissolve copper which is deposited on initially very thin starting sheets increasing its thickness to produce high grade copper cathodes.

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During this process, silver, gold and other metals, including palladium, platinum and selenium, along with other impurities, settle on the bottom of the tank in the form of anodic slime. This anodic slime is processed in a precious metal plant where silver, gold and selenium are recovered.

The table below sets forth 2019, 2018 and 2017 production and sales information for our Ilo refinery and precious metals plants:

| Refinery                           |          | 2019   | 2018   | 2017   | Variance 2019 - 2018 |         |
|------------------------------------|----------|--------|--------|--------|----------------------|---------|
|                                    |          |        |        |        | Volume               | %       |
| Cathodes produced                  | (kt)     | 256.7  | 292.7  | 291.4  | (36.0)               | (12.3)% |
| Average copper grade               | (%)      | 99.998 | 99.999 | 99.999 | (0.001)              | — %     |
| Refined silver produced            | (000 Kg) | 104.0  | 120.8  | 123.0  | (16.8)               | (13.9)% |
| Refined gold produced              | (kg)     | 258.1  | 282.4  | 237.7  | (24.3)               | (8.6)%  |
| Commercial grade selenium produced | (tons)   | 55.7   | 52.2   | 49.2   | 3.5                  | 6.8 %   |

Key: kt = thousand tons

In addition to the processing facilities, the refinery has a production control section, a laboratory which provides sample analysis throughout the Company, a maintenance department, a desalinization plant and other support facilities.

Other facilities in Ilo are a coquina plant with a production capacity of 200,000 tons per year of seashells, which has been declared in progressive closure. In addition, we had a lime plant with a capacity of 80,000 tons per year, which has suspended its operations. We also operate an industrial railroad to haul production and supplies between Toquepala, Cuajone and Ilo.

The industrial railroad's main equipment includes locomotives of different types and rolling stock with different types of cars and capacities. The track runs in a single 214 kilometer standard gauge line and supports a 30-ton axle load. The total length of the track system is around 257 kilometers including main yards and sidings. The infrastructure includes 27 kilometers of track under tunnels and one concrete bridge. The industrial railroad includes a car repair shop which is responsible for maintenance and repair of the car fleet. Annual tonnage transported is approximately 5.7 million tons.

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MEXICAN OPERATIONS

Following is a map indicating the approximate locations of our Mexican mines and processing facilities:

Graphic

MEXICAN OPEN-PIT SEGMENT

Our Mexican open-pit segment operations combine two units of Minera Mexico, La Caridad and Buenavista, which include La Caridad and Buenavista mine complexes and smelting and refining plants and support facilities, which service both complexes.

Following is a map indicating the approximate location of, and access to, our Mexican open-pit mine complexes, as well as our processing facilities:

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Graphic

We have ongoing maintenance and improvement programs to ensure the satisfactory performance of our equipment. We believe all our Mexican open-pit segment equipment is in good physical condition and suitable for our operations.

Buenavista

The Buenavista mining unit operates an open-pit copper mine, two concentrators and three SX-EW plants. It is located 100 air-kilometers northwest of La Caridad and 40 kilometers south of the Arizona, U.S. - Mexican border, at an altitude of 1,900 meters above sea level. It lies on the outskirts of the city of Cananea. Buenavista is connected by paved highways to the border city of Agua Prieta to the northeast, to the town of Nacozari in the southeast and to the town of Imuris to the west. Buenavista is also connected by railway to Agua Prieta and

Nogales. A municipal airport is located approximately 20 kilometers to the northeast of Buenavista.

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In 2016 we concluded our \$3.5 billion investment program in Mexico. The program included a third SX-EW plant, completed in June 2014, with a rated annual capacity of 120,000 tons of copper and a new concentrator, completed in 2015, with an annual copper production capacity of 188,000 tons. The program also included two molybdenum plants with a combined annual capacity of 4,600 tons. The first plant was completed in 2013 and the second one, in 2016. Additionally, the program included the Crushing, Conveying and Spreading System for Leachable Ore (Quebalix IV), which was completed on time and under budget and is currently operating steadily. This project will reduce mining costs as well as increase SX-EW copper recovery, allowing the Buenavista unit to reach its copper production capacity of 500,000 tons.

The original concentrator currently has a nominal milling capacity of 82,000 tons per day. The second concentrator began operations in 2015 with a nominal milling capacity of 100,000 tons per day. The SX-EW facilities have a cathode production capacity of 174,470 tons per year. The Buenavista ore body is considered one of the world's largest porphyry copper deposits. Buenavista is the oldest continuously operated copper mine in North America, with operations dating back to 1899. High grade ore deposits in the district were mined exclusively using underground methods. The Anaconda Company acquired the property in 1917. In the early 1940s, Anaconda started developing the first open-pit in Buenavista. In 1990, through a public auction procedure, Minera Mexico acquired 100% of the Buenavista mining assets for \$475 million. Buenavista is currently applying conventional open-pit mining methods to extract copper ore for further processing in the concentrator.

The following table shows 2019, 2018 and 2017 production information for Buenavista:

|                                      |      | 2019    | 2018    | 2017    | 2019 - 2018 |         |
|--------------------------------------|------|---------|---------|---------|-------------|---------|
|                                      |      |         |         |         | Volume      | %       |
| Mine annual operating days           |      | 365     | 365     | 365     |             |         |
| <i>Mine:</i>                         |      |         |         |         |             |         |
| Total ore mined                      | (kt) | 70,323  | 70,464  | 69,773  | (141)       | (0.2)%  |
| Copper grade                         | (%)  | 0.554   | 0.537   | 0.547   | 0.017       | 3.2 %   |
| Leach material mined                 | (kt) | 141,096 | 145,253 | 157,802 | (4,157)     | (2.9)%  |
| Leach material grade                 | (%)  | 0.216   | 0.242   | 0.261   | (0.026)     | (10.7)% |
| Stripping ratio                      | (x)  | 0.37    | 0.38    | 0.27    | (0.01)      | (2.6)%  |
| Total material mined                 | (kt) | 288,882 | 297,718 | 288,716 | (8,836)     | (3.0)%  |
| <i>Concentrator:</i>                 |      |         |         |         |             |         |
| Total material milled                | (kt) | 70,371  | 70,328  | 69,294  | 43          | 0.1 %   |
| Copper recovery                      | (%)  | 86.66   | 86.02   | 84.12   | 0.64        | 0.7 %   |
| Copper concentrate                   | (kt) | 1,420.5 | 1,371.1 | 1,361.8 | 49.4        | 3.6 %   |
| Copper in concentrate                | (kt) | 338.0   | 325.0   | 319.0   | 13.0        | 4.0 %   |
| Copper concentrate average grade     | (%)  | 23.80   | 23.70   | 23.42   | 0.1         | 0.4 %   |
| <i>SX/EW plant</i>                   |      |         |         |         |             |         |
| Estimated leach recovery             | (%)  | 62.00   | 60.00   | 70.00   | 2.00        | 3.3 %   |
| SX/EW cathode production             | (kt) | 100.1   | 89.3    | 111.8   | 10.8        | 12.1 %  |
| <i>Molybdenum</i>                    |      |         |         |         |             |         |
| Molybdenum grade                     | (%)  | 0.013   | 0.012   | 0.013   | 0.001       | 8.3 %   |
| Molybdenum recovery                  | (%)  | 65.63   | 58.44   | 39.85   | 7.19        | 12.3 %  |
| Molybdenum concentrate               | (kt) | 11.80   | 9.62    | 6.74    | 2.18        | 22.7 %  |
| Molybdenum concentrate average grade | (%)  | 51.83   | 51.13   | 51.38   | 0.70        | 1.4 %   |

|                           |      |      |      |      |      |        |
|---------------------------|------|------|------|------|------|--------|
| Molybdenum in concentrate | (kt) | 6.12 | 4.92 | 3.46 | 1.20 | 24.4 % |
|---------------------------|------|------|------|------|------|--------|

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Key: kt = thousand tons

x = Stripping ratio obtained dividing waste by leachable material plus ore mined.

The copper and molybdenum grade are total grade.

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### *Geology*

The Buenavista mining district lies on the southern cordilleran orogen, which extends from southern Mexico to northwestern United States. It also falls within the Basin and Range metallogenic province. Geological and structural features in the district are representative of large, disseminated type, porphyry copper deposits. A calcareous sedimentary sequence of lower Paleozoic age, lithologically correlated with a similar section in southeastern Arizona, unconformably overlies Precambrian granite basement. The entire section was covered by volcanic rocks of Mesozoic age and later intruded by deep seated granodiorite batholith of Tertiary age, with further quartz monzonite porphyry differentiates of Laramide age.

Mineralization in the district is extensive covering a surface area of approximately 30 square kilometers. An early pegmatitic stage associated with bornite-chalcopyrite-molybdenite assemblage was followed by a widespread flooding of hydrothermal solutions with quartz-pyrite-chalcopyrite. A pervasive quartz-sericite alteration is evident throughout the district's igneous rock fabric.

An extensive and economically important zone of supergene enrichment, with disseminated and stockworks of chalcocite ( $\text{Cu}_2\text{S}$ ), developed below the iron oxide capping. This zone coincides with the topography and has an average thickness of 300 meters. A mixed zone of secondary and primary sulfides underlay the chalcocite blanket. The hypogene mineralization, principally chalcopyrite ( $\text{CuFeS}_2$ ), extensively underlies the ore body. Molybdenite occurs throughout the deposit and the content tends to increase with depth.

The Buenavista copper porphyry is considered world-class and unique. The deepest exploration results in the core of the deposit have confirmed significant increase in copper grades. Similar porphyry copper deposits usually contain lower grades at depth. The district is also unique for the occurrence of high-grade breccia pipes, occurring in clusters following the trend of the district.

Current dimensions of the mineralized ore body are 5x3 kilometers, and projects to more than one kilometer at depth. Considering the geological and economic potential of the Buenavista porphyry copper deposit, it is expected that the operation can support a sizeable increase in copper production capacity.

### *Mine Exploration*

In-fill core drilling was conducted in 2011 at the Buenavista zinc-copper-silver deposit, including directional drilling for geotechnical purposes. A deep drilling campaign was initiated in 2011 to explore the extent of the deposit at depth, drilling a total of 3,860 meters in 2011 and 6,652 meters in 2012. For short-term mine planning, 6,652 meters were drilled to confirm copper grade and metallurgical recoveries. Also, in 2011, a condemnation drilling program was initiated to define areas for future infrastructure, as well as areas where leach and waste dumps will be deposited. A total of 28,369 meters of core drilling were completed in 2011. A geohydrology program was initiated in 2011 to explore the possibility of groundwater sources within the mine limits, and a total of 29,750 meters of diamond drilling were drilled in 2012. In addition, 3,797 meters were drilled for water monitoring wells. We did not have a drilling campaign in 2013. In 2014, we performed a drilling program of 20,000 meters in order to verify the reserves. In 2015, we complied with our drilling program target of 15,000 meters to define reserves and to confirm copper and molybdenum grades. In 2018, we drilled 4,434 meters to further define reserves and confirm grades. In 2019, following the long-term mine

plan, 5,549 meters of diamond drilling were drilled to confirm the continuity of the mineralization of the deposit.

#### *Concentrator*

Buenavista uses state-of-the-art computer monitoring systems at the concentrators, the crushing plant and the flotation circuit in order to coordinate inflows and optimize operations. In the original concentrator, material with a copper grade over 0.38% is loaded onto trucks and sent to the milling circuit, where giant rotating crushers reduce the size of the ore to approximately one-half of an inch. The ore is then sent to the ball mills, which grind it to the consistency of fine powder. The finely ground powder is agitated in a water and reagents solution and is then transported to flotation cells. Air is pumped into the cells producing a froth, which carries the copper mineral to the surface but not the waste rock, or

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tailings. Recovered copper, with the consistency of froth, is filtered and dried to produce copper concentrates with an average copper content of approximately 24%. Concentrates are then shipped by rail to the smelter at La Caridad.

In the second concentrator, material with a copper grade over 0.555% is sent to a three-phase milling circuit, where the ore size is reduced to approximately one-half inch. The ore is then sent to a circuit of six ball mills, which grind it to the consistency of fine powder. The finely ground powder is agitated in a water and reagents solution and is then transported to flotation cells. Air is pumped into the cells producing a froth, which carries the copper mineral to the surface but not the waste rock, or tailings. Recovered copper, with the consistency of froth, is filtered and dried to produce copper concentrates with an average copper content of approximately 24%. Concentrates are then sent by trucks or by railroad to the La Caridad smelter or to the Guaymas port, at Sonora, for exporting.

As part of the expansion program for this unit, in 2013 we completed the construction of the first molybdenum plant with an annual production capacity of 2,000 tons of molybdenum contained in concentrate. The plant was designed to process 1,500 tons of copper-molybdenum concentrates per day with a recovery of approximately 80% of copper and 50% of molybdenum content. The molybdenum plant consists of thickeners, homogenizer tanks, flotation cells, column cells and a holo-flite dryer. The second molybdenum plant was designed to process 3,040 tons of copper-molybdenum concentrates per day for a recovery between 80% and 87% of copper and 60% of molybdenum content. It obtained its first production lot in July 2016 and fully initiated operations in November 2016.

### *SX-EW Plant*

The Buenavista unit operates a leaching facility and three SX-EW plants. All copper ore with a grade lower than the mill cut-off grade of 0.38%, but higher than 0.25%, is delivered to the leach dumps. A cycle of leaching and resting occurs for approximately five years in the run-of-mine dumps and three years for the crushed leach material.

There are three irrigation systems for the dumps and eleven dams for the pregnant leach solution (PLS). Plant I has four solvent extraction tanks with a nominal capacity of 18,000 liters per minute of PLS and 54 electrowinning cells and has a daily production capacity of 30 tons of copper cathodes with 99.999% purity. Plant II has five trains of solvent extraction with a nominal capacity of 62,000 liters per minute of PLS and 220 cells distributed in two bays and has a daily production capacity of 120 tons of copper cathodes with 99.9% purity. Plant III has three trains of solvent extraction with a nominal capacity of 167,100 liters per minute of PLS and 270 cells distributed in two bays and has a daily production capacity of 328 tons of copper cathodes with 99.9% purity. The plant produces copper cathodes of LME grade A.

### La Caridad

The La Caridad complex includes an open-pit mine, concentrator, smelter, copper refinery, precious metals refinery, rod plant, SX-EW plant, lime plant and two sulfuric acid plants.

La Caridad mine and mill are located about 23 kilometers southeast of the town of Nacozari in northeastern Sonora, at an altitude of 2,000 meters above sea level. Nacozari is about 264 kilometers northeast of the Sonora state capital of Hermosillo and 121 kilometers south of the U.S.—Mexico border. Nacozari is connected by paved highway with Hermosillo and Agua Prieta and by rail with the international port of Guaymas, and the Mexican and United

States rail systems. An airstrip with a reported runway length of 2,500 meters is located 36 kilometers north of Nacozari, less than one kilometer away from the La Caridad copper smelter and refinery. The smelter and the sulfuric acid plants, as well as the refineries and rod plant, are located approximately 24 kilometers from the mine. Access is by paved highway and by railroad.

The concentrator began operations in 1979, the molybdenum plant was added in 1982, the smelter in 1986, the first sulfuric acid plant in 1988, the SX-EW plant in 1995, the second sulfuric acid plant in 1997, the copper refinery in 1997, the rod plant in 1998, the precious metals refinery in 1999 and the dust and effluents plant in 2012.

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The table below sets forth 2019, 2018 and 2017 production information for La Caridad:

|                                      |      | 2019   | 2018   | 2017   | Variance<br>2019 - 2018 |        |
|--------------------------------------|------|--------|--------|--------|-------------------------|--------|
|                                      |      |        |        |        | Volume                  | %      |
| Mine annual operating days           |      | 365    | 365    | 365    |                         |        |
| <i>Mine</i>                          |      |        |        |        |                         |        |
| Total ore mined                      | (kt) | 34,401 | 34,675 | 34,699 | (274)                   | (0.8)% |
| Copper grade                         | (%)  | 0.356  | 0.353  | 0.360  | 0.003                   | 0.8 %  |
| Leach material mined                 | (kt) | 28,457 | 30,764 | 36,540 | (2,307)                 | (7.5)% |
| Leach material grade                 | (%)  | 0.224  | 0.221  | 0.230  | 0.003                   | 1.4 %  |
| Stripping ratio                      | (x)  | 0.50   | 0.48   | 0.38   | 0.02                    | 4.2 %  |
| Total material mined                 | (kt) | 94,578 | 96,541 | 98,534 | (1,963)                 | (2.0)% |
| <i>Concentrator</i>                  |      |        |        |        |                         |        |
| Total material milled                | (kt) | 34,648 | 34,548 | 34,548 | 100                     | 0.3    |
| Copper recovery                      | (%)  | 86.80  | 87.09  | 85.51  | (0.29)                  | (0.3)% |
| Copper concentrate                   | (kt) | 446.2  | 446.2  | 443.3  | —                       | — %    |
| Copper in concentrate                | (kt) | 107.2  | 106.1  | 106.3  | 1.1                     | 1.0 %  |
| Copper concentrate average grade     | (%)  | 24.01  | 23.78  | 23.98  | 0.23                    | 1.0 %  |
| <i>SXÆW plant</i>                    |      |        |        |        |                         |        |
| Estimated leach recovery             | (%)  | 38.06  | 37.99  | 38.16  | 0.07                    | 0.2 %  |
| SXÆW cathode production              | (kt) | 25.93  | 26.41  | 28.39  | (0.48)                  | (1.8)% |
| <i>Molybdenum</i>                    |      |        |        |        |                         |        |
| Molybdenum grade                     | (%)  | 0.036  | 0.034  | 0.035  | 0.002                   | 5.9 %  |
| Molybdenum recovery                  | (%)  | 82.17  | 83.28  | 82.50  | (1.11)                  | (1.3)% |
| Molybdenum concentrate               | (kt) | 18.8   | 18.0   | 18.3   | 0.8                     | 4.4 %  |
| Molybdenum concentrate average grade | (%)  | 54.26  | 54.61  | 54.31  | (0.4)                   | (0.6)% |
| Molybdenum in concentrate            | (kt) | 10.2   | 9.8    | 9.9    | 0.4                     | 4.1 %  |

Key: kt = thousand tons

x = Stripping ratio obtained dividing waste by leachable material plus ore mined

The copper and molybdenum grade are total grade.

*Geology*

The La Caridad deposit is a typical porphyry copper and molybdenum deposit as seen also in the southwestern basin of United States. The La Caridad mine uses a conventional open-pit mining method. The ore body is at the top of a mountain, which gives La Caridad the advantage of a relative low waste-stripping ratio, natural pit drainage and relative short haul for both ore and waste. The mining method involves drilling, blasting, loading and haulage of ore mill and waste to the primary crushers and the leach materials and waste to dumps, respectively.

La Caridad deposit is located in northeastern Sonora, Mexico. The deposit is situated near the crest of the Sierra Juriquipa, about 23 kilometers southeast of the town of Nacoziari, Sonora, Mexico. The Sierra Juriquipa rises to elevations of around 2,000 meters in the

vicinity of La Caridad and is one of the many north-trending mountain ranges in Sonora that form a southern extension of the basin and range province.

The La Caridad porphyry copper-molybdenum deposit occurs exclusively in felsic to intermediate intrusive igneous rocks and associated breccias. Host rocks include diorite and granodiorite. These rocks are intruded by a quartz monzonite porphyry stock and by numerous breccia masses, which contain fragments of all the older rock types.

Supergene enrichment consists of complete to partial chalcocite ( $\text{Cu}_2\text{S}$ ) replacement of chalcopyrite ( $\text{CuFeS}_2$ ). The zone of supergene enrichment occurs as a flat and tabular blanket with an average diameter of 1,700 meters and thickness generally between 0 and 90 meters.

Economic ore is found as disseminated sulfurs within the central part of the deposit. Sulfide-filled breccia cavities are most abundant in the intrusive breccia. This breccia-cavity mineralization occurs as sulfide aggregates which have

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crystallized in the spaces separating breccia clasts. Near the margins of the deposit, mineralization occurs almost exclusively in veinlets. Ore minerals include chalcopyrite ( $\text{CuFeS}_2$ ), chalcosite ( $\text{Cu}_2\text{S}$ ) and molybdenite ( $\text{MoS}_2$ ).

### *Mine Exploration*

The La Caridad ore body has been mined for over 35 years. The extent of the model area is approximately 6,000 meters by 4,000 meters with elevation ranging from 750 to 1,800 meters. Seventeen drilling campaigns have been conducted on the property since 1968. These campaigns drilled a total of 3,349 drill holes: 1,186 were diamond drill holes and 2,163 were reverse circulation. We have also drilled some hammer and percussion drill holes.

In 2008, La Caridad finished a large exploration program of 50,000 meters. The target was to reach to the 900 level in order to reduce the drilling space and to define the copper and molybdenum mineralization continuity and also carry out metallurgical testing for the flotation and leaching processes. There was no exploration program in 2009, 2011 and 2013. In 2012 we drilled 10,000 meters and further defined the extent of the copper and molybdenum mineralization. From 2014 to 2017 we drilled 96 diamond drill holes equivalent to 38,984 meters in order to define a high grade ore body located in the south western edge of the pit (Bella Union location). In 2018 we drilled 18 diamond drill holes equivalent to 5,132 meters at the Bella Union location. In 2019, we drilled 15 diamond drill holes at the La Caridad pit and 6 diamond drill holes at the Bella Union location, totaling 3,790 meters.

### *Concentrator*

La Caridad uses state-of-the-art computer monitoring systems at the concentrator, the crushing plant and the flotation circuit in order to coordinate inflows and optimize operations. The concentrator has a current capacity of 94,500 tons of ore per day.

Ore extracted from the mine with a copper grade over 0.30% is sent to the concentrator and is processed into copper concentrates and molybdenum concentrates. The copper concentrates are sent to the smelter and the molybdenum concentrate is sold to a Mexican customer. The molybdenum recovery plant has a capacity of 2,000 tons per day of copper-molybdenum concentrates. The lime plant has a capacity of 340 tons of finished product per day.

### *SX-EW Plant*

Approximately 1,009.2 million tons of leaching ore with an average grade of approximately 0.219% copper have been extracted from the La Caridad open-pit mine and deposited in leaching dumps from May 1995 to December 31, 2019. All copper ore with a grade lower than the mill cut-off grade 0.30%, but higher than 0.15% copper, is delivered to the leaching dumps. In 1995, we completed the construction of a SX-EW facility at La Caridad that has allowed processing of this ore and certain leach ore reserves that were not mined and has resulted in a reduction in our copper production costs. The SX-EW facility has an annual design capacity of 21,900 tons of copper cathodes.

The plant has three trains of solvent extraction with a nominal capacity of 2,400 cubic meters per hour and 94 electrowinning cells distributed in one single electrolytic bay. The plant has a daily production capacity of 65 tons of copper cathodes with 99.999% purity.

## Processing Facilities—La Caridad

Our La Caridad complex includes a smelter, an electrolytic copper refinery, a precious metal refinery, a copper rod plant and an effluent and dust treatment plant. The distance between this complex and the La Caridad mine is approximately 24 kilometers.

### *Smelter*

Copper concentrates from Buenavista, Santa Barbara, Charcas and La Caridad are transported by rail and truck to the La Caridad smelter where they are processed and cast into copper anodes of 99.2% purity. Sulfur dioxide off-gases collected from the flash furnace, the El Teniente converter and conventional converters are processed into sulfuric acid

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at two sulfuric acid plants. Approximately 2% to 3% of this acid is used by our SX-EW plants and the balance is sold to third parties.

All of the anodes produced in the smelter are sent to the La Caridad copper refinery. The actual installed capacity of the smelter is 1,000,000 tons per year, a capacity that is sufficient to treat all the concentrates of La Caridad and almost 40.5% of total production of the OMIMSA I and OMIMSA II concentrators from Buenavista, and starting in 2010, the concentrates from the IMMSA mines, as we closed the San Luis Potosi smelter.

Other facilities in the smelter include two sulfuric acid plants with capacities of 2,625 and 2,135 tons per day, three oxygen plants each with a production capacity of 275 tons per day; and one power turbine which generates 11.5 MWh.

### *Refinery*

La Caridad includes an electrolytic copper refinery that uses permanent cathode technology. The installed capacity of the refinery is 300,000 tons per year. The refinery consists of an anode plant with a preparation area, an electrolytic plant with an electrolytic cell house with 1,115 cells and 32 liberator cells, two cathode stripping machines, an anode washing machine, a slime treatment plant and a number of ancillary installations. The refinery is producing grade A (LME) and grade 1 (COMEX) copper cathode of 99.99% purity. Anodic slimes are recovered from the refining process and sent to the slimes treatment plant where additional copper is extracted. The slimes are then filtered, dried, packed and shipped to the La Caridad precious metals refinery to produce silver and gold.

### *Precious Metals Plant*

The operations of the precious metal refinery begin with the reception of anodic slimes, which are dried in a steam dryer. After this, the dried slime is smelted and a gold and silver alloy is obtained, which is known as Dore. The precious metal refinery plant has a hydrometallurgical stage and a pyrometallurgical stage, besides a steam dryer, Dore casting system, Kaldo furnace, 20 electrolytic cells in the silver refinery, one induction furnace for fine silver, one silver ingot casting system and two reactors for obtaining fine gold. The process ends with the refining of the gold and silver alloy. We also recover commercial selenium from the gas produced by the Kaldo furnace process.

### *Copper Rod Plant*

A rod plant at the La Caridad complex began operations in 1998 and reached its full annual operating capacity of 150,000 tons in 1999. The plant is producing eight millimeter copper rods with a purity of 99.99%.

### *Effluent and Dust Treatment Plant*

In 2012, we started operating a dust and effluent plant with a treatment capacity of 5,000 tons of smelter dusts per year which will produce 1,500 tons of copper by-products and 2,500 tons of lead sulfates per year. This plant is designed to reduce dust emissions from La Caridad metallurgical complex.

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The table below sets forth 2019, 2018 and 2017 production information for the La Caridad processing facilities:

|                                  |          | 2019    | 2018    | 2017    | Variance<br>2019 - 2018 |        |
|----------------------------------|----------|---------|---------|---------|-------------------------|--------|
|                                  |          |         |         |         | Volume                  | %      |
| <i>Smelter</i>                   |          |         |         |         |                         |        |
| Total copper concentrate smelted | (kt)     | 1,011.4 | 1,041.7 | 997.7   | (30.3)                  | (2.9)% |
| Anode copper production          | (kt)     | 279.1   | 287.7   | 271.8   | (8.6)                   | (3.0)% |
| Average copper content in anode  | (%)      | 99.47   | 99.49   | 99.41   | (0.02)                  | (0.0)% |
| Average smelter recovery         | (%)      | 97.1    | 96.9    | 97.4    | 0.2                     | 0.2 %  |
| Sulfuric acid production         | (kt)     | 966.2   | 1,002.5 | 976.4   | (36.3)                  | (3.6)% |
| <i>Refinery</i>                  |          |         |         |         |                         |        |
| Refined cathode production       | (kt)     | 231.6   | 239.2   | 228.1   | (7.6)                   | (3.2)% |
| Refined silver production        | (000 kg) | 250.3   | 264.3   | 222.5   | (14.0)                  | (5.3)% |
| Refined gold production          | (Kg)     | 1,125.8 | 1,228.5 | 1,264.2 | (102.7)                 | (8.4)% |
| <i>Rod Plant</i>                 |          |         |         |         |                         |        |
| Copper rod production            | (kt)     | 142.7   | 147.1   | 133.1   | (4.4)                   | (3.0)% |

Key: kt = thousand tons

Kg = kilograms

**MEXICAN IMMSA UNIT**

Our IMMSA unit (underground mining poly-metallic division) operates five underground mining complexes situated in central and northern Mexico and produces zinc, lead, copper, silver and gold, and has a coal mine. These complexes include industrial processing facilities for zinc, lead, copper and silver. All of IMMSA's mining facilities employ exploitation systems and conventional equipment. We believe that all the plants and equipment are in satisfactory operating condition. IMMSA's principal mining facilities include Charcas, Santa Barbara, San Martin, Santa Eulalia and Taxco.

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The table below sets forth 2019, 2018 and 2017 production information for our Mexican IMMSA unit:

|                                  |                | 2019    | 2018    | 2017    | Variance<br>2019 - 2018 |         |
|----------------------------------|----------------|---------|---------|---------|-------------------------|---------|
|                                  |                |         |         |         | Volume                  | %       |
| Average annual operating days(*) |                | 352     | 353     | 352     |                         |         |
| Total material mined and milled  | (kt)           | 3,911   | 3,277   | 2,871   | 634                     | 19.3 %  |
| <b>Zinc:</b>                     |                |         |         |         |                         |         |
| Average ore grade                | (%)            | 2.24    | 2.51    | 2.76    | (0.27)                  | (10.8)% |
| Average recovery                 | (%)            | 84.46   | 86.07   | 86.75   | (1.61)                  | (1.9)%  |
| Concentrate produced             | (kt)           | 146.7   | 135.3   | 129.2   | 11.4                    | 8.4 %   |
| Concentrate average grade        | (%)            | 50.40   | 52.30   | 53.13   | (1.90)                  | (3.6)%  |
| Zinc in concentrate              | (kt)           | 3.9     | 70.8    | 68.7    | (66.9)                  | (94.5)% |
| <b>Lead:</b>                     |                |         |         |         |                         |         |
| Average ore grade                | (%)            | 0.78    | 0.91    | 0.95    | (0.13)                  | (14.3)% |
| Average recovery                 | (%)            | 74.01   | 74.32   | 73.91   | (0.31)                  | (0.4)%  |
| Concentrate produced             | (kt)           | 43.8    | 39.1    | 33.6    | 4.7                     | 12.0 %  |
| Concentrate average grade        | (%)            | 51.47   | 56.51   | 60.29   | (5.04)                  | (8.9)%  |
| Lead in concentrate              | (kt)           | 22.6    | 22.1    | 20.2    | 0.5                     | 2.3 %   |
| <b>Copper:</b>                   |                |         |         |         |                         |         |
| Average ore grade                | (%)            | 0.38    | 0.35    | 0.35    | 0.03                    | 8.6     |
| Average recovery                 | (%)            | 55.50   | 54.56   | 54.65   | 0.94                    | 1.7 %   |
| Concentrate produced             | (kt)           | 33.9    | 23.5    | 21.3    | 10.4                    | 44.3 %  |
| Concentrate average grade        | (%)            | 24.40   | 26.45   | 25.71   | (2.05)                  | (7.8)%  |
| Copper in concentrate            | (kt)           | 8.3     | 6.2     | 5.5     | 2.1                     | 33.9 %  |
| <b>Silver:</b>                   |                |         |         |         |                         |         |
| Average ore grade                | (ounces)       | 2.26    | 2.25    | 2.19    | 0.01                    | 0.4 %   |
| Average recovery                 | (%)            | 78.53   | 76.59   | 75.72   | 1.94                    | 2.5 %   |
| Concentrate average grade        | (%)            | 30.9    | 28.5    | 25.8    | 2.4                     | 8.4 %   |
| Silver in concentrates           | ((000) ounces) | 6,942.5 | 5,649.5 | 4,759.9 | 1,293.0                 | 22.9 %  |

kt = thousand tons

(\*) Weighted average annual operating days based on total material mined and milled in the three active mines: Charcas, Santa Barbara, and Santa Eulalia.

## Charcas

The Charcas mining complex is located 111 kilometers north of the city of San Luis Potosi in the State of San Luis Potosi, Mexico. Charcas is connected to the state capital by a paved highway of 130 kilometers. It was discovered in 1573 and operations in the 20th century began in 1911. The complex includes three underground mines (San Bartolo, Rey-Reina and La Aurora) and one flotation plant that produces zinc, lead and copper concentrates, with significant amounts of silver. The Charcas mine is characterized by low operating costs and

good quality ores and is situated near the zinc refinery. Regarding its geology, economic ore is found as replacement sulfurs in carbonates host rock. The ore mineralogy is comprised predominantly of calcopyrite ( $\text{CuFeS}_2$ ), sphalerite ( $\text{ZnS}$ ), galena ( $\text{PbS}$ ) and silver minerals as diaphorite ( $\text{Pb}_2\text{Ag}_3\text{Sb}_3\text{S}_8$ ). The Charcas mine is now Mexico's largest producer of zinc.

In October 2015, an earthquake damaged some underground facilities as well as the access to the mine. Consequently, normal mine operations were interrupted. In 2016, operations took place normally and a production compliance of 97% was reached.

Mine exploration in 2015 included 32,144 meters of surface drilling and 20,536 meters from underground stations, which increased our reserves by 3,089,797 tons. For 2016, it included 20,000 meters of surface drilling and 20,754 meters from underground stations, which increased our reserves by 1,778,728 tons. For 2017, it included 5,999 meters of surface drilling and 23,098 meters from underground stations, which increased our reserves by 2,004,577 tons. For 2018, 11,757 meters of diamond drilling and 20,285 meters from underground stations were drilled, which increased our reserves by 2,282,322 tons. For 2019, 20,105 meters of diamond drilling and 9,012 meters from

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underground stations were drilled, which increased our reserves by 2,502,204 tons. For 2020, 32,000 meters of diamond drilling are planned to identify additional reserves.

### Santa Barbara

The Santa Barbara mining complex is located approximately 26 kilometers southwest of the city of Hidalgo del Parral in southern Chihuahua, Mexico. The area can be reached via paved road from Hidalgo del Parral, a city on a federal highway. It was discovered in 1536 and mining activities in the 20th century began in 1913. Santa Barbara includes three main underground mines (San Diego, Segovedad and Tecolotes) and a flotation plant and produces lead, copper and zinc concentrates, with significant amounts of silver.

Regarding its geology, economic ore minerals include sphalerite (ZnS), marmatite (ZnFeS), galena (PbS), chalcopyrite (CuFeS<sub>2</sub>) and tetrahedrite (CuFe<sub>12</sub>Sb<sub>4</sub>S<sub>13</sub>). Due to the variable characteristics of the ore bodies, four types of mining methods are used: shrinkage stoping, long-hole drilled open stoping, cut-and-fill stoping and horizontal bench stoping. The ore, once crushed, is processed in the flotation plant to produce concentrates.

Mine exploration in 2015 included 5,977 meters of surface drilling and 16,609 meters from underground stations, which increased our reserves by 1,135,750 tons. For 2016, it included 14,300 meters from underground stations, which increased our reserves by 1,416,756 tons. For 2017, it included 2,571 meters of surface drilling and 11,838 meters from underground stations, which increased our reserves by 613,872 tons. For 2018, 10,769 meters from underground stations were drilled, which increased our reserves by 418,345 tons. For 2019, we achieved 11,070 meters of surface drilling and 208 meters from the underground stations, which increased our reserves by 2,160,062 tons. For 2020, 30,380 meters of diamond drilling are planned to identify additional reserves.

### Santa Eulalia

The mining district of Santa Eulalia is located in the central part of the state of Chihuahua, Mexico, approximately 26 kilometers east of the city of Chihuahua, and is connected to the city of Chihuahua by a paved road (highway no. 45). It was discovered in 1590 but exploitation began in 1870. The main mines in Santa Eulalia are The Buena Tierra mine and the San Antonio mine.

Regarding its geology, the mineralization corresponds in its majority to ore skarns: silicoaluminates of calcium, iron and manganese with variable quantities of lead, zinc, copper and iron sulfides. Economic ore include sphalerite (ZnS), galena (PbS) and small quantities of pyrrargyrite (Ag<sub>3</sub>SbS<sub>3</sub>).

Mine exploration in 2015 included 3,014 meters from underground stations, which increased our reserves by 64,800 tons. For 2017, it included 936 meters from underground stations, which increased our reserves by 60,525 tons. For 2018, 1,930 meters from underground stations were drilled, which increased our reserves by 249,930 tons. For 2019, we achieved 2,207 meters of surface drilling and 10,214 meters from the underground stations, which increased our reserves by 409,733 tons. For 2020, 29,216 meters of diamond drilling are planned to identify additional reserves.

### San Martin

The San Martin mining complex is located in the municipality of Sombrerete in the western part of the state of Zacatecas, Mexico. It was discovered in 1555 and mining operations in the 20th century began in 1949. The complex includes an underground mine and a flotation plant. The ore body contains lead, copper and zinc concentrates, with significant amounts of silver.

After eleven years of an illegal stoppage, we resumed control of the San Martin mine in August 2018. The San Martin facilities deteriorated during this period and we undertook a major renovation in order to restart operations during the second quarter of 2019, with a capital budget of \$97.7 million.

Mine exploration in 2019 included 1,304 meters of surface drilling and 4,315 meters from underground stations, which increased our reserves by 374,683 tons.

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### Taxco

The Taxco mining complex has been on strike since July 2007. It is located on the outskirts of the city of Taxco in the northern part of the state of Guerrero, Mexico. It was discovered in 1519 and mining activities in the 20th century began in 1918. The complex includes several underground mines (San Antonio, Guerrero and Remedios) and a flotation plant. The ore contains lead and zinc concentrates, with some amounts of gold and silver.

There was no mine exploration drilling at Taxco during the three years ended December 31, 2019 because of the strikes. Please see Note 13 “Commitments and Contingencies—Labor matters” to our consolidated financial statements.

### Processing Facilities—San Luis Potosi

Our San Luis Potosi electrolytic zinc refinery is located in the city of San Luis Potosi, in the state of San Luis Potosi, Mexico. The city of San Luis Potosi is connected to our refinery by a major highway.

### *Zinc Refinery*

The San Luis Potosi electrolytic zinc refinery was built in 1982 and was designed to produce 105,000 tons of refined zinc per year by treating up to 200,000 tons of zinc concentrate from our own mines, principally Charcas, which is located 113 kilometers from the refinery. The refinery produces special high grade zinc (99.995%), high grade zinc (over 99.9%) and zinc-based alloys with aluminum, lead, copper or magnesium in varying quantities and sizes depending on market demand. Refined silver and gold production is obtained from tolling services provided by a third party mining company.

The electrolytic zinc refinery has an acid plant, a steam recovery boiler and a roaster. There is also a calcine processing area with five leaching stages: neutral, hot acid, intermediate acid, acid, purified fourth and jarosite, as well as two stages for solution purifying.

The table below sets forth 2019, 2018 and 2017 production information for our San Luis Potosi zinc refinery:

|                                |      | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>Variance</u><br><u>2019 - 2018</u> |          |
|--------------------------------|------|-------------|-------------|-------------|---------------------------------------|----------|
|                                |      |             |             |             | <u>Volume</u>                         | <u>%</u> |
| Total zinc concentrate treated | (kt) | 209.3       | 204.0       | 202.3       | 5.3                                   | 2.6 %    |
| Refined zinc produced          | (kt) | 104.9       | 107.5       | 104.4       | (2.6)                                 | (2.4)%   |
| Sulfuric acid produced         | (kt) | 187.2       | 184.2       | 180.6       | 3.0                                   | 1.6 %    |
| Refined silver produced        | (kt) | 16.1        | 16.8        | 14.5        | (0.7)                                 | (4.2)%   |
| Refined gold produced          | (k)  | 19.2        | 23.8        | 17.8        | (4.6)                                 | (19.3)%  |
| Refined cadmium produced       | (kt) | 0.6         | 0.6         | 0.6         | —                                     | — %      |
| Average refinery recovery      | (%)  | 93.4        | 94.4        | 94.3        | (1.0)                                 | (1.1)%   |

kt = thousand tons

### *Nueva Rosita Coal and Coke Complex*

The Nueva Rosita coal and coke complex began operations in 1924 and is located in the state of Coahuila, Mexico, on the outskirts of the city of Nueva Rosita near the Texas border. It includes (a) an underground coal mine, which has been closed since 2006; (b) an open-pit mine with a yearly capacity of approximately 350,000 tons of coal; (c) a coal washing plant with a capacity of 900,000 tons per year that produces high quality clean coal; and d) a re-engineered and modernized 21 ovens coke facility capable of producing 100,000 tons of coke per year (metallurgical, nut and fine) of which, 95,000 tons are metallurgical coke. The complex also has a by-product plant to clean the coke gas oven in which tar, ammonium sulfate and light crude oil are recovered and two boilers, which produce 80,000 pounds of steam that is used in the by-products plant. In September 2017, a decision was made by the Company to close the coke plant and to initiate the cleaning and remediation process with a current budget of \$14.0 million. At December 31, 2019, we expensed \$5.4 million.

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On February 19, 2020, the Company announced the decision to return the underground coal mine, (the Olivo concession), which had been closed since 2006, to the Mexican government in response to a request of the President of Mexico to resume efforts to locate the remains of miners lost in a 2006 mining accident. On February 20, 2020 the Company presented to the General Direction of Mines the offer of the return of the concession. It is expected that the authorities will respond to the offer in the next few months.

*Carbon mine exploration*

Although, an intensive exploration program of diamond drilling has identified two additional areas, Esperanza with a potential for more than 30 million tons of “in place” mineralized coal and Guayacan with a potential for 15 million tons of “in place” mineralized coal, that could be used for a future coal-fired power plant, in July 2019, the Company decided to suspend coal mining operations.

The table below sets forth 2019, 2018 and 2017 production information for our Nueva Rosita coal and coke complex:

|                             |              | 2019   | 2018   | 2017   | Variance 2019 - 2018 |          |
|-----------------------------|--------------|--------|--------|--------|----------------------|----------|
|                             |              |        |        |        | Volume               | %        |
| Coal mined—open/pit         | (kt)         | 52.7   | 108.6  | 132.7  | (55.9)               | (51.5)%  |
| Average BTU content         | BTU/Lb       | 10,022 | 10,022 | 10,022 | —                    | —        |
| Average percent sulfur      | %            | 1.38   | 1.38   | 1.38   | —                    | —        |
| Clean coal produced         | (kt)         | 25.2   | 42.8   | 66.4   | (17.6)               | (41.1)%  |
| Coke tonnage produced       | (kt)         | —      | —      | 45.4   | —                    | —        |
| Average realized price—Coal | (\$ per ton) | 48.4   | 39.0   | 29.2   | 9.4                  | 24.1 %   |
| Average realized price—Coke | (\$ per ton) | —      | 265.0  | 233.0  | (265.0)              | (100.0)% |

kt = thousand tons

**ORE RESERVES**

Ore reserves are those estimated quantities of proven and probable material that may be economically mined and processed for extraction of their mineral content, at the time of the reserve determination. “Proven” (measured) reserves are reserves for which (a) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; (b) grade and/or quality are computed from the results of detailed samplings; and (c) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves are well-established. “Probable” (indicated) reserves are reserves for which quantity and grade and/or quality are computed from information similar to that used for proven (measured) reserves, but the sites for inspection, sampling, and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven (measured) reserves, is high enough to assume continuity between points of observation. “Mineralized material,” on the other hand, is a mineralized body that has been delineated by appropriately spaced drilling and/or underground sampling to support the reported tonnage and average grade of metal(s). Such a deposit does not qualify as a reserve until legal and economic feasibility are concluded based upon a comprehensive evaluation of unit costs, grade, recoveries and other material factors.

Our proven and probable ore reserve estimates are based on engineering evaluations of assay values derived from the sampling of drill holes and other openings. We believe that the samplings taken are spaced at intervals close enough and the geological characteristics of the deposits are sufficiently well defined to render the estimates reliable. The ore reserves estimates include assessments of the resource, mining and metallurgy, as well as economic, marketing, legal, environmental, governmental, social and other necessary considerations.

Our Peruvian operations, including the Toquepala and Cuajone reserves, are classified into proven (measured), probable (indicated) and possible (inferred) categories based on a Relative Confidence Bound Index (“RCB Index”) that measures our level of geologic knowledge and confidence in each block. The RCB index is a measure of relative confidence in the block grade estimate. This approach combines the local variability of the composites used to krig a block with the kriging variance and incorporates the use of confidence intervals in measuring uncertainty of the block estimates relative

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to each other. The final resource classification is then based on the distribution of these RCB values for blocks above 0.05% copper. It is the distribution that is used to find the breaks between proven/probable and probable/possible.

Our Mexican operations, including the Buenavista and La Caridad reserves, are calculated using a mathematical block model and applying the MineSight software system. The estimated grades per block are classified as proven and probable. These grades are calculated applying a three-dimensional interpolation procedure and the inverse distance squared. Likewise, the quadrant method or spherical search is implemented in order to limit the number of composites that will affect the block's interpolated value. The composites data is derived from the geological exploration of the ore body. In order to classify the individual blocks in the model, a thorough geostatistical variogram analysis is conducted, taking into consideration the principal characteristics of the deposit. Based on this block model classification, and with the implementation of the Lerch-Grossman algorithm, and the MineSight Pit Optimizer procedure, mineable reserves are determined. The calculated proven and probable reserves include those blocks that are economically feasible to mine by open-pit method within a particular mine design.

For the IMMSA unit, the basis for reserve estimations are sampling of mining operations and drilling exploration, geographical and topographic surveys, tracking down all the foregoing in the corresponding maps, measurement, calculation and interpretation based on the maps and reports from the mines, the mills and/or smelters. Mineral reserves are mineral stock which is estimated for extraction, to exploit if necessary, to sell or utilize economically, all or in part, taking into consideration the quotations, subsidies, costs, availability of treatment plants and other conditions which we estimate will prevail in the period for which reserves are being calculated. The reserves are divided into proven (85% reliable or more according to statistical studies) and probable (70% - 80% reliable or more according to statistical studies) categories according to their level of reliability and availability. In order to comply with SEC regulations, proven reserves is a classification that can only be used for such mineral found on top of the last level of the mine (either mineral up to 15 meters below the last level or below the first 15 meters only with sufficient drilling (25 or 30 meters between each drill)).

Annually our engineering department reviews in detail the reserve computations. In addition, our engineering department reviews the computation when changes in assumptions occur. Changes can occur for price or cost assumptions, results in field drilling or new geotechnical parameters. We also engage third party consultants to review mine planning procedures.

Pursuant to SEC guidance, the reserves information in this report are calculated using average metals prices over the most recent three years unless otherwise stated. We refer to these three-year average metals prices as "current prices." Our current prices for copper are calculated using prices quoted by COMEX, and our current prices for molybdenum are calculated according to Platt's Metals Week. Unless otherwise stated, reserves estimates in this report use \$2.82 per pound for copper and \$10.50 per pound for molybdenum, both current prices as of December 31, 2019. The current prices for copper and molybdenum were \$2.64 and \$8.88 as of December 31, 2018 and \$2.50 and \$7.07 as of December 31, 2017, respectively.

For internal ore reserve estimation, our management uses long-term metal price assumptions for copper and molybdenum, which are intended to approximate average prices over the long term. At December 31, 2019 and 2018, we considered \$2.90 per pound of copper and \$7.50 per pound of molybdenum.

The average metal prices over the last 10 and 15 years periods and the continued positive outlook for these metals have led us to use these prices. For other forecast and planning purposes, particularly related to merger and acquisition activities, our management considers other price scenarios. These changes, however, do not affect the preparation of our financial statements.

For the years 2019, 2018 and 2017, we have used reserve estimates based on current average prices as of the most recent three years then ended to determine amortization of mine development and intangible assets.

We periodically reevaluate estimates of our ore reserves, which represent our estimate as to the amount of unmined copper remaining in our existing mine locations that can be produced and sold at a profit. These estimates are based on

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engineering evaluations derived from samples of drill holes and other openings, combined with assumptions about copper market prices and production costs at each of our mines.

The persons responsible for ore reserve calculations are as follows:

Peruvian open-pit:

Cuajone mine - Edgar A. Peña Valenzuela, Mine Engineering Superintendent  
Toquepala mine - Wilbert Perez, Mine Engineering Superintendent

Tia Maria project:

Jaime Arana Murriel, Investment Projects Leaching Manager

Mexican open-pit:

La Caridad Mine - Christian Torrecillas Garza, Mine Manager  
Buenavista mine - Jesus Molinares, Engineering and Mine Planning Superintendent

IMMSA unit:

Santa Barbara - Raul Guerrero Valdez, Manager  
Charcas - Juan J. Aguilar, Planning and Control Superintendent  
Santa Eulalia - Jose G. Rovelo Saenz, Manager  
Taxco - Jose M. Espinosa, Manager  
San Martin - Jorge C. Perez Perez, Planning Manager

El Arco project:

Michelle P. Cerecer A., Planning Engineer (with support of Hexagon Mining Inc.)

El Pilar project:

Michelle P. Cerecer A., Planning Engineer (with support of Hexagon Mining Inc.)

Pilares project:

Michelle P. Cerecer A., Planning Engineer (with support of Hexagon Mining Inc.)

For more information regarding our reserve estimates, please see Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates—Ore Reserves.”

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*Ore Reserves Estimated at Current Prices:*

The table below details our estimated proven and probable copper and molybdenum reserves at December 31, 2019 based on the last three year average market prices following SEC guidance:

|                           | PERUVIAN OPEN/PIT  |                      | MEXICAN OPEN/PIT      |                       | TOTAL<br>OPEN/PIT<br>MINES | MEXICAN<br>IMMSA<br>UNIT(2) | DEVELOPMENT<br>PROJECTS |           |          |         |
|---------------------------|--------------------|----------------------|-----------------------|-----------------------|----------------------------|-----------------------------|-------------------------|-----------|----------|---------|
|                           | UNIT               |                      | UNIT                  |                       |                            |                             | Tia Maria               | El Arco   | El Pilar | Pilares |
|                           | Cuajone<br>Mine(1) | Toquepala<br>Mine(1) | Buenavista<br>Mine(1) | La Caridad<br>Mine(1) |                            |                             |                         |           |          |         |
| <b>Mineral Reserves</b>   |                    |                      |                       |                       |                            |                             |                         |           |          |         |
| Metal prices:             |                    |                      |                       |                       |                            |                             |                         |           |          |         |
| Copper (\$/lb.)           | 2.818              | 2.818                | 2.818                 | 2.818                 | 2.818                      | 2.818                       | 2.818                   | 2.818     | 2.818    | 2.818   |
| Molybdenum (\$/lb.)       | 10.500             | 10.500               | 10.500                | 10.500                | 10.500                     | —                           | —                       | 10.500    | —        | —       |
| Cut/off grade             | 0.214 %            | 0.216 %              | 0.162 %               | 0.111 %               | 0.168 %                    | —                           | 0.102 %                 | 0.193 %   | 0.15 %   | 0.143 % |
| <b>Proven</b>             |                    |                      |                       |                       |                            |                             |                         |           |          |         |
| Sulfide ore reserves (kt) | 962,516            | 1,971,390            | 2,836,422             | 2,173,970             | 7,944,298                  | 17,730                      | —                       | 1,382,888 | —        | 12,982  |
| Average grade:            |                    |                      |                       |                       |                            |                             |                         |           |          |         |
| Copper                    | 0.570 %            | 0.528 %              | 0.449 %               | 0.236 %               | 0.425 %                    | 0.460 %                     | —                       | 0.440 %   | —        | 0.771 % |
| Molybdenum                | 0.020 %            | 0.031 %              | 0.008 %               | 0.031 %               | 0.021 %                    | —                           | —                       | 0.007 %   | —        | —       |
| Lead                      | —                  | —                    | —                     | —                     | —                          | 1.220 %                     | —                       | —         | —        | —       |
| Zinc                      | —                  | —                    | —                     | —                     | —                          | 2.630 %                     | —                       | —         | —        | —       |
| Leachable material (kt)   | 410                | 470,518              | 1,785,003             | 488,180               | 2,744,111                  | —                           | 216,215                 | 187,617   | 287,928  | 248     |
| Leachable material grade  | 0.675 %            | 0.201 %              | 0.160 %               | 0.191 %               | 0.173 %                    | —                           | 0.326 %                 | 0.332 %   | 0.296 %  | 0.241 % |
| <b>Probable</b>           |                    |                      |                       |                       |                            |                             |                         |           |          |         |
| Sulfide ore reserves (kt) | 728,384            | 229,088              | 1,385,595             | 1,118,226             | 3,461,293                  | 29,125                      | —                       | 1,008,719 | —        | 30,784  |
| Average grade:            |                    |                      |                       |                       |                            |                             |                         |           |          |         |
| Copper                    | 0.402 %            | 0.329 %              | 0.397 %               | 0.214 %               | 0.334 %                    | 0.570 %                     | —                       | 0.399 %   | —        | 0.692 % |
| Molybdenum                | 0.016 %            | 0.011 %              | 0.009 %               | 0.030 %               | 0.017 %                    | —                           | —                       | 0.007 %   | —        | —       |
| Lead                      | —                  | —                    | —                     | —                     | —                          | 0.930 %                     | —                       | —         | —        | —       |
| Zinc                      | —                  | —                    | —                     | —                     | —                          | 2.760 %                     | —                       | —         | —        | —       |
| Leachable material (kt)   | 852                | 992,087              | 706,230               | 172,241               | 1,871,410                  | —                           | 525,485                 | 65,283    | 11,213   | 927     |
| Leachable material grade  | 0.879 %            | 0.134 %              | 0.14 %                | 0.182 %               | 0.141 %                    | —                           | 0.364 %                 | 0.161 %   | 0.279 %  | 0.252 % |
| <b>Total</b>              |                    |                      |                       |                       |                            |                             |                         |           |          |         |
| Sulfide ore reserves (kt) | 1,690,900          | 2,200,478            | 4,222,017             | 3,292,196             | 11,405,591                 | 46,855                      | —                       | 2,391,607 | —        | 43,766  |
| Average grade:            |                    |                      |                       |                       |                            |                             |                         |           |          |         |
| Copper                    | 0.497 %            | 0.507 %              | 0.432 %               | 0.228 %               | 0.397 %                    | 0.528 %                     | —                       | 0.422 %   | —        | 0.715 % |
| Molybdenum                | 0.018 %            | 0.029 %              | 0.008 %               | 0.030 %               | 0.020 %                    | —                           | —                       | 0.007 %   | —        | —       |
| Lead                      | —                  | —                    | —                     | —                     | —                          | 1.04 %                      | —                       | —         | —        | —       |
| Zinc                      | —                  | —                    | —                     | —                     | —                          | 2.711 %                     | —                       | —         | —        | —       |
| Leachable material (kt)   | 1,262              | 1,462,604            | 2,491,233             | 660,421               | 4,615,520                  | —                           | 741,700                 | 252,900   | 299,141  | 1,175   |
| Leachable material grade  | 0.813 %            | 0.156 %              | 0.154 %               | 0.189 %               | 0.160 %                    | —                           | 0.353 %                 | 0.288 %   | 0.295 %  | 0.25 %  |
| Waste (kt)                | 4,563,195          | 7,573,933            | 5,686,371             | 2,663,508             | 20,487,007                 | —                           | 665,063                 | 2,127,820 | 563,460  | 158,135 |
| Total material (kt)       | 6,255,357          | 11,237,015           | 12,399,621            | 6,616,125             | 36,508,118                 | 46,855                      | 1,406,763               | 4,772,327 | 862,601  | 203,076 |
| Stripping ratio (W+L)/O   | 2.70               | 4.11                 | 1.94                  | 1.01                  | 2.20                       | —                           | —                       | 1.00      | —        | 3.64    |
| Stripping ratio (W/(L+O)) | 2.70               | 2.07                 | 0.85                  | 0.67                  | 1.28                       | —                           | 0.90                    | 0.80      | 1.88     | 3.52    |
| <b>Leachable material</b> |                    |                      |                       |                       |                            |                             |                         |           |          |         |
| Reserves in stock (kt)    | 19,129             | 1,647,534            | 1,817,333             | 894,768               | 4,378,764                  | —                           | —                       | —         | —        | —       |
| Average copper grade      | 0.486 %            | 0.154 %              | 0.160 %               | 0.242 %               | 0.176 %                    | —                           | —                       | —         | —        | —       |
| In pit reserves:          |                    |                      |                       |                       |                            |                             |                         |           |          |         |

|   |              |               |               |              |               |   |            |               |            |            |
|---|--------------|---------------|---------------|--------------|---------------|---|------------|---------------|------------|------------|
| Proven (kt)   | 410          | 470,518       | 1,785,003     | 488,180      | 2,744,111     | — | 216,215    | 187,617       | 287,928    | 248        |
| Average copper grade                                  | 0.675 %      | 0.201 %       | 0.160 %       | 0.191 %      | 0.173 %       | — | 216,215 %  | 0.332 %       | 0.296 %    | 0.241 %    |
| Probable (kt)   | 852          | 992,087       | 706,230       | 172,241      | 1,871,410     | — | 525,485    | 65,283        | 11,213     | 927        |
| Average copper grade                                  | 0.879 %      | 0.134 %       | 0.140 %       | 0.182 %      | 0.141 %       | — | 0.364 %    | 0.161 %       | 0.279 %    | 0.252 %    |
| Total leachable reserves (kt)                         | 20,391       | 3,110,138     | 4,308,566     | 1,555,189    | 8,994,284     | — | 741,700    | 252,900       | 299,141    | 1,175      |
| Average copper grade                                  | 0.506 %      | 0.155 %       | 0.157 %       | 0.219 %      | 0.168 %       | — | 0.353 %    | 0.288 %       | 0.295 %    | 0.250 %    |
| <b>Copper contained in ore reserves in pit(kt)(3)</b> | <b>8,414</b> | <b>13,438</b> | <b>22,076</b> | <b>8,754</b> | <b>52,682</b> |   |            | <b>10,821</b> | <b>882</b> | <b>316</b> |
|   |              |               |               |              |               |   | <b>247</b> | <b>2,618</b>  |            |            |

kt = Thousand tons

W= Waste, L= Leachable material; O= Ore.

- (1) The Cuajone, Toquepala, Buenavista and La Caridad concentrator recoveries calculated for these reserves were 84.4%, 87.5%, 82.6%, and 81.1%, respectively, obtained by using recovery formulas according to the different milling capacity and geo-metallurgical zones.
- (2) The IMMSA unit includes the Charcas, Santa Barbara, San Martin, Santa Eulalia and Taxco mines. Zinc and lead contained in ore reserves are as follows:

| <u>(in thousand tons)</u> | <u>Proven</u> | <u>Probable</u> | <u>Total</u> |
|---------------------------|---------------|-----------------|--------------|
| Zinc                      | 466.3         | 803.9           | 1,270.2      |
| Lead                      | 216.3         | 270.9           | 487.2        |

- (3) Copper contained in ore reserves for open-pit mines is (i) the product of sulfide ore reserves and the average copper grade proven plus (ii) the product of sulfide ore reserves and the average copper grade probable plus (iii) the product of in-pit leachable reserves and the average copper grade. Copper contained in ore reserves for underground mines is the product of sulfide ore reserves and the average copper grade.

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*Metal Price Sensitivity:*

In preparing the sensitivity analysis, we recalculated our reserves based on the assumption that current average metal prices were 20% higher and 20% lower, respectively, than the actual current average prices for year-end 2019. Reserve results of this sensitivity analysis are not proportional to the increase or decrease in metal price assumptions.

|                               | INCREASE—20%  |            |               | DECREASE—20%  |            |               |
|-------------------------------|---------------|------------|---------------|---------------|------------|---------------|
|                               | Open/Pit      |            | Development   | Open/Pit      |            | Development   |
|                               | Mines         | IMMSA      | Projects      | Mines         | IMMSA      | Projects      |
| <b>Mineral Reserves</b>       |               |            |               |               |            |               |
| Metal prices:                 |               |            |               |               |            |               |
| Copper (\$/lb.)               | 3.381         | 3.381      | 3.381         | 2.254         | 2.254      | 2.254         |
| Molybdenum (\$/lb.)           | 12.599        | —          | 12.599        | 8.400         | —          | 8.400         |
| Cut/Off grade                 | 0.142 %       | —          | 0.155 %       | 0.210 %       | —          | 0.254 %       |
| <i>Proven</i>                 |               |            |               |               |            |               |
| Sulfide ore reserves (kt)     | 8,813,583     | 18,473     | 1,431,577     | 6,308,381     | 14,799     | 1,330,101     |
| Average grade:                |               |            |               |               |            |               |
| Copper                        | 0.410 %       | 0.450 %    | 0.434 %       | 0.463 %       | 0.480 %    | 0.457 %       |
| Molybdenum                    | 0.020 %       | —          | 0.007 %       | 0.022 %       | —          | 0.008 %       |
| Lead                          | —             | 1.190 %    | —             | —             | 1.340 %    | —             |
| Zinc                          | —             | 2.560 %    | —             | —             | 2.860 %    | —             |
| Leachable material (kt)       | 2,343,575     | —          | 719,482       | 3,226,094     | —          | 635,289       |
| Leachable material grade      | 0.153 %       | —          | 0.311 %       | 0.196 %       | —          | 0.323 %       |
| <i>Probable</i>               |               |            |               |               |            |               |
| Sulfide ore reserves (kt)     | 4,113,052     | 30,643     | 1,117,363     | 2,456,401     | 24,984     | 892,403       |
| Average grade:                |               |            |               |               |            |               |
| Copper                        | 0.318 %       | 0.550 %    | 0.392 %       | 0.381 %       | 0.600 %    | 0.434 %       |
| Molybdenum                    | 0.016 %       | —          | 0.007 %       | 0.018 %       | —          | 0.007 %       |
| Lead                          | —             | 0.910 %    | —             | —             | 0.980 %    | —             |
| Zinc                          | —             | 2.700 %    | —             | —             | 2.930 %    | —             |
| Leachable material (kt)       | 1,807,496     | —          | 623,202       | 1,755,017     | —          | 567,935       |
| Leachable material grade      | 0.126 %       | —          | 0.333 %       | 0.159 %       | —          | 0.351 %       |
| <i>Total</i>                  |               |            |               |               |            |               |
| Sulfide ore reserves (kt)     | 12,926,635    | 49,116     | 2,548,940     | 8,764,782     | 39,783     | 2,222,504     |
| Average grade:                |               |            |               |               |            |               |
| Copper                        | 0.381 %       | 0.512 %    | 0.416 %       | 0.440 %       | 0.555 %    | 0.448 %       |
| Molybdenum                    | 0.019 %       | —          | 0.007 %       | 0.021 %       | —          | 0.007 %       |
| Lead                          | —             | 1.015 %    | —             | —             | 1.114 %    | —             |
| Zinc                          | —             | 2.647 %    | —             | —             | 2.904 %    | —             |
| Leachable material (kt)       | 4,151,071     | —          | 1,342,684     | 4,981,111     | —          | 1,203,224     |
| Leachable material grade      | 0.141 %       | —          | 0.322 %       | 0.183 %       | —          | 0.336 %       |
| Waste (kt)                    | 23,350,386    | —          | 3,880,329     | 17,261,451    | —          | 2,974,573     |
| Total material (kt)           | 40,428,092    | 49,116     | 7,771,953     | 31,007,344    | 39,783     | 6,400,301     |
| Stripping ratio ((W+L)/O)     | 2.13          | —          | 2.05          | 2.54          | —          | 1.88          |
| Stripping ratio (W/(L+O))     | 1.37          | —          | 1.00          | 1.26          | —          | 0.87          |
| <b>Leachable material</b>     |               |            |               |               |            |               |
| Reserves in stock (kt)        | 4,378,764     | —          | —             | 4,378,764     | —          | —             |
| Average copper grade          | 0.176 %       | —          | —             | 0.176 %       | —          | —             |
| In pit reserves:              |               |            |               |               |            |               |
| Proven (kt)                   | 2,343,575     | —          | 719,482       | 3,226,094     | —          | 635,289       |
| Average copper grade          | 0.153 %       | —          | 0.311 %       | 0.196 %       | —          | 0.323 %       |
| Probable (kt)                 | 1,807,496     | —          | 623,202       | 1,755,017     | —          | 567,935       |
| Average copper grade          | 0.126 %       | —          | 0.333 %       | 0.159 %       | —          | 0.351 %       |
| Total leachable reserves (kt) | 8,529,835     | —          | 1,342,684     | 9,359,875     | —          | 1,203,224     |
| Average copper grade          | 0.159 %       | —          | 0.322 %       | 0.18 %        | —          | 0.336 %       |
|                               | <b>55,108</b> | <b>251</b> | <b>14,933</b> | <b>47,659</b> | <b>221</b> | <b>13,989</b> |

- (1) Copper contained in ore reserves for open-pit mines is (i) the product of sulfide ore reserves and the average copper grade proven plus (ii) the product of sulfide ore reserves and the average copper grade probable plus (iii) the product of in-pit leachable reserves and the average copper grade. Copper contained in ore reserves for underground mines is the product of sulfide ore reserves and the average copper grade.

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*Internal Ore Reserves Estimates:*

The table below details our proven and probable copper and molybdenum reserves as of December 31, 2019, estimated based on long-term price assumptions of \$2.90 for copper and \$7.50 for molybdenum. As discussed on page 52 the presentation of these internal ore reserve estimates are not compliant with SEC requirements, as the long-term price assumptions differ from the current prices used pursuant to SEC guidance. These internal ore reserve estimates do not affect the preparation of our financial statements.

|                           | PERUVIAN OPEN/PIT |                   | MEXICAN OPEN/PIT   |                    | TOTAL<br>OPEN/PIT<br>MINES | MEXICAN<br>IMMSA<br>UNIT(1) | DEVELOPMENT<br>PROJECTS |           |          |         |
|---------------------------|-------------------|-------------------|--------------------|--------------------|----------------------------|-----------------------------|-------------------------|-----------|----------|---------|
|                           | UNIT              |                   | UNIT               |                    |                            |                             | Tia Maria               | El Arco   | El Pilar | Pilares |
|                           | Cuajone<br>Mine   | Toquepala<br>Mine | Buenavista<br>Mine | La Caridad<br>Mine |                            |                             |                         |           |          |         |
| <b>Mineral Reserves</b>   |                   |                   |                    |                    |                            |                             |                         |           |          |         |
| Metal prices:             |                   |                   |                    |                    |                            |                             |                         |           |          |         |
| Copper (\$/lb.)           | 2.900             | 2.900             | 2.900              | 2.900              | 2.900                      | 2.900                       | 2.900                   | 2.900     | 2.900    | 2.900   |
| Molybdenum (\$/lb.)       | 7.500             | 7.500             | 7.500              | 7.500              | 7.500                      | —                           | —                       | 7.500     | —        | —       |
| Cut/off grade             | 0.206 %           | 0.225 %           | 0.153 %            | 0.109 %            | 0.164 %                    | —                           | 0.102 %                 | 0.198 %   | 0.15 %   | 0.149 % |
| <i>Proven</i>             |                   |                   |                    |                    |                            |                             |                         |           |          |         |
| Sulfide ore reserves(kt)  | 966,129           | 1,881,063         | 3,008,074          | 2,203,193          | 8,058,459                  | 17,217                      | —                       | 1,368,279 | —        | 12,982  |
| Average grade:            |                   |                   |                    |                    |                            |                             |                         |           |          |         |
| Copper                    | 0.569 %           | 0.538 %           | 0.437 %            | 0.235 %            | 0.421 %                    | 0.470 %                     | —                       | 0.443 %   | —        | 0.771 % |
| Molybdenum                | 0.020 %           | 0.032 %           | 0.007 %            | 0.031 %            | 0.021 %                    | —                           | —                       | 0.007 %   | —        | —       |
| Lead                      | —                 | —                 | —                  | —                  | —                          | 1.250 %                     | —                       | —         | —        | —       |
| Zinc                      | —                 | —                 | —                  | —                  | —                          | 2.650 %                     | —                       | —         | —        | —       |
| Leachable material (kt)   | 506               | 529,652           | 1,607,581          | 488,842            | 2,626,581                  | —                           | 217,124                 | 187,617   | 287,928  | 248     |
| Leachable material grade  | 0.603 %           | 0.213 %           | 0.152 %            | 0.191 %            | 0.172 %                    | —                           | 0.325 %                 | 0.332 %   | 0.296 %  | 0.241 % |
| <i>Probable</i>           |                   |                   |                    |                    |                            |                             |                         |           |          |         |
| Sulfide ore reserves(kt)  | 744,218           | 188,499           | 1,455,248          | 1,152,421          | 3,540,386                  | 28,379                      | —                       | 991,261   | —        | 30,784  |
| Average grade:            |                   |                   |                    |                    |                            |                             |                         |           |          |         |
| Copper                    | 0.398 %           | 0.343 %           | 0.388 %            | 0.215 %            | 0.331 %                    | 0.59 %                      | —                       | 0.404 %   | —        | 0.692 % |
| Molybdenum                | 0.016 %           | 0.012 %           | 0.009 %            | 0.030 %            | 0.017 %                    | —                           | —                       | 0.007 %   | —        | —       |
| Lead                      | —                 | —                 | —                  | —                  | —                          | 0.96 %                      | —                       | —         | —        | —       |
| Zinc                      | —                 | —                 | —                  | —                  | —                          | 2.77 %                      | —                       | —         | —        | —       |
| Leachable material (kt)   | 1,024             | 877,194           | 647,073            | 175,172            | 1,700,463                  | —                           | 528,940                 | 65,283    | 11,213   | 927     |
| Leachable material grade  | 0.767 %           | 0.153 %           | 0.135 %            | 0.181 %            | 0.149 %                    | —                           | 0.363 %                 | 0.161 %   | 0.279 %  | 0.252 % |
| <i>Total</i>              |                   |                   |                    |                    |                            |                             |                         |           |          |         |
| Sulfide ore reserves(kt)  | 1,710,347         | 2,069,562         | 4,463,322          | 3,355,614          | 11,598,845                 | 45,596                      | —                       | 2,359,540 | —        | 43,766  |
| Average grade:            |                   |                   |                    |                    |                            |                             |                         |           |          |         |
| Copper                    | 0.494 %           | 0.521 %           | 0.421 %            | 0.228 %            | 0.394 %                    | 0.545 %                     | —                       | 0.426 %   | —        | 0.715 % |
| Molybdenum                | 0.018 %           | 0.030 %           | 0.008 %            | 0.030 %            | 0.020 %                    | —                           | —                       | 0.007 %   | —        | —       |
| Lead                      | —                 | —                 | —                  | —                  | —                          | 1.070 %                     | —                       | —         | —        | —       |
| Zinc                      | —                 | —                 | —                  | —                  | —                          | 2.730 %                     | —                       | —         | —        | —       |
| Leachable material (kt)   | 1,530             | 1,406,846         | 2,254,654          | 664,014            | 4,327,044                  | —                           | 746,064                 | 252,900   | 299,141  | 1,175   |
| Leachable material grade  | 0.713 %           | 0.176 %           | 0.147 %            | 0.188 %            | 0.163 %                    | —                           | 0.352 %                 | 0.288 %   | 0.295 %  | 0.250 % |
| Waste (kt)                | 4,543,480         | 7,520,966         | 5,888,231          | 2,763,369          | 20,716,046                 | —                           | 672,277                 | 2,159,886 | 563,460  | 158,135 |
| Total material (kt)       | 6,255,357         | 10,997,374        | 12,606,207         | 6,782,997          | 36,641,935                 | 45,596                      | 1,418,341               | 4,772,326 | 862,601  | 203,076 |
| Stripping ratio ((W+L)/O) | 2.66              | 4.31              | 1.82               | 1.02               | 2.16                       | —                           | —                       | 1.02      | —        | 3.64    |
| Stripping ratio (W/(L+O)) | 2.65              | 2.16              | 0.88               | 0.69               | 1.30                       | —                           | 0.90                    | 0.83      | 1.88     | 3.52    |

| <b>Leachable material</b>                       |              |               |               |              |               |            |              |               |            |            |
|---|--------------|---------------|---------------|--------------|---------------|------------|--------------|---------------|------------|------------|
| Reserves in stock (kt)                          | 19,129       | 1,647,534     | 1,817,333     | 894,768      | 4,378,764     | —          | —            | —             | —          | —          |
| Average copper grade                            | 0.486 %      | 0.154 %       | 0.160 %       | 0.242 %      | 0.176 %       | —          | —            | —             | —          | —          |
| In/pit reserves:                                |              |               |               |              |               |            |              |               |            |            |
| Proven (kt)                                     | 506          | 529,652       | 1,607,581     | 488,842      | 2,626,581     | —          | 217,124      | 187,617       | 287,928    | 248        |
| Average copper grade                            | 0.603 %      | 0.213 %       | 0.152 %       | 0.191 %      | 0.172 %       | —          | 0.325 %      | 0.332 %       | 0.296 %    | 0.241 %    |
| Probable(kt)                                    | 1,024        | 877,194       | 647,073       | 175,172      | 1,700,463     | —          | 528,940      | 65,283        | 11,213     | 927        |
| Average copper grade                            | 0.767 %      | 0.153 %       | 0.135 %       | 0.181 %      | 0.149 %       | —          | 0.363 %      | 0.161 %       | 0.279 %    | 0.252 %    |
| Total leachable reserves                        | 20,659       | 3,054,380     | 4,071,987     | 1,558,782    | 8,705,808     | —          | 746,064      | 252,900       | 299,141    | 1,175      |
| Average copper grade                            | 0.503 %      | 0.164 %       | 0.153 %       | 0.219 %      | 0.169 %       | —          | 0.352 %      | 0.288 %       | 0.295 %    | 0.250 %    |
| <b>Copper contained in ore reserves (kt)(2)</b> | <b>8,460</b> | <b>13,258</b> | <b>22,105</b> | <b>8,899</b> | <b>52,722</b> | <b>248</b> | <b>2,626</b> | <b>10,780</b> | <b>882</b> | <b>316</b> |

(kt) = Thousand tons

W= Waste, L= Leachable material; O= Ore.

- (1) The IMMSA unit includes the Charcas, Santa Barbara, San Martin, Santa Eulalia and Taxco mines. Zinc and lead contained in ore reserves are as follows:

| <b>(in thousand tons)</b> | <b>Proven</b> | <b>Probable</b> | <b>Total</b> |
|---------------------------|---------------|-----------------|--------------|
| Zinc                      | 456.3         | 786.2           | 1,242.5      |
| Lead                      | 215.2         | 272.4           | 487.6        |

Copper contained in ore reserves for open-pit mines is (i) the product of sulfide ore reserves and the average copper grade plus (ii) the product of in-pit leachable reserves and the average grade of copper. Copper contained in ore reserves for underground mines is the product of sulfide ore reserves and the average copper grade.

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### OVERVIEW OF BLOCK MODEL RECONCILIATION PROCESS

We apply the following block model to mill reconciliation procedure.

The following stages are identified at the Cuajone, Toquepala, Buenavista and La Caridad mines:

1. The mine geologists gather the necessary monthly statistical data from our information system (“SRP”), which provides ore tons milled and ore grades in the concentrator.
2. Mined areas are topographically determined and related boundaries are built.
3. Using the “interactive planner” option in our mining software (MineSight), ore tons and grades are calculated inside mined areas over the block model. At this point the current cut-off grade is considered.
4. In the final stage, accumulated tons mined, weighted average grade for ore material and leach is compared to data coming from our SRP system.

Tonnage and grade reconciliation for 2019 are as follows:

| Mine       | Long Range Model    |          | Mill                |          | Variance            |          |
|------------|---------------------|----------|---------------------|----------|---------------------|----------|
|            | Tons<br>(thousands) | % Copper | Tons<br>(thousands) | % Copper | Tons<br>(thousands) | % Copper |
| Cuajone    | 29,141              | 0.628    | 29,017              | 0.644    | 124                 | (0.016)  |
| Toquepala  | 40,239              | 0.642    | 38,248              | 0.682    | 1,991               | (0.040)  |
| Buenavista | 69,903              | 0.558    | 70,323              | 0.554    | (420)               | 0.004    |
| La Caridad | 33,860              | 0.350    | 34,401              | 0.356    | (541)               | (0.006)  |

If the estimation error appears greater than 3%, a detailed evaluation is done to review the differences, which normally could result in more in-fill drilling, in order to better understand the geological characteristics (grade, rock type, mineralization and alteration) and the spacing of drill holes which are considered in the ore body zone.

### AVERAGE DRILL-HOLE SPACING

The following is the average drill-hole spacing for proven and probable sulfide reserves as of December 31, 2019:

|            | Proven                         | Probable |
|------------|--------------------------------|----------|
|            | (average spacing<br>in meters) |          |
| Cuajone    | 74.06                          | 113.14   |
| Toquepala  | 75.31                          | 111.29   |
| Buenavista | 53.28                          | 105.73   |
| La Caridad | 46.52                          | 104.71   |

### EXPLORATION ACTIVITIES

We are engaged in ongoing extensive exploration to locate additional ore bodies in Peru, Mexico, Argentina, Ecuador and Chile. We also conduct exploration in the areas of our current mining operations. We invested \$30.0 million in exploration programs in 2019, \$29.6 million in 2018 and \$28.8 million in 2017 and we expect to spend approximately \$43.7 million in exploration programs in 2020.

Currently, we have direct control of 71,152 hectares and 147,974 hectares of exploration concessions in Peru and in Mexico, respectively. We also currently hold 49,877 hectares, 52,403 hectares and 7,299 hectares of exploration concessions in Argentina, Chile and Ecuador, respectively.

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### Peru

*Los Chancas.* This property, located in the department of Apurimac in southern Peru, is a copper and molybdenum porphyry deposit. Current estimates indicate the presence of 545 million tons of mineralized material with a copper content of 0.59%, molybdenum content of 0.04% and 0.039 grams of gold per ton and 181 million tons of mineralized leachable material with a total copper content of 0.357%. In 2018 and 2019, we developed social and environmental improvements for the local communities. For 2020, we plan to continue with these activities and to conclude the environmental impact assessment of the project.

*Michiquillay.* This property, located in the district of La Encañada, in the province and department of Cajamarca in northern Peru, is a copper porphyry deposit. In February 2018, we won the public bidding process for the project, and in June 2018 we signed the acquisition contract with the Peruvian government. In 2019, we developed social and environmental programs for the local communities and began a semi-detailed environmental impact assessment. This will allow us to begin a 40,000-meter diamond drilling program in 2020, to verify and update the estimated mineralized materials of the project.

*Other Peruvian Prospects.* During 2019, we conducted a 13,000-meter diamond drilling program in the southern coast of Peru, during which we explored various geochemical and geophysical anomalies. The results obtained indicate a copper-iron system with disseminated mineralization of iron and low copper contents.

For 2020, we plan to conduct a diamond drilling program of 15,000 meters at various prospects, which have evidence of copper porphyry deposits, located mainly in the southern coast of Peru. Additionally, we will continue with several prospection programs at other Peruvian metallogenic zones.

### Mexico

In addition to exploration and drilling programs at existing mines, we are currently conducting exploration to locate mineral deposits at various other sites in Mexico. The following are some of the more significant exploration projects:

*Buenavista-Zinc.* The Buenavista-Zinc site is located in the state of Sonora, Mexico and is part of the northwest Buenavista ore body. It is a skarn deposit containing zinc, copper, silver and lead sulfide mineralization. The deposit contains approximately 102.6 million tons of mineralized material, containing 1.88% of zinc, 0.47% of copper and 17 grams of silver per ton. In 2016, we reviewed the geological model of the deposit and the lithological description of prior drill holes, which were analyzed using infrared spectrometry. The results were included in the reserves database. Currently, we have concluded the conceptual design of the flotation plant. Additionally, the mining plan and economic studies have been prepared by external companies. In 2020, we plan to continue to explore with a drilling program of 10,000 meters.

*The Chalchihuites.* This is a skarn type deposit located in the state of Zacatecas, close to the San Martin mining unit. Drilling programs conducted between 1980 and 2014 identified 12.6 million of mineralized material with an average silver content of 110 grams per ton, 2.66% of zinc, 0.37% of lead and 0.67% of copper. Current results indicate that mineralization consists of a complex mixture of oxides and sulfides of silver, lead and zinc that requires additional metallurgical research. In 2017, we started a new drilling program of 21,000 meters in order to continue the metallurgical research and testing. In 2018, this

exploration program of 48 drill holes was completed. This program has been carried out in compliance with QA/QC protocol that includes testing of specific density of the different rocks and mineralized types and geochemistry sampling. In addition, 5,000 meters of core sample from the drilling program were analyzed with a hyperspectral scanner, and a study of 498 kilometers of hyperspectral imaging was conducted in order to recognize the geology of the entire Chalchihuites mineral district. In 2019, with the complete data from the diamond drilling program, we made a geological model of the Cronos deposit using the Leapfrog software. Currently, the sample design for a metallurgical test is in progress. We expect to conduct this test in 2020.

*Bella Union (La Caridad)*. This prospect is a mineralized copper and molybdenum breccia deposit; the site is located at less than one kilometer from the border of La Caridad pit. In 2016 and 2017, we conducted a 28,217 meter drilling program to define the geometry of the deposit. The results identified 36.2 million tons of mineralized material with an

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average of 0.44% copper content and 0.05% of molybdenum. In May 2018, the drilling in this project was completed, totaling 46,400 meters distributed in 113 drill holes. The test results were received in June 2018. Currently, exploration at Bella Union has been completed and the planning department is working on the integration of its reserves in the La Caridad mining plan.

*Campo Medio (Santa Eulalia).* This prospect is located close to the west border of the Santa Eulalia mine. Preliminary geological surveying in the zone indicates the possible presence of replacement ore bodies in limestone, similar to ore bodies currently being mined at Santa Eulalia. During 2016, we completed a geochemical and geological survey of 800 hectares between the two currently operating mines and from which we obtained in the past more than 25 million metric tons of ore. The results obtained indicate the presence of potential mineralization in five different zones. In 2017, 1,000 geochemical samples were taken to define in more detail the five zones highlighted by the geological survey. In 2018, the surveying of 800 hectares using an electrical geophysical method was completed. With the results obtained from this study, a drilling program of 10,000 meters was conducted in 2019 to test the geophysical anomalies. Nine targets were investigated, and we obtained positive results from the Bustillos target. Results indicate that its mineralization consists of sulfides with 2.85 meters of width, 219 grams of silver, 6.60% of lead and 7.55% of zinc. More exploration efforts are needed in its periphery. In 2020, we plan to conduct a drilling program of 20,000 meters, distributed in Campo Medio and in the level 8 of Mina San Antonio and Rampa Buena Tierra.

## Chile

*El Salado (Montonero).* A copper-gold prospect located in the Atacama region, northern Chile is being explored for copper and molybdenum porphyry since 2014. In 2016, we conducted a diamond drilling program of 12,169 meters in order to define mineral classification. In 2017, we drilled a total of 9,939 meters and finished the conceptual study, which is currently under evaluation.

*Other Chilean Prospects.* In 2019, we concluded exploration work at the Baquedano prospect, located in the Antofagasta region. We drilled 3,615 meters and the results were not satisfactory. In addition, we drilled 2,613 meters in the Alta Tension prospect, and did not obtain positive mineralization results. We also drilled 2,003 meters in the Transito prospect, and obtained evidence of anomalous copper mineralization of up to 0.3%, which did not meet our objectives. For 2020, we plan to conduct a diamond drilling program of 12,000 meters at three prospects located in the copper-gold strip of the Antofagasta region in the north of Chile.

## Ecuador

*Chaucha.* The Ruta del Cobre (“Copper Road”) project is located west of Cuenca city and south of Guayaquil. The mineralization is characteristic of a copper-molybdenum porphyry system which is being explored since 2014. Through 2019, the exploration phase has concluded with a total of 79,900 meters drilled. In October 2019, we began the infill drilling program, which aims to reclassify the existing mineralized materials of the project. For 2020, we plan to continue with the development of social and environmental activities and conduct an infill drilling program of 55,000 meters in order to begin the feasibility study of the Copper Road project in the last quarter of 2020.



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Argentina

In 2011, we started exploration activities in Argentina. In 2015, we performed geological exploration in the Salta, Rio Negro and Neuquen provinces where we expected to locate copper porphyry with precious metals epithermal systems. In 2017, we performed prospecting and geological evaluation work in the provinces of San Juan and Rio Negro. In 2019, we conducted a diamond drilling program of 2,530 meters in order to continue with the exploration of the silver-gold epithermal systems, denominated the Caldera project, located in the Rio Negro province. For 2020, we expect to conduct geological mapping work in order to develop a diamond drilling program for these areas.

In addition, in 2019 we conducted a diamond drilling program of 4,944 meters at the “Canadon del Moro” project, also located in the Rio Negro province, and obtained results of mineralized material with an estimated 9.46 ounces of silver per metric ton. For 2020, we plan to drill an additional 2,000 meters in order to continue exploring the deposit.

We also plan to conduct exploration programs at the Esperanza and La Hoyada prospects, located in the Rio Negro and Catamarca provinces, respectively. In 2020, we plan to drill 1,500 meters at Esperanza and 5,000 meters at La Hoyada prospects.

**ITEM 3. LEGAL PROCEEDINGS**

Reference is made to the information under the caption “Litigation Matters” in the consolidated financial statement Note 13 “Commitments and contingencies.”

**ITEM 4. MINE SAFETY DISCLOSURE**

Not applicable.

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**PART II**

**ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

SCC COMMON STOCK:

SCC’s common stock is traded on the New York Stock Exchange (“NYSE”) and the Lima Stock Exchange (“BVL”). SCC’s common stock symbol is SCCO on both the NYSE and the BVL. At December 31, 2019, there were 935 holders of record of our common stock.

DIVIDEND AND STOCK MARKET PRICES:

The table below sets forth the cash dividends paid per share of capital stock and the high and low stock prices on both the NYSE and the BVL for the periods indicated.

| Quarters | For the year 2019     |         |         |         |         |
|----------|-----------------------|---------|---------|---------|---------|
|          | Dividend<br>per Share | NYSE:   |         | BVL:    |         |
|          |                       | High    | Low     | High    | Low     |
| 1st      | \$ 0.40               | \$39.68 | \$29.21 | \$39.77 | \$29.20 |
| 2nd      | \$ 0.40               | \$41.84 | \$33.27 | \$41.85 | \$33.14 |
| 3rd      | \$ 0.40               | \$38.49 | \$29.53 | \$38.10 | \$29.75 |
| 4th      | \$ 0.40               | \$43.19 | \$32.35 | \$43.00 | \$32.50 |
| Year     | \$ 1.60               | \$43.19 | \$29.21 | \$43.00 | \$29.20 |

| Quarters | For the year 2018     |         |         |         |         |
|----------|-----------------------|---------|---------|---------|---------|
|          | Dividend<br>per Share | NYSE:   |         | BVL:    |         |
|          |                       | High    | Low     | High    | Low     |
| 1st      | \$ 0.30               | \$55.85 | \$45.47 | \$55.10 | \$45.63 |
| 2nd      | \$ 0.30               | \$57.34 | \$45.90 | \$57.37 | \$45.85 |
| 3rd      | \$ 0.40               | \$49.36 | \$39.80 | \$49.55 | \$39.70 |
| 4th      | \$ 0.40               | \$43.75 | \$29.78 | \$43.76 | \$29.50 |
| Year     | \$ 1.40               | \$57.34 | \$29.78 | \$57.37 | \$29.50 |

For a description of limitations on our ability to make dividend distributions, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations —“Liquidity and Capital Resources” and Note 11 “Financing” to our consolidated financial statements.

DIRECTORS’ STOCK AWARD PLAN

The following table sets forth certain information related to our shares held as treasury stock for the Directors' stock award plan at December 31, 2019:

Equity Compensation Plan Information

| <b>Plan Category</b>        | <b>Number of securities to be issued upon exercise of outstanding options</b> | <b>Weighted-average exercise price of outstanding options</b> | <b>Number of securities remaining available for future issuance</b> |
|-----------------------------|---|---|---|
| Directors' stock award plan | N/A   | N/A   | 222,800   |

For additional information see Note 14—"Stockholders Equity—Directors' Stock Award Plan."

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SCC COMMON STOCK REPURCHASE PLAN:

In 2008, our BOD authorized a \$500 million share repurchase program that has since been increased by the BOD and is currently authorized to \$3 billion. Pursuant to this program, the Company purchased common stock as shown in the table below. These shares are available for general corporate purposes. The Company may purchase additional shares of its common stock from time to time, based on market conditions and other factors. This repurchase program has no expiration date and may be modified or discontinued at any time.

| <u>Period</u> |             | Total              | Average    | Total          | Maximum           | Total Cost        |
|---------------|-------------|--------------------|------------|----------------|-------------------|-------------------|
| From          | To          | Number of          | Price Paid | Number of      | Number of         |                   |
|               |             | Shares             | per Share  | Shares         | Shares that       |                   |
|               |             | Purchased          |            | Purchased      | May Yet Be        |                   |
|               |             |                    |            | as Part of     | Purchased         |                   |
|               |             |                    |            | Publicly       | Under the         |                   |
|               |             |                    |            | Announced Plan | Plan @ \$42.48(1) | (\$ in millions)  |
| <b>2008</b>   | <b>2012</b> | 46,914,486         | \$ 18.72   | 46,914,486     |                   | 878.1             |
| <b>2013:</b>  |             | 10,245,000         | 27.47      | 57,159,486     |                   | 281.4             |
| <b>2014:</b>  |             | 22,711,428         | 30.06      | 79,870,914     |                   | 682.8             |
| <b>2015:</b>  |             | 36,689,052         | 27.38      | 116,559,966    |                   | 1,004.4           |
| <b>2016:</b>  |             | 2,937,801          | 24.42      | 119,497,767    |                   | 71.7              |
| Total         |             |                    |            |                |                   |                   |
| purchased     |             | <u>119,497,767</u> | \$ 24.42   |                | 1,921,689         | <u>\$ 2,918.4</u> |

(1) NYSE closing price of SCC common shares at December 31, 2019.

There has not been any activity in the SCC share repurchase program since the third quarter of 2016. The NYSE closing price of SCC common shares at December 31, 2019 was \$42.48 and the maximum number of shares that the Company could purchase at that price is 1.9 million shares.

As a result of the repurchase of shares of SCC's common stock, Grupo Mexico's direct and indirect ownership was 88.9% as of December 31, 2019 and 2018.

SHAREHOLDER RETURN PERFORMANCE PRESENTATION

Set forth below is a line graph comparing the yearly change in the cumulative total returns on the Company's common stock against cumulative total return on the S&P 500 Stock Index and the S&P Metals and Mining Select Industry Index, for the five year period ending December 31, 2019. The chart below analyzes the total return on SCC's common stock for the period commencing December 31, 2014 and ending December 31, 2019, compared to the total return of the S&P 500 and the S&P Metals and Mining Select Industry Index for the same five-year period.

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**Comparison of Five Year Cumulative Total Return \***  
**SCC Stock, S&P 500 Index and S&P Metals and Mining Select Industry Index \*\***

Graphic

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\* Total return assumes reinvestment of dividends

\*\* The comparison assumes \$100 invested on December 31, 2014

|                       | <b>Total Return per Year</b> |             |             |             |             |
|-----------------------|------------------------------|-------------|-------------|-------------|-------------|
|                       | <b>2015</b>                  | <b>2016</b> | <b>2017</b> | <b>2018</b> | <b>2019</b> |
| <b>SCC</b>            | (6.3)%                       | 23.1 %      | 50.8 %      | (33.0)%     | 44.6 %      |
| <b>S&amp;P 500</b>    | (0.7)%                       | 9.5 %       | 19.4 %      | (6.2)%      | 28.9 %      |
| <b>S&amp;P M + MS</b> | (51.5)%                      | 102.4 %     | 19.4 %      | (27.0)%     | 13.0 %      |

The foregoing Performance Graph and related information shall not be deemed “soliciting material” or “filed” with the SEC or subject to Section 18 of the Securities Exchange Act of 1934, as amended, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or Securities Exchange Act of 1934, each as amended, except to the extent that the Company specifically incorporates it by reference into such filing.

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**ITEM 6. SELECTED FINANCIAL DATA**

**FIVE-YEAR SELECTED FINANCIAL AND STATISTICAL DATA**

The selected historical financial data presented below as of and for the five years ended December 31, 2019, includes certain information that has been derived from our consolidated financial statements. The selected financial data should be read in conjunction with Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and notes thereto. The financial data is presented in millions, except per share and capital stock amounts and financial ratios.

| Statement of Earnings Data  | Year Ended December 31, |           |           |           |           |
|-----------------------------|-------------------------|-----------|-----------|-----------|-----------|
|                             | 2019                    | 2018      | 2017      | 2016      | 2015      |
| Net sales(1)                | \$7,285.6               | \$7,096.7 | \$6,654.5 | \$5,379.8 | \$5,045.9 |
| Operating income            | 2,753.0                 | 2,881.2   | 2,618.9   | 1,564.2   | 1,414.4   |
| Net income                  | 1,491.9                 | 1,548.2   | 732.4     | 778.8     | 741.1     |
| Net income attributable to: |                         |           |           |           |           |
| Non-controlling interest    | 6.1                     | 5.2       | 3.9       | 2.3       | 4.7       |
| Southern Copper Corporation | \$1,485.8               | \$1,543.0 | \$ 728.5  | \$ 776.5  | \$ 736.4  |
| Per share amounts:          |                         |           |           |           |           |
| Earnings basic and diluted  | \$ 1.92                 | \$ 2.00   | \$ 0.94   | \$ 1.00   | \$ 0.93   |
| Dividends paid              | \$ 1.60                 | \$ 1.40   | \$ 0.59   | \$ 0.18   | \$ 0.34   |

| Balance Sheet Data                                    | As of December 31, |            |            |            |            |
|---|--------------------|------------|------------|------------|------------|
|   | 2019               | 2018       | 2017       | 2016       | 2015       |
| Cash and cash equivalents                             | \$ 1,925.1         | \$ 844.6   | \$ 1,004.8 | \$ 546.0   | \$ 274.5   |
| Total assets(2)                                       | 16,407.4           | 14,267.8   | 13,780.1   | 13,234.3   | 12,593.2   |
| Total long-term debt,<br>including current portion(2) | 6,541.0            | 5,960.1    | 5,957.1    | 5,954.2    | 5,951.5    |
| Total liabilities(2)                                  | 9,549.2            | 7,655.0    | 7,630.7    | 7,363.4    | 7,294.0    |
| Total equity  | \$ 6,858.2         | \$ 6,612.8 | \$ 6,149.4 | \$ 5,870.9 | \$ 5,299.2 |

| Statement of Cash Flows Data                | Year Ended December 31, |            |           |           |           |
|---|-------------------------|------------|-----------|-----------|-----------|
|   | 2019                    | 2018       | 2017      | 2016      | 2015      |
| Net income                                  | \$ 1,491.9              | \$ 1,548.2 | \$ 732.4  | \$ 778.8  | \$ 741.1  |
| Depreciation, amortization and<br>depletion | 764.4                   | 674.3      | 671.1     | 647.1     | 510.7     |
| Cash provided by operating<br>activities    | 1,911.9                 | 2,235.1    | 1,976.6   | 923.1     | 879.8     |
| Capital investments(3)                      | (707.5)                 | (1,121.4)  | (1,023.5) | (1,118.5) | (1,149.6) |
| Debt repaid                                 | —                       | —          | —         | —         | (266.0)   |
| Debt incurred                               | 987.3                   | —          | —         | —         | 2,045.8   |
| Dividends paid to common<br>stockholders    | (1,236.9)               | (1,082.3)  | (456.1)   | (139.3)   | (271.2)   |
| SCC common shares buyback                   | —                       | —          | —         | (71.7)    | (1,004.4) |
|   | \$ 1,080.5              | \$ (160.2) | \$ 458.8  | \$ 271.5  | \$ (89.5) |

Increase (decrease) in cash and cash equivalents

| <b>Capital Stock</b>   | <b>Year Ended December 31,</b> |             |             |             |             |
|--|--------------------------------|-------------|-------------|-------------|-------------|
|  | <b>2019</b>                    | <b>2018</b> | <b>2017</b> | <b>2016</b> | <b>2015</b> |
| Common shares outstanding—<br>basic and diluted (in thousands) | 773,059                        | 773,044     | 773,028     | 773,016     | 775,942     |
| NYSE Price—high  | \$ 43.19                       | \$ 57.34    | \$ 47.63    | \$ 34.98    | \$ 33.14    |
| NYSE Price—low   | \$ 23.21                       | \$ 29.78    | \$ 32.38    | \$ 22.29    | \$ 24.40    |
| Book value per share   | 8.82                           | 8.50        | 7.90        | 7.54        | 6.78        |
| P/E ratio(4)   | 22.10                          | 15.42       | 50.35       | 31.82       | 28.19       |

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| Financial Ratios                      | Year Ended December 31, |        |        |        |        |
|---------------------------------------|-------------------------|--------|--------|--------|--------|
|                                       | 2019                    | 2018   | 2017   | 2016   | 2015   |
| Gross margin(5)                       | 40.0 %                  | 42.5 % | 41.0 % | 31.6 % | 31.9 % |
| Operating income margin(6)            | 37.8 %                  | 40.6 % | 39.4 % | 29.1 % | 28.0 % |
| Net margin(7)                         | 20.4 %                  | 21.7 % | 10.9 % | 14.4 % | 14.6 % |
| Current assets to current liabilities | 2.83                    | 2.61   | 2.71   | 2.57   | 2.70   |
| Net debt/Net capitalization(8)        | 41.8 %                  | 42.6 % | 44.4 % | 47.7 % | 48.9 % |
| Total debt/Total capitalization(9)    | 50.3 %                  | 47.4 % | 49.2 % | 50.4 % | 52.9 % |

- (1) Please see copper and metal prices for the last 10 years on Item 1 “Business—Metal Prices” and sales volumes for the last three years on Item 7 “Management Discussion and Analysis of Financial Condition and Results of Operations—Segments Results Analysis.”
- (2) In the second quarter of 2015, the Company adopted ASU 2015-03 whereby debt issuance costs are presented net of the related debt. This adoption was applied on a retrospective basis. In January 2019, the Company adopted ASC 842, recognizing right-of-use assets and the corresponding operating lease liabilities on the consolidated balance sheet. The Company elected the transition approach.
- (3) Please see Item 7 “Management Discussion and Analysis of Financial Condition and Results of Operations—Capital Investment Programs.”
- (4) Represents closing Price divided by Earnings per share.
- (5) Represents net sales less cost of sales (including depreciation, amortization and depletion), divided by net sales, as a percentage.
- (6) Represents operating income divided by net sales, as a percentage.
- (7) Represents net income divided by net sales, as a percentage.
- (8) Net debt, which is a Non-GAAP measure, is defined as total debt minus cash, cash equivalents and short-term investments balance. Please see Item 7 “Management Discussion and Analysis of Financial Condition and Results of Operations—Financing Section”. During 2015, management decided to include short-term investments as a reduction to debt to arrive at net debt given that the Company can liquidate these investments at any time as needed. This change was applied on a retrospective basis for all years presented herein.

Net capitalization is defined as Net debt plus Equity.

Net debt/Net capitalization: represents net debt divided by net debt plus equity. Net debt to net capitalization is a Non-GAAP measure. This non-GAAP information should not be considered in isolation or as substitute for measures of performance determined in accordance with GAAP. A reconciliation of our net debt to net capitalization ratio to total debt and capitalization as presented in the consolidated balance sheet is presented

under the subheading “Non-GAAP information reconciliation” in Item 7  
“Management’s Discussion and Analysis of Financial Condition and Results of  
Operations.”

- (9) Total capitalization is defined as Total debt plus Equity.

Total debt/Total capitalization: represents total debt divided by total debt plus equity.

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## ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### EXECUTIVE SUMMARY

*This Management’s Discussion and Analysis of Financial Condition and Results of Operations relates to and should be read together with our Audited Consolidated Financial Statements as of and for each of the years in the three-year period ended December 31, 2019. Therefore, unless otherwise noted, the discussion below of our financial condition and results of operations is for Southern Copper Corporation and its subsidiaries (collectively, “SCC,” “Southern Copper,” “the Company,” “our,” and “we”) on a consolidated basis for all periods. Our financial results may not be indicative of our future results.*

*This discussion contains forward-looking statements that are based on management’s current expectations, estimates and projections about our business and operations. Our actual results may differ materially from those currently anticipated and expressed in the forward-looking statements as a result of a number of factors. See Item 1 “Business—Cautionary Statement.”*

### EXECUTIVE OVERVIEW

**Business:** Our business is primarily the production and sale of copper. In the process of producing copper, a number of valuable metallurgical by-products are recovered, which we also produce and sell. Market forces outside of our control largely determine the sale prices for our products. Our management, therefore, focuses on value creation through copper production, cost control, production enhancement and maintaining a prudent capital structure to remain profitable. We endeavor to achieve these goals through capital spending programs, exploration efforts and cost reduction programs. Our aim is to remain profitable during periods of low copper prices and to maximize financial performance in periods of high copper prices.

We are one of the world’s largest copper mining companies in terms of production and sales with our principal operations in Peru and Mexico. We also have an active ongoing exploration program in Chile, Argentina and Ecuador. In addition to copper, we produce significant amounts of other metals, either as a by-product of the copper process or in a number of dedicated mining facilities in Mexico.

Net sales in 2019 were \$7.3 billion, the highest amount in Southern Copper history.

In 2019, we invested \$707.5 million in capital programs, along with \$30.0 million in our exploration efforts. We believe this commitment to growth will continue to benefit our Company, our investors, our neighboring communities, and the countries in which we operate.

We believe we hold the world’s largest copper reserve position. At December 31, 2019, our copper ore reserves, calculated at a copper price of \$2.90 per pound, totaled 67.6 million tons of contained copper, at the following locations:

| <b>Copper contained in ore reserves</b> | <b>Thousand tons</b> |
|---|----------------------|
| Mexican open/pit                        | 31,004               |
| Peruvian operations                     | 21,718               |
| IMMSA                                   | 248                  |
| Development projects                    | 14,604               |

**Total**

**67,574**

Outlook: Various key factors affect our outcome. These include, but are not limited to, the following:

- Changes in copper, molybdenum, silver and zinc prices: In 2019, the average LME and COMEX per pound copper prices were \$2.72, approximately 8.1% and 7.2% lower than 2018, respectively. In 2019, per pound LME spot copper prices ranged from \$2.51 to \$2.98. The average silver price increased by 3.3% in 2019 compared to 2018. Average molybdenum and zinc prices decreased in 2019 by 5.0% and 12.8%, respectively, compared to 2018.

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- **Sales structure:** In the last three years, approximately 81.0% of our revenues came from the sale of copper, 6.7% from molybdenum, 4.4% from zinc, 4.3% from silver and 3.6% from various other products, including gold, sulfuric acid and other materials.
- **Copper:** During the last quarter of 2019, the LME copper price decreased, from an average of \$2.80 per pound in the fourth quarter of 2018 to \$2.67(-4.6%). As of today, we are seeing prices in the range of \$2.55-\$2.60 per pound as a reflection of the worldwide concern regarding the effect of COVID-19 disease, also known as Coronavirus. The world is now starting to feel the financial and economic impacts from the outbreak but at this point, it is difficult to assess the full effect of this event on copper demand. However, we hope that the outbreak, if timely contained, would have a milder impact on the global economy ending in a V shape recovery for copper demand.

For supply, we maintain our view of it growing at 2.0% to 2.5% for this year, contingent of not being affected significantly by the disease. Consequently, we expect a mild copper market surplus for this year.

- **Molybdenum:** It represented approximately 7.6% of our sales in 2019. Molybdenum prices averaged \$11.27 per pound in 2019, compared to \$11.86 in 2018, a 4.9% decrease.

Molybdenum is mainly used for the production of special alloys of stainless steel that require significant hardness, corrosion and heat resistance. A new use for this metal is in lubricants and sulfur filtering of heavy oils and shale gas production.

- **Zinc:** It has very good long term fundamentals due to its significant industrial consumption and the expected production. Zinc represented 3.8% of our sales in 2019.
- **Silver:** We believe that silver prices will have support due to its industrial uses as well as being perceived as a value shelter in times of economic uncertainty. Silver represented 4.5% of our sales in 2019.
- **Production:** In the second quarter of 2019, we reached full production at the new Toquepala concentrator which produced 101,738 tons of copper in 2019. For 2020, we expect to produce 998,400 tons of copper, in line with the 993,822 tons we produced in 2019.

We also expect to produce 23.7 million ounces of silver, about 16% higher than the 2019 production of 20.3 million ounces mainly resulting from the important contribution of the San Martin and Santa Barbara operations of IMMSA. In 2020, we expect to produce 80,600 tons of zinc from our mines, up 9% from 2019 production of 73,922 tons, as result of the recovery of production at the San Martin mine. Additionally, we expect to produce 26,700 tons of molybdenum, in line with 2019 production of 26,885 tons.

- **Cost:** Our operating costs and expenses for the three years ended December 31, 2019 have increased in total in each of the years. Our comparison of costs for the three year period is as follows:

|  | 2019      | 2018      | 2017      | Variance |       |
|--|-----------|-----------|-----------|----------|-------|
|  |           |           |           | Value    | %     |
| Operating costs and expenses (in millions) | \$4,532.6 | \$4,215.5 | \$4,035.6 | \$317.1  | 7.5 % |

Operating costs and expenses in 2019 increased \$317.1 million, compared to 2018, mainly due to higher cost of sales in all our operating segments, as well as higher depreciation, amortization and depletion at our Peruvian operations due to the completion of the Toquepala expansion project.

Operating costs and expenses in 2018 increased \$179.9 million, compared to 2017, mainly due to higher cost of sales in all our operating segments, as well as higher depreciation, amortization and depletion at our Mexican operations. This was partially offset by lower depreciation, amortization and depletion at our Peruvian operations, lower exploration expenses and a \$10.2 million credit related to a previously accrued environmental remediation cost at our Mexican operations which was reversed in the first quarter of 2017.

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- **Capital investments:** Capital investments were \$707.5 million for 2019. This is 36.9% lower than in 2018, and represented 47.0% of net income. Our growth program to develop the full production potential of our Company is underway. We are currently developing a new organic growth plan to increase our copper volume production to 1.5 million tons by 2028 with the development of new projects.

For 2020, the Board of Directors approved a capital investment program of \$1,146.7 million.

**KEY MATTERS**

We discuss below several matters that we believe are important to understand our results of operations and financial condition. These matters include (i) earnings, (ii) production, (iii) “operating cash costs” as a measure of our performance, (iv) metal prices, (v) business segments, (vi) the effect of inflation and other local currency issues and (vii) our capital investment and exploration program.

**Earnings:** The table below highlights key financial and operational data of our Company for the three years ended December 31, 2019 (in millions, except copper price and per share amounts):

|                                      | 2019      | 2018       | 2017       | Variance    |             |
|--------------------------------------|-----------|------------|------------|-------------|-------------|
|                                      |           |            |            | 2019 - 2018 | 2018 - 2017 |
| Copper price LME                     | 2.72      | 2.96       | 2.80       | (0.24)      | 0.16        |
| Pounds of copper sold                | 2,173.8   | 1,952.9    | 1,959.2    | 220.9       | (6.3)       |
| Net sales                            | \$7,285.6 | \$ 7,096.7 | \$ 6,654.5 | \$ 188.9    | \$ 442.2    |
| Operating income before income taxes | \$2,753.0 | \$ 2,881.2 | \$ 2,618.9 | \$ (128.2)  | \$ 262.3    |
| Net income attributable to SCC       | \$1,485.8 | \$ 1,543.0 | \$ 728.5   | \$ (57.2)   | \$ 814.5    |
| Earnings per share                   | \$ 1.92   | \$ 2.00    | \$ 0.94    | \$ (0.08)   | \$ 1.06     |
| Dividends per share                  | \$ 1.60   | \$ 1.40    | \$ 0.59    | \$ 0.20     | \$ 0.81     |

Net sales in 2019 of \$7.3 billion were the highest in our history and were higher than in 2018 by \$188.9 million. This increase was mainly the result of higher copper (+11.3%), molybdenum (+21.7%) and silver (+5.7%) sales volumes, partially offset by lower copper (-8.1%) and molybdenum (-5.0%) prices. Net sales in 2018 were higher than in 2017 by \$442.2 million. This increase was mainly the result of higher copper (+5.7%) and molybdenum (+45.9%) prices and higher sales volumes of silver (+15.3%) and molybdenum (+3.3%), partially offset by lower silver prices (-8.1%) and lower zinc sales volume (-1.0%).

The two largest components of operating costs and expenses are cost of sales and depreciation, amortization and depletion, both of which increased in each of the years in the

periods above. In 2019, cost of sales increased by \$197.4 million and depreciation, amortization and depletion increased by \$90.1 million. The increase in cost of sales in 2019 was mainly due to higher repairing materials and operating contractors' costs, as well as lower capitalized leachable material. This was partially offset by a lower cost of metals purchased from third parties. In 2018, cost of sales increased by \$156.2 million and depreciation, amortization and depletion increased by \$3.2 million. The increase in cost of sales in 2018 was mainly due to higher fuel costs, higher workers' participation expense and inventory consumption.

Despite the higher sales volumes reported at competitive costs, net income attributable to SCC in 2019 was 3.6% lower than in 2018 mainly due to lower prices for copper and molybdenum, as mentioned previously. Net income attributable to SCC in 2018 was 111.8% higher than in 2017 mainly due to the one-time, non-cash income tax adjustment of \$785.9 million recorded in 2017 as result of the U.S. income tax legislation enacted in the fourth quarter of 2017. See Note 7 "Income Taxes", of our consolidated financial statements.

**Production:** The table below highlights, mine production data of our Company for the three years ended December 31, 2019:

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|                                | 2019    | 2018    | 2017    | Variance    |        |             |       |
|--------------------------------|---------|---------|---------|-------------|--------|-------------|-------|
|                                |         |         |         | 2019 - 2018 |        | 2018 - 2017 |       |
|                                |         |         |         | Volume      | %      | Volume      | %     |
| Copper (in million pounds)     | 2,191.0 | 1,948.2 | 1,933.4 | 242.8       | 12.5 % | 14.8        | 0.8 % |
| Molybdenum (in million pounds) | 59.3    | 48.5    | 47.0    | 10.8        | 22.3 % | 1.5         | 3.2 % |
| Zinc (in million pounds)       | 163.0   | 156.0   | 151.4   | 7.0         | 4.4 %  | 4.6         | 3.0 % |
| Silver (in million ounces)     | 20.3    | 17.3    | 15.9    | 3.0         | 17.1 % | 1.4         | 8.8 % |

The table below highlights copper production data at each of our mines for the three years ended December 31, 2019:

| Copper (in million pounds): | 2019           | 2018           | 2017           | Variance     |        |             |        |
|-----------------------------|----------------|----------------|----------------|--------------|--------|-------------|--------|
|                             |                |                |                | 2019 - 2018  |        | 2018 - 2017 |        |
|                             |                |                |                | Volume       | %      | Volume      | %      |
| Toquepala                   | 568.8          | 375.4          | 326.4          | 193.4        | 51.5 % | 49.0        | 15.0 % |
| Cuajone                     | 344.8          | 354.0          | 348.5          | (9.2)        | (2.6)% | 5.5         | 1.6 %  |
| La Caridad                  | 293.4          | 292.1          | 296.9          | 1.3          | 0.4 %  | (4.8)       | (1.6)% |
| Buenavista                  | 965.8          | 913.0          | 949.5          | 52.8         | 5.8 %  | (36.5)      | (3.8)% |
| IMMSA                       | 18.2           | 13.7           | 12.1           | 4.5          | 32.9 % | 1.6         | 13.2 % |
| Total mined copper          | <u>2,191.0</u> | <u>1,948.2</u> | <u>1,933.4</u> | <u>242.8</u> | 12.5 % | <u>14.8</u> | 0.8 %  |

2019 compared to 2018:

Copper mine production in 2019 increased 12.5% to 2,191.0 million pounds from 1,948.2 million pounds in 2018. This increase was due to:

- Higher production at the Toquepala mine (+51.5%), as a result of additional copper production of 93,108 tons from the successful ramping up of the new concentrator.
- Higher production at the Buenavista mine (+5.8%) due to operating improvements at our new Buenavista plants, the SX/EW (+12.2%) and concentrator (+4.0%).
- Higher production at the IMMSA operations (+32.9%), as result of the restoration of the San Martin mine operations.

Molybdenum production increased 22.3% in 2019 compared to 2018 due to higher production at all of our mines, principally at the Toquepala mine (+75%) due to the successful ramping up of the new molybdenum plant that started production in April 2019.

Zinc production increased 4.4% in 2019, as a result of higher production at our Santa Barbara mine due to higher grades and recoveries, as well as the restored production of 5,837 tons from our San Martin mine.

Mined silver production increased 17.1% in 2019 compared to 2018, mainly due to higher production at our Toquepala (+60.5%), IMMSA (+22.9%) and Buenavista (+11.5%) operations, partially offset by lower production at the La Caridad (-6.6%) and Cuajone (-3.2%) mines.

2018 compared to 2017:

Copper mine production in 2018 increased 0.8% to 1,948.2 million pounds from 1,933.4 million pounds in 2017. This increase was due to:

- Higher production at the Toquepala and Cuajone mines due to higher ore grades and recoveries, which was partially offset by
- Lower production at the Buenavista mine due to lower SX-EW copper production (-20.1%). In 2018, the Company initiated a 12-month corrective program to overcome this temporary reduction in production. The program includes depositing the minerals in different leaching pads depending on the characteristics of the ore. Also, the Company

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has implemented improvements and controls in the ore fragmentation that occurs in the blasting, to avoid the fine materials that may cause clogging in the recovery process.

Molybdenum production increased 3.1% in 2018 compared to 2017, principally due to higher production at the Buenavista mine due to higher recoveries. This increase was partially offset by lower production at our Peruvian mines due to lower ore grades and recoveries.

Zinc production increased 3.1% in 2018, due to higher production at our Santa Eulalia and Santa Barbara mines due to higher mineral milled.

Mined silver production increased 8.7% in 2018 compared to 2017, as we had increased silver production at all of our mines, except for our Cuajone mine.

**Operating Cash Costs:** An overall benchmark used by us and a common industry metric to measure performance is operating cash costs per pound of copper produced. Operating cash cost is a non-GAAP measure that does not have a standardized meaning and may not be comparable to similarly titled measures provided by other companies. This non-GAAP information should not be considered in isolation or as substitute for measures of performance determined in accordance with GAAP. A reconciliation of our operating cash cost per pound of copper produced to the cost of sales (exclusive of depreciation, amortization and depletion) as presented in the consolidated statement of earnings is presented under the subheading, “Non-GAAP Information Reconciliation” on page 91. We disclose operating cash cost per pound of copper produced, both before and net of by-product revenues.

We define **operating cash cost per pound of copper produced before by-product revenues** as cost of sales (exclusive of depreciation, amortization and depletion), plus selling, general and administrative charges, treatment and refining charges net of sales premiums; less the cost of purchased concentrates, workers’ participation and other miscellaneous charges, including royalty charges, and the change in inventory levels; divided by total pounds of copper produced by our own mines.

In our calculation of operating cash cost per pound of copper produced, we exclude depreciation, amortization and depletion, which are considered non-cash expenses. Exploration is considered a discretionary expenditure and is also excluded. Workers’ participation provisions are determined on the basis of pre-tax earnings and are also excluded. Additionally excluded from operating cash costs are items of a non-recurring nature and the mining royalty charge as it is based on various calculations of taxable income, depending on which jurisdiction, Peru or Mexico, is imposing the charge. We believe these adjustments will allow our management and stakeholders to see a presentation of our controllable cash cost, which we consider is one of the lowest of copper producing companies of similar size.

We define **operating cash cost per pound of copper produced net of by-product revenues** as operating cash cost per pound of copper produced, as defined in the previous paragraph, less by-product revenues and net revenue (loss) on sale of metal purchased from third parties. In our calculation of operating cash cost per pound of copper produced, net of by-product revenues, we credit against our costs the revenues from the sale of all our by-products, including molybdenum, zinc, silver, gold, etc. and the net revenue (loss) on sale of metals purchased from third parties. We disclose this measure including the by-product revenues in this way because we consider our principal business to be the production and sale of copper.

As part of our copper production process, much of our by-products are recovered. These by-products, as well as the processing of copper purchased from third parties, are a supplemental part of our production process and their sales value contribute to cover part of our incurred fixed costs. We believe that our Company is viewed by the investment community as a copper company, and is valued, in large part, by the investment community's view of the copper market and our ability to produce copper at a reasonable cost.

We believe that both of these measures are useful tools for our management and our stakeholders. Our cash costs before by-product revenues allow us to monitor our cost structure and address with operating management areas of concern. The measure operating cash cost per pound of copper produced net of by-product revenues is a common measure used in the copper industry and is a useful management tool that allows us to track our performance and better allocate our

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resources. This measure is also used in our investment project evaluation process to determine a project's potential contribution to our operations, its competitiveness and its relative strength in different price scenarios. The expected contribution of by-products is generally a significant factor used by the copper industry in determining whether to move forward with the development of a new mining project. As the price of our by-product commodities can have significant fluctuations from period to period, the value of its contribution to our costs can be volatile.

Our operating cash cost per pound of copper produced, as defined above, is presented in the table below for the three years ended December 31, 2019:

**Operating cash cost per pound of copper produced(1)**  
**(In millions, except cost per pound and percentages)**

|   | 2019             | 2018             | 2017             | 2019 - 2018      |               | 2018 - 2017      |               |
|---|------------------|------------------|------------------|------------------|---------------|------------------|---------------|
|   |                  |                  |                  | Value            | %             | Value            | %             |
| Total operating cash cost before by-product revenues            | \$ 3,230.9       | \$ 2,904.4       | \$ 2,797.5       | \$326.5          | 11.2 %        | \$ 106.9         | 3.8 %         |
| Total by-product revenues                                       | \$(1,359.2)      | \$(1,267.7)      | \$(1,080.4)      | \$ (91.5)        | 7.2 %         | (187.3)          | 17.3 %        |
| Total operating cash cost net of by-product revenues            | \$ 1,871.7       | \$ 1,636.7       | \$ 1,717.1       | \$235.0          | 14.4 %        | \$ (80.4)        | (4.7)%        |
| Total pounds of copper produced(2)                              | 2,133.3          | 1,886.8          | 1,874.5          | 246.5            | 13.1 %        | 12.3             | 0.7 %         |
| <b>Operating cash cost per pound before by-product revenues</b> | <b>\$ 1.52</b>   | <b>\$ 1.54</b>   | <b>\$ 1.49</b>   | <b>\$ (0.02)</b> | <b>(1.3)%</b> | <b>\$ 0.05</b>   | <b>3.4 %</b>  |
| <b>By-products per pound revenues</b>                           | <b>\$ (0.64)</b> | <b>\$ (0.67)</b> | <b>\$ (0.57)</b> | <b>\$ 0.03</b>   | <b>(4.5)%</b> | <b>\$ (0.10)</b> | <b>17.5 %</b> |
| <b>Operating cash cost per pound net of by-product revenues</b> | <b>\$ 0.88</b>   | <b>\$ 0.87</b>   | <b>\$ 0.92</b>   | <b>\$ 0.01</b>   | <b>1.1 %</b>  | <b>\$ (0.05)</b> | <b>(5.4)%</b> |

(1) These are non-GAAP measures, see page 91 for reconciliation to GAAP measure.

(2) Net of metallurgical losses.

*2019 compared to 2018:*

As seen in the table above, our per pound cash cost before by-product revenues in 2019 was 1.3% lower when compared with 2018. This decrease was the result of the unit cost effect of 13.1% higher production. Meanwhile, our cash cost per pound when calculated net of by-product revenues for 2019 was 1.1% higher than in the same period of 2018 due to the higher production noted, as well as lower by-product revenues due to the additional copper volume effect.

*2018 compared to 2017:*

Our cash cost per pound before by-product revenues in 2018 was \$1.54, 3.4% higher than in 2017. This increase in operating cash cost was mainly due to higher production costs, principally at our Peruvian operations. However, our per pound cash cost for 2018, when calculated net of by-product revenues was 5.4% lower than in 2017. This improvement was mainly the result of higher prices for our major by-products.

**Metal Prices:** The profitability of our operations is dependent on, and our financial performance is significantly affected by, the international market prices for the products we produce, especially for copper, molybdenum, zinc and silver.

We are subject to market risks arising from the volatility of copper and other metals prices. Metal prices historically have been subject to wide fluctuations and are affected by numerous factors beyond our control. These factors, which affect each commodity to varying degrees, include international economic and political conditions, levels of supply and demand, the availability and cost of substitutes, inventory levels maintained by producers and others and, to a lesser degree, inventory carrying costs and currency exchange rates. In addition, the market prices of certain metals have on occasion been subject to rapid short-term changes due to economic concerns and financial investments.

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For 2020, assuming that expected metal production and sales are achieved, that 2019 tax rates are unchanged and giving no effect to potential hedging programs, metal price sensitivity factors would indicate the following change in estimated annual net income attributable to SCC resulting from metal price changes:

|  | <u>Copper</u> | <u>Molybdenum</u> | <u>Zinc</u> | <u>Silver</u> |
|--|---------------|-------------------|-------------|---------------|
| Change in metal prices (per pound except silver—per ounce) | \$ 0.10       | \$ 1.00           | \$ 0.10     | \$ 1.00       |
| Change in net earnings (in millions)                       | \$ 140.1      | \$ 35.1           | \$ 14.5     | \$ 9.3        |

**Business Segments:** We view our Company as having three reportable segments and manage it on the basis of these segments. These segments are (1) our Peruvian operations, (2) our Mexican open-pit operations and (3) our Mexican underground operations, known as our IMMSA unit. Our Peruvian operations include the Toquepala and Cuajone mine complexes and the smelting and refining plants, industrial railroad and port facilities that service both mines. Our Mexican open-pit operations include La Caridad and Buenavista mine complexes, the smelting and refining plants and support facilities, which service both mines. Our IMMSA unit includes five underground mines, a coal mine, and several industrial processing facilities.

Segment information is included in our review of “Results of Operations” in this item and also in Note 18 “Segment and Related Information” of our consolidated financial statements.

**Inflation and Exchange Rate Effect of the Peruvian sol and the Mexican peso:** Our functional currency is the U.S. dollar and our revenues are primarily denominated in U.S. dollars. Significant portions of our operating costs are denominated in Peruvian sol and Mexican pesos. Accordingly, when inflation and currency devaluation/appreciation of the Peruvian and Mexican currency occur, our operating results can be affected. In recent years, we do believe such changes have not had a material effect on our results and financial position. Please see Item 7A “Quantitative and Qualitative Disclosures about Market Risk” for more detailed information.

**Capital Investment Program:** We made capital investments of \$707.5 million in 2019, \$1,121.4 million in 2018 and \$1,023.5 million in 2017. In general, the capital investments and projects described below are intended to increase production, decrease costs or address social and environmental commitments.

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The table below sets forth our capital investments for the three years ended December 31, 2019 (in millions):

|  | <u>2019</u>            | <u>2018</u>              | <u>2017</u>              |
|--|------------------------|--------------------------|--------------------------|
| <b><i>Peruvian projects:</i></b>                             |                        |                          |                          |
| Toquepala expansion project                                  | \$ 41.1                | \$ 392.4                 | \$ 362.0                 |
| Toquepala mine equipment acquisition                         | —                      | —                        | 39.7                     |
| Heavy mineral management optimizing project—Cuajone          | —                      | 17.0                     | 81.7                     |
| Ilo 3 substation   | —                      | 1.0                      | 29.9                     |
| HPGR system—Toquepala  | 7.6                    | 7.8                      | 18.8                     |
| Tailings disposal—Quebrada Honda dam                         | 1.0                    | 23.7                     | 15.5                     |
| Ilo sulfuric acid plant N°1 modification                     | 5.1                    | 15.3                     | 4.4                      |
| Pumping system neutralization plant - Toquepala              | 8.0                    | —                        | —                        |
| Other projects   | 37.8                   | 24.1                     | 10.0                     |
| <b>Subtotal projects</b>                                     | <b>100.6</b>           | <b>481.3</b>             | <b>562.0</b>             |
| Maintenance and replacement                                  | 216.3                  | 201.4                    | 153.1                    |
| Net change in capital expenditures incurred but not yet paid | 33.2                   | 91.3                     | (29.7)                   |
| <b>Total Peruvian expenditures</b>                           | <b>350.1</b>           | <b>774.0</b>             | <b>685.4</b>             |
| <b><i>Mexican projects:</i></b>                              |                        |                          |                          |
| New Buenavista concentrator                                  | 1.0                    | 5.8                      | 24.7                     |
| Buenavista projects infrastructure                           | 1.1                    | 2.3                      | 1.9                      |
| Buenavista SX/EW plant III                                   | —                      | —                        | 1.1                      |
| Quebalix IV  | 0.7                    | 2.0                      | 17.6                     |
| New tailing disposal deposit at Buenavista mine              | 35.8                   | 56.7                     | 79.2                     |
| Over elevation of tailings deposit N° 7 at La Caridad mine   | 25.4                   | 18.3                     | —                        |
| Sonora River water restitution system in Moritas Basin       | 1.8                    | 6.0                      | —                        |
| Solutions system improvements of Tinajas                     | 6.0                    | 1.3                      | 14.5                     |
| San Martin mine restoration                                  | 48.9                   | 13.5                     | —                        |
| Other projects   | 85.7                   | 63.5                     | 63.0                     |
| <b>Subtotal projects</b>                                     | <b>206.4</b>           | <b>169.4</b>             | <b>202.0</b>             |
| Maintenance and replacement                                  | 148.6                  | 169.3                    | 144.7                    |
| Net change in capital expenditures incurred but not yet paid | 2.4                    | 8.7                      | (8.6)                    |
| <b>Total Mexican expenditures</b>                            | <b>357.4</b>           | <b>347.4</b>             | <b>338.1</b>             |
| <b>Total capital investments</b>                             | <b><u>\$ 707.5</u></b> | <b><u>\$ 1,121.4</u></b> | <b><u>\$ 1,023.5</u></b> |

In 2020, we plan to invest \$1,146.7 million in capital projects. In addition to our ongoing capital maintenance and replacement spending, our principal capital programs include the following:

**Projects in Mexico:**

**Buenavista Zinc—**

**Sonora:** This project is located within the Buenavista facility and includes the development of a new concentrator to produce approximately 80,000 tons of zinc and 20,000 tons of copper per year. Currently, we have completed the basic engineering and obtained all

environmental permits for the project. The project's budget is \$413 million, and we expect to initiate operations in the third quarter of 2022. When completed, this new facility will double the Company's zinc production capacity and will provide 490 direct jobs and 1,470 indirect jobs. The process of bidding for the site preparation has started and the purchase orders for the major equipment have been placed.

Pilares—Sonora: This project, located six kilometers from La Caridad, will be developed as an open-pit mine operation with an annual production capacity of 35,000 tons of copper in concentrate. The ore will be transported from the pit to the primary crushers of the La Caridad copper concentrator through a new 25-meter wide off-road facility for mining trucks, and will significantly improve the over-all mineral ore grade (combining the 0.78% expected from Pilares with 0.34% from La Caridad). The budget for Pilares is \$159 million and we expect it to start production during the first half of 2022. The connection road between Pilares mine and La Caridad mine is now under construction.

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El Pilar - Sonora: This is a low capital intensity copper greenfield project strategically located in Sonora, Mexico, approximately 45 kilometers from our Buenavista mine. Its copper oxide mineralization contains estimated proven and probable reserves of 325 million tons of ore with an average copper grade of 0.287%. El Pilar will operate as a conventional open-pit mine and copper cathodes will be produced using the highly cost efficient and environmentally friendly SX-EW technology. We estimate a development investment of approximately \$310 million. The construction of the pilot plant is finished and the production tests have recently begun. We expect this project to start production during 2023.

The San Martin mine restoration program: After eleven years of an illegal stoppage, we resumed control of the San Martin mine in August 2018. The San Martin facilities deteriorated during this period and we undertook a major renovation in order to restart operations during the second quarter of 2019. Currently, the mine has 200,000 tons of ore and the concentrator has initiated production. In 2019, we produced 5,837 tons of zinc, 1.2 million ounces of silver and 1,335 tons of copper. The budget of the restoration program is \$97.7 million. At December 31, 2019 the program had a total expense of \$73.6 million.

### **Projects in Peru:**

Our main capital projects in Peru are the following:

Toquepala Expansion Project - Tacna: This \$1,320 million project includes a new state-of-the-art concentrator which increased Toquepala's annual copper production to 258,000 tons in 2019, a 51.5% production increase, when compared to 2018. As of December 31, 2019, we have invested \$1,280.1 million in this expansion. Construction of the project was completed and production began in the fourth quarter of 2018. Full production was reached in the second quarter of 2019.

The project to improve the crushing process at Toquepala with the installation of a *High Pressure Grinding Roll (HPGR)* system, has as its main objective, to ensure that our existing concentrator will operate at its maximum annual production capacity of 117,000 tons of copper while reducing operating costs through ore crushing efficiencies, even with an increase of the ore material hardness index. The budget for this project is \$52 million and as of December 31, 2019, we have invested \$51.9 million. We are in the administrative close-out process for this project, which was added to operations during the fourth quarter of 2018.

Cuajone tailing thickeners project - Moquegua: This project will replace two of the three existing thickeners at the concentrator with a new hi-rate thickener. The purpose is to streamline the concentrator flotation process and improve water recovery efficiency, increasing the tailings solids content from 54% to 61%, thereby reducing fresh water consumption and replacing it with recovered water. As of December 31, 2019, we have invested \$31 million out of the approved budget of \$31.3 million in this project. This project was finished in October 2019.

Tailings disposal at Quebrada Honda - Moquegua: This project increases the height of the existing Quebrada Honda dam to impound future tailings from the Toquepala and Cuajone concentrators and will extend the expected life of this tailings facility by 25 years. The first stage and construction of the drainage system for the lateral dam is finished. We finished the second stage with the installation of a new cyclone battery station that allows us to place more slurry at the dams. We are evaluating improvements in operational processes of this facility. The project has a total budgeted cost of \$116 million and we have invested \$107.2 million through December 31, 2019.

**Potential projects:**

We have a number of other projects that we may develop in the future. We continuously evaluate new projects on the basis of our long-term corporate objectives, strategic and operating fit, expected return on investment, required investment, estimated production, estimated cash-flow profile, social and environmental considerations, among other factors. All capital spending plans will continue to be reviewed and adjusted to respond to changes in the economy or market conditions. We are currently developing a new organic growth plan to increase our annual copper production to 1.5 million tons by 2028 with the development of new projects, which include the following:

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El Arco - Baja California: This is a world class copper deposit located in the central part of the Baja California peninsula, with ore reserves of over 2.7 billion tons with an ore grade of 0.399% and 0.11 grams of gold per ton. This project, includes an open-pit mine combining concentrator and SX-EW operations with an estimated production of 190,000 tons of copper and 105,000 ounces of gold annually. We are currently in the land acquisition process for the project.

Tia Maria - Arequipa: On July 8, 2019, we received the construction permit for this 120,000 ton annual SX-EW copper greenfield project with a total capital budget of \$1,400 million. This permit was obtained after completing an exhaustive review process of environmental and social matters, complying with all established regulatory requirements and addressing all observations raised.

The challenges to the construction permit were overcome when on October 30, 2019, the Mining Council of the Peruvian Ministry of Energy and Mines ratified the construction permit for the Tia Maria project.

In coordination with the Peruvian Government, Southern Copper continues to work on common grounds for dialogue with the neighboring communities to address any concerns they may have on the project and is awaiting the proper economic and political conditions to move ahead with the project. Meanwhile, we reiterate our commitment to delay the construction of the project.

We guarantee to the population of Islay that the Tia Maria project will not adversely affect other local economic activities because we will use desalinated seawater for our operations and, for the transport of our supplies and copper production, we will build a 32 kilometer industrial railway and an access road at a safe distance from the Tambo Valley.

Our social programs in education, healthcare and productive development will continue to improve the quality-of-life, and the agricultural and livestock activities in the Tambo Valley, as well as fishing and tourism in Islay. During the construction and operation phase, hiring local labor will be a priority. For this purpose, we have successfully launched in June 2019, the free technical training program “Forging the Future”, which will benefit 700 persons in this province in 2019-20. After training, the participants will be eligible to apply for one of the estimated 9,000 jobs (3,600 direct and 5,400 indirect) required during the Tia Maria construction phase. We believe that the initiation of construction activities for Tia Maria will generate significant economic opportunities for the Islay province and the Arequipa region.

When in operation, we expect Tia Maria will generate a significant contribution through mining royalties and taxes from day-one and will directly employ 600 workers and indirectly provide jobs for another 4,200 workers.

This greenfield project, located in Arequipa, Peru, 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 due to their technical process with no emissions released into the atmosphere.

Los Chancas—Apurimac: This greenfield project, located in Apurimac, Peru, is a copper and molybdenum porphyry deposit. Current estimates indicate the presence of 545 million tons of mineralized material with a copper content of 0.59%, molybdenum content of 0.04% and 0.039 grams of gold per ton, as well as 181 million tons of mineralized leachable material with a total copper content of 0.357%. Los Chancas project envisions an open-pit mine with a combined operation of concentrator and SX-EW processes to annually produce

130,000 tons of copper and 7,500 tons of molybdenum. The estimated capital investment is \$2,800 million and is expected to be in operation in 2026. In 2018 and 2019, we developed social and environmental improvement programs for the local communities. For 2020, we plan to continue with these activities and to conclude the environmental impact assessment of the project.

Michiquillay Project—Cajamarca: On June 12, 2018, Southern Copper signed a contract and made an initial payment of \$12.5 million for the acquisition of the Michiquillay project in Cajamarca, Peru. The Company has created a multidisciplinary management team to plan the development of this project. As part of this plan, the Company has established contact with the local authorities and communities in order to promote programs for the sustainable development of the area. In 2019, we developed social and environmental programs for the local communities and began a semi-detailed environmental impact assessment. This will allow us to begin a 40,000 meter diamond drilling program in 2020, to verify and update the estimated mineralized materials of the project.

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Michiquillay is a world class mining project with estimated mineralized material of 1,150 million tons with an estimated copper grade of 0.63%. When developed, we expect Michiquillay to produce 225,000 tons of copper per year (along with by-products of molybdenum, gold and silver) for an initial mine life of more than 25 years, at a competitive cash-cost. We estimate an investment of approximately \$2.5 billion will be required and expect production start-up by 2026, with Michiquillay becoming one of Peru’s largest copper mines. The project will create significant business opportunities in the Cajamarca region, generate new jobs for the local communities and contribute with taxes and royalties to the national, regional and local governments.

The above information is based on estimates only. We cannot make any assurances that we will undertake any of these projects or that the information noted is accurate.

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our significant accounting policies are discussed in Note 2 “Summary of Significant Accounting Policies” of the Notes to Consolidated Financial Statements, included in Item 8 “Financial Statements and Supplementary Data” of this Annual Report.

Our discussion and analysis of financial condition and results of operations, as well as quantitative and qualitative disclosures about market risks, are based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. Preparation of these consolidated financial statements requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We make our best estimate of the ultimate outcome for these items based on historical trends and other information available when the financial statements are prepared. Changes in estimates are recognized in accordance with the accounting rules for the estimate, which is typically in the period when new information becomes available to management. Areas where the nature of the estimate makes it reasonably possible that actual results could materially differ from amounts estimated include: ore reserves, revenue recognition, ore stockpiles on leach pads and related amortization, estimated impairment of assets, asset retirement obligations, determination of discount rates related to the operating lease liabilities, valuation allowances for deferred tax assets and unrecognized tax benefits. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

**Ore Reserves:** For internal ore reserve estimation, we use metal price assumptions of \$2.90 per pound for copper and \$7.50 per pound for molybdenum. These prices are intended to conservatively approximate average prices over the long term.

However, pursuant to SEC guidance, the reserve information in this report is calculated using average metals prices over the most recent three years, except as otherwise stated. We refer to these three-year average metals prices as “current average prices.” Our current average prices for copper are calculated using prices quoted by COMEX, and our current average prices for molybdenum are calculated using prices published in *Platt’s Metals Week*. Unless otherwise stated, reserve estimates in this report use the following three years average prices for copper and molybdenum as of December 31, 2019:

|                      | 2019    | 2018    | 2017   | Average<br>2019 - 2017 |
|----------------------|---------|---------|--------|------------------------|
| Copper (\$per pound) | \$ 2.72 | \$ 2.93 | \$2.80 | \$ 2.82                |

Molybdenum (\$per pound)            \$11.35   \$11.94   \$8.21   \$   10.50

Certain financial information is based on reserve estimates calculated on the basis of current average prices. These include amortization of intangible assets and mine development. Variations in ore reserve calculations from changes in metal price assumptions generally do not create material changes to our financial results. However, significant decreases in metal prices could adversely affect our earnings by causing, among other things, asset impairment charges, please see “Assets impairment” below. A 20% increase or decrease in three-year average copper prices (current prices), for mineral reserves estimation, which is a reasonable possibility, would not materially affect our statement of earnings as the amount of reserves would not change significantly. Please see Item 2 “Properties—Ore reserves.”

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Ore stockpiles on leach pads: The leaching process is an integral part of the mining operations carried out at our open-pit mines. We capitalize the production cost of leachable material at our Toquepala, La Caridad and Buenavista mines recognizing it as inventory. The estimates of recoverable mineral content contained in the leaching dumps are supported by engineering studies. As the production cycle of the leaching process is significantly longer than the conventional process of concentrating, smelting and electrolytic refining, we include on our balance sheet, current leach inventory (as part of work-in-process inventories) and long-term leach inventory. Amortization of leachable material is recorded by the units of production method.

Asset Retirement Obligation: Our mining and exploration activities are subject to various laws and regulations governing the protection of the environment. Accounting for reclamation and remediation obligations requires management to make estimates unique to each mining operation of the future costs we will incur to complete the reclamation and remediation work required to comply with existing laws and regulations. These estimates are based in part on our inflation and credit rate assumptions. Actual costs incurred in future periods could differ from amounts estimated. Additionally, future changes to environmental laws and regulations could increase the extent of reclamation and remediation work required to be performed by us. Any such increases in future costs could materially impact the amounts charged to operations for reclamation and remediation.

Asset retirement obligations are further discussed in Note 10 “Asset Retirement Obligation” to our consolidated financial statements included herein.

Revenue Recognition: For certain of our sales of copper and molybdenum products, customer contracts allow for pricing based on a month subsequent to shipping, in most cases within the following three months and in few cases perhaps a few further months. In such cases, revenue is recorded at a provisional price at the time of shipment. The provisionally priced copper sales are adjusted to reflect forward LME or COMEX copper prices at the end of each month until a final adjustment is made to the price of the shipments upon settlement with customers pursuant to the terms of the contract. In the case of molybdenum sales, for which there are no published forward prices, the provisionally priced sales are adjusted to reflect the market prices at the end of each month until a final adjustment is made to the price of the shipments upon settlement with customers pursuant to the terms of the contract. (See details in “Provisionally Priced Sales” under this Item 7).

Income Taxes: In preparing our consolidated financial statements, we recognize income taxes in each of the jurisdictions in which we operate. For each jurisdiction, we calculate the actual amount currently payable or receivable, as well as deferred tax assets and liabilities attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in rate is recognized through the income tax provision in the period that the change is enacted.

A valuation allowance is provided for those deferred tax assets for which it is more likely than not that the related benefits will not be realized. In determining the amount of the valuation allowance, we consider estimated future taxable income, as well as feasible tax planning strategies in each jurisdiction. If we determine that we will not realize all or a portion of our deferred tax assets, we will increase our valuation allowance with a charge to income tax expense. Conversely, if we determine that we will ultimately be able to realize all or a portion of the related benefits for which a valuation allowance has been provided, all or

a portion of the related valuation allowance will be reduced with a credit to income tax expense.

Our Company's operations involve dealing with uncertainties and judgments in the application of complex tax regulations in multiple jurisdictions. The final taxes paid are dependent upon many factors, including negotiations with taxing authorities in various jurisdictions and resolution of disputes arising from federal, state, and international tax audits. We recognize potential liabilities and record tax liabilities for anticipated tax audit issues in the U.S. and other tax jurisdictions based on our estimate of whether, and the extent to which, additional taxes will be due. We follow the guidance of ASC 740 "Income Taxes" to record these liabilities. (See Note 7 "Income Taxes" of the consolidated financial statements for additional information). We adjust these reserves in light of changing facts and circumstances; however, due to the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is

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materially different from our current estimate of the tax liabilities. If our estimate of tax liabilities proves to be less than the ultimate assessment, an additional charge to expense would result. If payment of these amounts ultimately proves to be less than the recorded amounts, the reversal of the liabilities would result in tax benefits being recognized in the period when we determine the liabilities are no longer necessary. We recognize interest and penalties, if any, related to unrecognized tax benefits in income tax expense.

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act (“the TCJA”). The Act significantly changes U.S. tax law by, among other things, lowering corporate income tax rates, implementing a territorial tax system and imposing a repatriation tax on deemed repatriated earnings of foreign subsidiaries. The TCJA permanently reduced the U.S. corporate income tax rate from a maximum of 35% to a flat 21% effective January 1, 2018. The SEC staff issued Staff Accounting Bulletin No. 118 (“SAB 118”) to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the TCJA. In 2017, the Company recognized the provisional tax impacts related to deemed repatriated earnings and the revaluation of deferred tax assets and liabilities and included these amounts in its consolidated financial statements for the year ended December 31, 2017. In the consolidated financial statements for the year ended December 31, 2018, the Company completed the accounting for income tax effects of the TCJA in accordance with SAB 118. For further information, see Note 7 “Income Taxes”, of our consolidated financial statements.

Asset Impairments: We evaluate our long-term assets when events or changes in economic circumstances indicate that the carrying amount of such assets may not be recoverable. Our evaluations are based on business plans that are prepared using a time horizon that is reflective of our expectations of metal prices over our business cycle. We are currently using an average copper price of \$2.20 per pound and an average molybdenum price of \$5.00 per pound, reflective of what we believe is the lower level of the current price environment, for our impairment tests. The results of our impairment sensitivity analysis, which included a stress test using a copper price assumption of \$2.00 per pound and a molybdenum price assumption of \$4.00 per pound showed projected discounted cash flows in excess of the carrying amounts of long-lived assets by margins ranging from 1.2 to 4.8 times such carrying amount.

In recent years our assumptions for long-term average prices resulted in stricter evaluations for impairment analysis than using the three year average prices for copper and molybdenum prices. Should this situation reverse in the future with three year average prices below the long-term price assumption, we would assess the need to use the three year average prices in our evaluations. We use an estimate of the future undiscounted net cash flows of the related asset or asset group over the remaining life to measure whether the assets are recoverable and measure any impairment by reference to fair value.

Leases: In 2019, the Company adopted the new leases standard and it resulted in the recognition of right-of-use assets and lease obligations on the Company’s balance sheet. After the analysis of this standard, the Company concluded that all of its existing lease contracts are operating lease contracts. Right-of-use assets represent the Company’s right to use an underlying asset for the lease term and lease liabilities represent an obligation by the Company to make lease payments which arise from the lease. Lease right-of-use assets and liabilities are recognized at the inception date based on the present value of lease payments over the lease term. As the Company’s lease contracts do not provide an implicit rate, the

Company uses its incremental borrowing rate based on the information available at the inception date in order to determine the present value of lease payments.

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RESULTS OF OPERATIONS

The following table highlights key financial results for each of the years in the three-year period ended December 31, 2019 (in millions):

| Statement of Earnings Data                         | 2019       | 2018       | 2017       | Variance    |             |
|--|------------|------------|------------|-------------|-------------|
|  |            |            |            | 2019 - 2018 | 2018 - 2017 |
| Net sales  | \$ 7,285.6 | \$ 7,096.7 | \$ 6,654.5 | \$ 188.9    | \$ 442.2    |
| Operating costs and expenses                       | (4,532.6)  | (4,215.5)  | (4,035.6)  | (317.1)     | (179.9)     |
| Operating income                                   | 2,753.0    | 2,881.2    | 2,618.9    | (128.2)     | 262.3       |
| Non-Operating income (expense)                     | (326.5)    | (291.8)    | (316.2)    | (34.7)      | 24.4        |
| Income before income taxes                         | 2,426.5    | 2,589.4    | 2,302.7    | (162.9)     | 286.7       |
| Income taxes                                       | (966.3)    | (1,105.0)  | (951.7)    | 138.7       | (153.3)     |
| Deferred income taxes                              | 21.0       | 51.5       | (641.7)    | (30.5)      | 693.2       |
| Equity earnings of affiliate                       | 10.7       | 12.3       | 23.1       | (1.6)       | (10.8)      |
| Net income attributable to noncontrolling interest | (6.1)      | (5.2)      | (3.9)      | (0.9)       | (1.3)       |
| Net income attributable to SCC                     | \$ 1,485.8 | \$ 1,543.0 | \$ 728.5   | \$ (57.2)   | \$ 814.5    |

**NET SALES**

**2019-2018:** Net sales in 2019 were \$7,285.6 million, compared to \$7,096.7 million in 2018, an increase of \$188.9 million. This 2.7% increase was mainly the result of higher copper (+11.3%), molybdenum (+21.7%) and silver (+5.7%) sales volumes, partially offset by copper (-8.1%) and molybdenum (-5.0%) prices.

**2018-2017:** Net sales in 2018 were \$7,096.7 million, compared to \$6,654.5 million in 2017, an increase of \$442.2 million. This 6.6% increase was principally the result of higher copper (+5.7%) and molybdenum (+45.9%) prices and higher sales volumes of silver (+15.3%) and molybdenum (+3.3%), partially offset by lower silver price (-8.1%) and lower zinc sales volume (-1.0%).

The table below outlines the average published market metals prices for our metals for each of the three years in the three-year period ended December 31, 2019:

|                                   | 2019     | 2018     | 2017     | % Variance  |             |
|-----------------------------------|----------|----------|----------|-------------|-------------|
|                                   |          |          |          | 2019 - 2018 | 2018 - 2017 |
| Copper price (\$per pound—LME)    | \$ 2.72  | \$ 2.96  | \$ 2.80  | (8.1)%      | 5.7 %       |
| Copper price (\$per pound—COMEX)  | \$ 2.72  | \$ 2.93  | \$ 2.80  | (7.2)%      | 4.6 %       |
| Molybdenum price (\$per pound)(1) | \$ 11.27 | \$ 11.86 | \$ 8.13  | (5.0)%      | 45.9 %      |
| Zinc price (\$per pound—LME)      | \$ 1.16  | \$ 1.33  | \$ 1.31  | (12.8)%     | 1.5 %       |
| Silver price (\$per ounce—COMEX)  | \$ 16.16 | \$ 15.65 | \$ 17.03 | 3.3 %       | (8.1)%      |

(1) Platt's Metals Week Dealer Oxide.

The table below provides our metal sales as a percentage of our total net sales:

| Sales as a percentage of total net sales | Year Ended   |      |      |
|--|--------------|------|------|
|  | December 31, |      |      |
|  | 2019         | 2018 | 2017 |
|  |              |      |      |

|                  |                |                |                |
|------------------|----------------|----------------|----------------|
| Copper           | 80.2 %         | 80.4 %         | 82.3 %         |
| Molybdenum       | 7.5 %          | 7.2 %          | 5.3 %          |
| Silver           | 4.5 %          | 4.2 %          | 4.3 %          |
| Zinc             | 3.8 %          | 4.6 %          | 4.9 %          |
| Other byproducts | 4.0 %          | 3.6 %          | 3.2 %          |
| <b>Total</b>     | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> |

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The table below provides our copper sales by type of product (in million pounds):

| Copper Sales (million pounds) | 2019           | 2018           | 2017           | Variance     |              |
|-------------------------------|----------------|----------------|----------------|--------------|--------------|
|                               |                |                |                | 2019 - 2018  | 2018 - 2017  |
| Refined (including SX/EW)     | 1,065.2        | 1,152.2        | 1,193.3        | (87.0)       | (41.1)       |
| Rod                           | 365.5          | 335.7          | 309.7          | 29.8         | 26.0         |
| Concentrates and other        | 743.1          | 465.0          | 456.2          | 278.1        | 8.8          |
| <b>Total</b>                  | <b>2,173.8</b> | <b>1,952.9</b> | <b>1,959.2</b> | <b>220.9</b> | <b>(6.3)</b> |

The table below provides our copper sales volume by type of product as a percentage of our total copper sales volume:

| Copper Sales by product type | Year ended December 31, |                |                |
|------------------------------|-------------------------|----------------|----------------|
|                              | 2019                    | 2018           | 2017           |
| Refined (including SX/EW)    | 49.0 %                  | 59.0 %         | 60.9 %         |
| Rod                          | 16.8 %                  | 17.2 %         | 15.8 %         |
| Concentrates and other       | 34.2 %                  | 23.8 %         | 23.3 %         |
| <b>Total</b>                 | <b>100.0 %</b>          | <b>100.0 %</b> | <b>100.0 %</b> |

**OPERATING COSTS AND EXPENSES**

The table below summarizes the production cost structure by major components for the three years ended 2019 as a percentage of total production cost:

|                    | Year ended December 31, |                |                |
|--------------------|-------------------------|----------------|----------------|
|                    | 2019                    | 2018           | 2017           |
| Power              | 14.7 %                  | 14.8 %         | 16.8 %         |
| Labor              | 13.9 %                  | 13.9 %         | 13.9 %         |
| Fuel               | 13.2 %                  | 14.6 %         | 13.7 %         |
| Maintenance        | 21.0 %                  | 19.5 %         | 18.9 %         |
| Operating material | 17.7 %                  | 18.7 %         | 19.3 %         |
| Other              | 19.5 %                  | 18.5 %         | 17.4 %         |
| <b>Total</b>       | <b>100.0 %</b>          | <b>100.0 %</b> | <b>100.0 %</b> |

2019-2018: Operating costs and expenses in 2019 increased \$317.1 million, compared to 2018, primarily due to:

|  |            |
|--|------------|
| Operating cost and expenses for 2018   | \$ 4,215.5 |
| Plus:  |            |
| • Higher cost of sales (exclusive of depreciation, amortization and depletion) mainly due to lower capitalized leachable material, higher repairing materials costs, operating contractors and power costs, partially offset by lower cost of metals purchased from third parties and lower inventory consumption. | 197.4      |
| • Higher depreciation, amortization and depletion expense due to our expansion and maintenance investments.  | 90.1       |
| • Higher selling, general and administrative expenses.   | 29.2       |

|                                      |                   |
|--------------------------------------|-------------------|
| • Higher exploration expense.        | 0.4               |
| Operating cost and expenses for 2019 | <u>\$ 4,532.6</u> |

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2018-2017: Operating costs and expenses in 2018 increased \$179.9 million, compared to 2017, primarily due to:

|  |                   |
|--|-------------------|
| Operating cost and expenses for 2017   | \$ 4,035.6        |
| Plus:  |                   |
| • Higher cost of sales (exclusive of depreciation, amortization and depletion) mainly due to higher inventory consumption, foreign currency transaction effect, higher workers' participation expense and higher fuel costs, partially offset by lower power costs, and higher capitalized ore stockpiles on leach pads. | 156.2             |
| • Reversal in 2017 of over-accrual of Sonora River remediation costs.  | 10.2              |
| • Higher selling, general and administrative expenses.   | 9.5               |
| • Higher depreciation, amortization and depletion expense.   | 3.2               |
| • Higher exploration expense.  | 0.8               |
| Operating cost and expenses for 2018   | <u>\$ 4,215.5</u> |

| NON-OPERATING INCOME<br>(EXPENSE)       | Variance          |                   |                   |                  |                |
|---|-------------------|-------------------|-------------------|------------------|----------------|
|   | 2019              | 2018              | 2017              | 2019 - 2018      | 2018 - 2017    |
| Interest expense                        | \$ (372.9)        | \$ (360.9)        | \$ (357.4)        | \$ (12.0)        | \$ (3.5)       |
| Capitalized interest                    | 32.2              | 83.8              | 51.4              | (51.6)           | 32.4           |
| Other expense                           | (7.0)             | (30.7)            | (15.7)            | 23.7             | (15.0)         |
| Interest income                         | 21.2              | 16.0              | 5.5               | 5.2              | 10.5           |
| Total non-operating income<br>(expense) | <u>\$ (326.5)</u> | <u>\$ (291.8)</u> | <u>\$ (316.2)</u> | <u>\$ (34.7)</u> | <u>\$ 24.4</u> |

2019-2018: Non-operating income and expense were a net expense of \$326.5 million in 2019 compared to a net expense of \$291.8 million in 2018. The \$34.7 million increase in net expense in 2019 was mainly due to:

- \$ 51.6 million of lower capitalized interest, as completed projects in Peru have been transferred to operations.
- \$ 12.0 million of higher interest expense due to the Minera Mexico debt issuance in September 2019; partially offset by,
- \$ 23.7 million of lower miscellaneous expense, net, which includes a \$25.0 million insurance payment due to rain damages suffered in our Peruvian operations, and
- \$ 5.2 million of higher interest income.

2018-2017: Non-operating income and expense were a net expense of \$291.8 million in 2018 compared to a net expense of \$316.2 million in 2017. The \$24.4 million decrease in net expense in 2018 was mainly due to:

- \$ 32.4 million of higher capitalized interest due to the increased capital investments at our Peruvian operations,
- \$ 10.5 million of higher interest income; partially offset by,
- \$ 15.0 million of higher miscellaneous expense, net, which includes a write-off of certain non-capital expenses related to the Tia Maria project; and
- \$ 3.5 million of higher interest expense.

**Income taxes**

Year Ended

|   | December 31, |            |            |
|---|--------------|------------|------------|
|   | 2019         | 2018       | 2017       |
| Provision for income taxes (\$ in millions) | \$ 945.3     | \$ 1,053.5 | \$ 1,593.4 |
| Effective income tax rate                   | 39.0 %       | 40.7 %     | 69.2 %     |

The income tax provision includes Peruvian, Mexican and U.S. federal and state income taxes.

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Components of income tax provision for 2019, 2018 and 2017 include the following (\$ in millions):

|                                | <u>2019</u>    | <u>2018</u>      | <u>2017</u>      |
|--------------------------------|----------------|------------------|------------------|
| Statutory income tax provision | \$831.4        | \$ 903.4         | \$ 688.5         |
| Tax reform adjustment          | —              | 30.9             | 785.9            |
| Peruvian royalty               | 14.2           | 9.0              | 2.5              |
| Mexican royalty                | 61.6           | 79.6             | 93.2             |
| Peruvian special mining tax    | <u>38.1</u>    | <u>30.6</u>      | <u>23.3</u>      |
| Total income tax provision     | <u>\$945.3</u> | <u>\$1,053.5</u> | <u>\$1,593.4</u> |

The decrease in the effective tax rate in 2019 from the prior year was primarily due to permanent differences in the Mexican tax jurisdiction, including a decrease in inflationary tax components of 0.7 percentage points and a decrease in special mining tax of 0.6 percentage points.

The decrease in the effective tax rate in 2018 from the prior year was due to the following changes (in percentage points):

|   |            |
|---|------------|
| Effective income tax rate for 2017  | 69.2 %     |
| Change in valuation of 2017 deferred tax assets for foreign tax credits, U.S. tax effect of 2017 Peruvian deferred and U.S. deferred tax assets | (25.9)     |
| Reduction of corporate tax rate applied to 2017 U.S. deferred tax asset   | (4.9)      |
| Change in 2017 transition tax on repatriated foreign earnings   | (2.0)      |
| Additional valuation allowance on 2018 U.S. deferred tax assets, foreign tax credits and US tax effect of Peruvian deferred taxes               | 7.5        |
| Permanent Differences   | (4.8)      |
| Other changes   | <u>1.6</u> |
| Effective income tax rate for 2018  | 40.7 %     |

In 2018, the Company completed its evaluation of the effects of the 2017 U.S. tax reform and recorded a non-cash tax provision of \$30.9 million in addition to the non-cash amount of \$785.9 million recorded in 2017. This brings the total recorded effect of the 2017 U.S. tax reform on the Company's financial statements for 2017 and 2018 to a non-cash tax provision of \$816.8 million.

***Equity earnings of affiliate***

In 2019, 2018 and 2017 we have recognized \$10.7 million, \$12.3 million and \$23.1 million, respectively, of equity earnings of affiliate, from our 44.2% interest in the Tantauatay mine.

***Net Income attributable to the non-controlling interest***

Net income attributable to the non-controlling interest in 2019 was \$6.1 million, compared to \$5.2 million in 2018, and \$3.9 million in 2017. It increased in 2019 and 2018 by \$0.9 million and \$1.3 million, respectively. These changes were the result of higher earnings at our Peruvian operations in both years.

***Income attributable to SCC***

Our net income attributable to SCC in 2019 was \$1,485.8 million, compared to \$1,543.0 million in 2018 and \$728.5 million in 2017. Net income attributable to SCC decreased mainly due to increases in cost of sales and depreciation, amortization and depletion. The increase in 2018 net income was mainly due to higher sales and lower taxes as the 2017 financial results included the one-time, non-cash income tax adjustment of \$785.9 million recorded in 2017 as a result of the U.S. income tax legislation enacted in the fourth quarter of 2017.

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**SEGMENT RESULTS ANALYSIS**

We have three segments: the Peruvian operations, the Mexican open-pit operations and the Mexican underground mining operations. Please see a detailed definition of these segments in Item 1 “Business—Business Reporting Segments.”

The following table presents the volume of sales by segment of copper and our significant by-products, for each of the years in the three-year period ended December 31, 2019:

| <b>Copper Sales (million pounds)</b> | <b>2019</b>    | <b>2018</b>    | <b>2017</b>    | <b>Variance</b>    |                    |
|--------------------------------------|----------------|----------------|----------------|--------------------|--------------------|
|                                      |                |                |                | <b>2019 - 2018</b> | <b>2018 - 2017</b> |
| Peruvian operations                  | 959.3          | 759.4          | 710.1          | 199.9              | 49.3               |
| Mexican open/pit                     | 1,214.0        | 1,193.6        | 1,249.1        | 20.4               | (55.5)             |
| Mexican IMMSA unit                   | 18.7           | 19.0           | 15.5           | (0.3)              | 3.5                |
| Other and intersegment elimination   | (18.2)         | (19.0)         | (15.5)         | 0.8                | (3.5)              |
| <b>Total copper sales</b>            | <b>2,173.8</b> | <b>1,953.0</b> | <b>1,959.2</b> | <b>220.8</b>       | <b>(6.2)</b>       |

| <b>By/product Sales (million pounds, except silver<br/>—million ounces)</b> | <b>2019</b> | <b>2018</b> | <b>2017</b> | <b>Variance</b>    |                    |
|---|-------------|-------------|-------------|--------------------|--------------------|
|   |             |             |             | <b>2019 - 2018</b> | <b>2018 - 2017</b> |
| <b>Peruvian operations:</b>   |             |             |             |                    |                    |
| Molybdenum contained in concentrate   | 23.2        | 16.0        | 17.5        | 7.2                | (1.5)              |
| Silver  | 5.8         | 4.5         | 4.1         | 1.3                | 0.4                |
| <b>Mexican open/pit operations:</b>   |             |             |             |                    |                    |
| Molybdenum contained in concentrate   | 36.0        | 32.6        | 29.6        | 3.4                | 3.0                |
| Silver  | 11.5        | 11.3        | 10.1        | 0.2                | 1.2                |
| <b>IMMSA unit</b>   |             |             |             |                    |                    |
| Zinc/refined and in concentrate   | 228.5       | 234.8       | 237.2       | (6.3)              | (2.4)              |
| Silver  | 5.2         | 5.5         | 4.3         | (0.3)              | 1.2                |
| <b>Other and intersegment elimination</b>                                   |             |             |             |                    |                    |
| Silver  | (1.9)       | (1.9)       | (1.6)       | —                  | (0.3)              |
| <b>Total by/product sales</b>   |             |             |             |                    |                    |
| Molybdenum contained in concentrate   | 59.2        | 48.6        | 47.1        | 10.6               | 1.5                |
| Zinc/refined and in concentrate   | 228.5       | 234.8       | 237.2       | (6.3)              | (2.4)              |
| Silver  | 20.6        | 19.4        | 16.9        | 1.2                | 2.5                |

**Peruvian Open-pit Operations:**

|                              | <b>2019</b>     | <b>2018</b>     | <b>2017</b>     | <b>Variance</b>    |                    |
|------------------------------|-----------------|-----------------|-----------------|--------------------|--------------------|
|                              |                 |                 |                 | <b>2019 - 2018</b> | <b>2018 - 2017</b> |
| Net sales                    | \$ 2,940.1      | \$ 2,572.2      | \$ 2,244.1      | \$ 367.9           | \$ 328.1           |
| Operating costs and expenses | (2,085.2)       | (1,802.0)       | (1,617.0)       | (283.2)            | (185.0)            |
| Operating income             | <u>\$ 854.9</u> | <u>\$ 770.2</u> | <u>\$ 627.1</u> | <u>\$ 84.7</u>     | <u>\$ 143.1</u>    |

**Net sales:**

2019-2018: Net sales in 2019 increased by \$367.9 million, compared to 2018, mainly as a result of higher sales volumes of copper (+26.3%), molybdenum (+44.3%) and silver (+27.6%), partially offset by lower copper and molybdenum prices.

2018-2017: Net sales in 2018 increased by \$328.1 million, compared to 2017, mainly as a result of higher metal prices and higher copper (+6.9%) and silver (+8.2%) sales volume, partially offset by lower molybdenum sales volume (-8.1%).

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**Operating costs and expenses:**

2019-2018: Operating costs and expenses in 2019 increased by \$283.2 million, compared to 2018, principally due to:

|  |                   |
|--|-------------------|
| Operating cost and expenses for 2018   | \$ 1,802.0        |
| Plus:  |                   |
| • Higher cost of sales (exclusive of depreciation, amortization and depletion) mainly due to higher repairing materials costs, operating contractors, power costs and higher workers' participation expense; partially offset by lower inventory consumption and lower fuel costs. | 192.7             |
| • Higher depreciation, amortization and depletion expense due to our expansion and maintenance investments.  | 90.7              |
| • Higher selling, general and administrative expenses.   | 1.8               |
| Less:  |                   |
| • Lower exploration expenses.  | (2.0)             |
| Operating cost and expenses for 2019   | <u>\$ 2,085.2</u> |

2018-2017: Operating costs and expenses in 2018 increased by \$185.0 million, compared to 2017, principally due to:

|  |                   |
|--|-------------------|
| Operating costs and expenses for 2017  | \$ 1,617.0        |
| Plus:  |                   |
| • Higher cost of sales (exclusive of depreciation, amortization and depletion) mainly due to higher inventory consumption, higher fuel costs and higher workers' participation expense; partially offset by lower cost of metals purchased from third parties and lower power costs. | 146.6             |
| • Higher depreciation, amortization and depletion expense due to our expansion and maintenance investments.  | 33.8              |
| • Higher exploration expenses.   | 4.1               |
| • Higher selling, general and administrative expenses.   | 0.5               |
| Operating costs and expenses for 2018  | <u>\$ 1,802.0</u> |

**Mexican Open-pit Operations:**

|                              | 2019              | 2018              | 2017              | <u>Variance</u>   |                 |
|------------------------------|-------------------|-------------------|-------------------|-------------------|-----------------|
|                              | 2019              | 2018              | 2017              | 2019 - 2018       | 2018 - 2017     |
| Net sales                    | \$ 3,963.9        | \$ 4,075.9        | \$ 3,972.7        | \$ (112.0)        | \$ 103.2        |
| Operating costs and expenses | (2,045.4)         | (2,028.7)         | (2,035.7)         | (16.7)            | 7.0             |
| Operating income             | <u>\$ 1,918.5</u> | <u>\$ 2,047.2</u> | <u>\$ 1,937.0</u> | <u>\$ (128.7)</u> | <u>\$ 110.2</u> |

**Net sales:**

2019-2018: Net sales in 2019 decreased by \$112.0 million, compared to 2018, principally due to lower copper and molybdenum prices, partially reduced by higher sales volumes of molybdenum (+10.6%), copper (+1.7%) and silver (+1.6%).

2018-2017: Net sales in 2018 increased by \$103.2 million, compared to 2017, mainly due to higher metal prices and higher silver (+12.1%) and molybdenum (+10.0%) sales volumes, partially reduced by lower copper sales volume (-4.4%).



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**Operating costs and expenses:**

2019-2018: Operating costs and expenses in 2019 increased by \$16.7 million, compared to 2018, principally due to:

|  |                   |
|--|-------------------|
| Operating costs and expenses for 2018  | \$ 2,028.7        |
| Plus:  |                   |
| • Higher selling, general and administrative expenses.   | 23.3              |
| • Higher cost of sales (exclusive of depreciation, amortization and depletion) mainly due to lower capitalized leachable material and higher power costs, largely offset by a lower cost of metals purchased from third parties. | 2.1               |
| Less:  |                   |
| • Lower depreciation, amortization and depletion expense.  | (8.5)             |
| • Lower exploration expenses.  | (0.2)             |
| Operating costs and expenses for 2019  | <u>\$ 2,045.4</u> |

2018-2017: Operating costs and expenses in 2018 decreased by \$7.0 million, compared to 2017, mainly due to:

|  |                   |
|--|-------------------|
| Operating costs and expenses for 2017  | \$ 2,035.7        |
| Less:  |                   |
| • Lower depreciation, amortization and depletion expense.  | (40.6)            |
| • Lower exploration expenses.  | (0.7)             |
| Plus:  |                   |
| • Higher cost of sales (exclusive of depreciation, amortization and depletion) mainly due to lower cost of metals purchased from third parties and higher sales expenses; partially offset by lower inventory consumption and lower power costs. | 16.7              |
| • Reversal in 2017 of over-accrual of Sonora River remediation costs.  | 10.2              |
| • Higher selling, general and administrative expenses.   | 7.4               |
| Operating costs and expenses for 2018  | <u>\$ 2,028.7</u> |

**IMMSA unit:**

|                              | 2019           | 2018           | 2017           | Variance         |                |
|------------------------------|----------------|----------------|----------------|------------------|----------------|
|                              | 2019 - 2018    | 2018 - 2017    |                |                  |                |
| Net sales                    | \$ 464.8       | \$ 527.9       | \$ 508.7       | \$ (63.1)        | \$ 19.2        |
| Operating costs and expenses | (449.5)        | (438.6)        | (434.9)        | (10.9)           | (3.7)          |
| Operating income             | <u>\$ 15.3</u> | <u>\$ 89.3</u> | <u>\$ 73.8</u> | <u>\$ (74.0)</u> | <u>\$ 15.5</u> |

**Net sales:**

2019-2018: Net sales in 2019 decreased \$63.1 million, compared to 2018, primarily due to lower silver (-6.1%), zinc (-2.6%) and copper (-1.9%) sales volumes, as well as lower copper and zinc prices.

2018-2017: Net sales in 2018 increased \$19.2 million, compared to 2017, primarily due to higher metal prices and higher copper (+22.9%) and silver (+27.2%) sales volumes, slightly offset by lower zinc sales volume (-1.0%).



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**Operating costs and expenses:**

2019-2018: Operating costs and expenses in 2019 increased by \$10.9 million, compared to 2018, principally due to:

|  |                 |
|--|-----------------|
| Operating costs and expenses for 2018  | \$ 438.6        |
| Plus:  |                 |
| • Higher depreciation, amortization and depletion expense.   | 4.7             |
| • Higher exploration expenses.   | 3.8             |
| • Higher cost of sales (exclusive of depreciation, amortization and depletion) mainly due to higher inventory consumption and higher repairing materials costs, partially offset by lower cost of metals purchased from third parties. | 3.0             |
| Less:  |                 |
| • Lower selling, general and administrative expenses.  | (0.6)           |
| Operating costs and expenses for 2019  | <u>\$ 449.5</u> |

2018-2017: Operating costs and expenses in 2018 increased \$3.7 million, compared to 2017, mainly due to:

|   |                 |
|---|-----------------|
| Operating costs and expenses for 2017   | \$ 434.9        |
| Plus:   |                 |
| • Higher cost of sales (exclusive of depreciation, amortization and depletion) mainly due to higher power costs and higher workers' participation expense; partially offset by lower cost of metals purchased from third parties and foreign currency effect. | 11.9            |
| • Higher selling, general and administrative expenses.  | 0.6             |
| Less:   |                 |
| • Lower depreciation, amortization and depletion expense.   | (8.6)           |
| • Lower exploration expenses.   | (0.2)           |
| Operating costs and expenses for 2018   | <u>\$ 438.6</u> |

**Intersegment Eliminations and Adjustments:**

The net sales, operating costs and expenses and operating income discussed above will not be directly equal to amounts in our consolidated statement of earnings because the adjustments of intersegment operating revenues and expenses must be taken into account. Please see Note 18 "Segment and Related Information" of our consolidated financial statements.

**LIQUIDITY AND CAPITAL RESOURCES**

The following discussion relates to our liquidity and capital resources for each of the years in the three year period ended December 31, 2019.

**Cash Flow:**

The following table shows the cash flow for the three year period ended December 31, 2019 (in millions):

Variance

|   | 2019       | 2018        | 2017        | 2019 - 2018 | 2018 - 2017 |
|---|------------|-------------|-------------|-------------|-------------|
| Net cash provided by operating activities | \$1,911.9  | \$ 2,235.1  | \$ 1,976.6  | \$ (323.2)  | \$ 258.5    |
| Net cash used in investing activities     | \$ (574.0) | \$(1,296.2) | \$(1,019.0) | \$ 722.2    | \$ (277.2)  |
| Net cash used in financing activities     | \$ (262.2) | \$(1,083.4) | \$ (456.1)  | \$ 821.2    | \$ (627.3)  |

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**Net cash provided by operating activities:**

The 2019, 2018 and 2017 change in net cash from operating activities include (in millions):

|  | 2019             | 2018             | 2017             | Variance          |                 |
|--|------------------|------------------|------------------|-------------------|-----------------|
|  |                  |                  |                  | 2019 - 2018       | 2018 - 2017     |
| Net income   | \$1,491.9        | \$1,548.2        | \$ 732.4         | \$ (56.3)         | \$ 815.8        |
| Depreciation, amortization and depletion           | 764.4            | 674.3            | 671.1            | 90.1              | 3.2             |
| Provision (benefit) for deferred income taxes      | (21.0)           | (51.5)           | 641.5            | 30.5              | (693.0)         |
| Loss (gain) on foreign currency transaction effect | 17.9             | 17.3             | 24.9             | 0.6               | (7.6)           |
| Other adjustments to net income                    | 5.7              | 23.1             | (3.4)            | (17.4)            | 26.5            |
| Operating assets and liabilities                   | (347.0)          | 23.7             | (89.9)           | (370.7)           | 113.6           |
| Net cash provided by operating activities          | <u>\$1,911.9</u> | <u>\$2,235.1</u> | <u>\$1,976.6</u> | <u>\$ (323.2)</u> | <u>\$ 258.5</u> |

Significant items added to (deducted from) net income to arrive at operating cash flow include depreciation, amortization and depletion, deferred tax amounts and changes in operating assets and liabilities. In 2017, we recorded a non-cash tax charge of \$785.9 million related to the U.S. tax law change enacted in December 2017.

2019: Net income was \$1,491.9 million, approximately 78% of the net cash provided from operating activities. A net decrease in operating assets and liabilities decreased operating cash flow by \$347.0 million and included:

- \$(184.9) million decrease in accounts payable and accrued liabilities, which included principally income taxes and workers' participation payments as a result of higher earnings at our Mexican and Peruvian operations in 2018.
- \$(10.5) million increase in trade accounts receivable mainly because of higher sales volumes at our Peruvian operations.
- \$(88.7) million of net increase in inventory, which included \$(83.2) million of higher leaching inventory and \$(17.6) million of higher finished goods mainly at our Mexican operations.
- \$(62.9) million increase in other operating assets and liabilities which included principally an increase in prepaid taxes in our Mexican operations due to changes in tax legislation.

2018: Net income was \$1,548.2 million, approximately 69% of the net cash provided from operating activities. A net increase in operating assets and liabilities increased operating cash flow by \$23.7 million and included:

- \$117.8 million increase in accounts payable and accrued liabilities.
- \$68.3 million decrease in trade accounts receivable.
- \$(190.8) million of net increase in inventory, which included \$(207.1) million of higher leaching inventory, \$(20.7) million of higher finished goods and \$(14.0) million of higher supplies inventories for our operations, partially offset by \$51.2 million of lower metals in process inventory.
- \$28.4 million decrease in other operating assets and liabilities.

2017: Net income was \$732.4 million, approximately 37% of the net cash provided from operating activities. A net increase in operating assets and liabilities decreased operating cash flow by \$89.9 million and included:

- \$(298.7) million increase in accounts receivable.
- \$(201.9) million of net increase in inventory, which included \$(180.4) million of higher leaching inventory, \$(26.8) million of higher supplies inventories for our operations and \$(76.3) million of higher metals in process, partially offset by \$81.6 million of lower finished goods inventory.
- \$139.5 million increase in accounts payable and accrued liabilities, which included \$75.6 million of higher accounts payable, \$51.5 million of higher accrued workers' participation and \$12.4 million of higher other liabilities.
- \$271.2 million decrease in other operating assets and liabilities, which included principally \$163.9 million of lower prepaid taxes, mainly due to the use of tax credits from previous years.

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### ***Net cash used in investing activities:***

2019: Net cash used for investing activities in 2019 included \$707.5 million for capital investments. These included \$357.4 million of investments at our Mexican operations and \$350.1 million of investments at our Peruvian operations. For further information, please see “Capital Investment Program” under this Item on page 73.

The 2019 investing activities also include net sales of short-term investments of \$133.1 million.

2018: Net cash used for investing activities in 2018 included \$1,121.4 million for capital investments. These included \$347.4 million of investments at our Mexican operations and \$774.0 million of investments at our Peruvian operations. For further information, please see “Capital Investment Program” under this Item on page 73.

The 2018 investing activities also include net purchases of short-term investments of \$163.3 million.

2017: Net cash used for investing activities in 2017 included \$1,023.5 million for capital investments. These included \$338.1 million of investments at our Mexican operations and \$685.4 million of investments at our Peruvian operations. For further information, please see “Capital Investment Program” under this Item on page 73.

The 2017 investing activities also include net sales of short-term investments of \$1.0 million.

### ***Net cash used in financing activities:***

2019: Net cash used in financing activities in 2019 was \$262.2 million and mainly included:

- A dividend distribution of \$1,236.9 million.
- Gross proceeds of \$987.3 million from the issuance of senior notes by our Mexican subsidiary.
- Payment of debt issuance costs of \$9.8 million.

2018: Net cash used in financing activities in 2018 was \$1,083.4 million and included a dividend distribution of \$1,082.3 million.

2017: Net cash used in financing activities in 2017 was \$456.1 million and included a dividend distribution of \$456.1 million.

### **Other Liquidity Considerations**

We expect that we will meet our cash requirements for 2020 and beyond from cash on hand and internally generated funds. In addition, we believe that we will be able to access additional external financing on reasonable terms, if required.

As of December 31, 2019, \$1,106.7 million of the Company’s total cash, cash equivalents, restricted cash and short-term investments of \$2,005.8 million were held by foreign subsidiaries. The cash, cash equivalents and short-term investments maintained in our foreign operations are generally used to cover local operating and investment expenses. At December 31, 2017, Minera Mexico had determined that it had earnings available for dividends to the United States of \$555.5 million. The 2017 U.S. tax reform introduced a one-time transition tax that is based upon the higher of the Company’s total accumulated

post-1986 deferred income as of November 2, 2017 or December 31, 2017, estimated to be \$8.9 billion, the majority of which was previously considered to be indefinitely reinvested and accordingly, no U.S. federal and state income taxes were provided. During 2018, the Company finalized its transition tax at \$153.1 million, which was fully offset by foreign tax credits. Upon enactment of the 2017 U.S. tax reform, the Company had calculated and recorded in 2017 a provisional amount of \$181.1 million and reduced it by \$28 million in 2018 when the calculation was finalized. Earnings of the Company's Peruvian branch are not subject to transition taxes since they are taxed in the United States on a current basis.

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Share repurchase program: In 2008, our Board of Directors (“BOD”) authorized a \$500 million share repurchase program that has since been increased by the BOD and is currently authorized to \$3 billion. Since the inception of the program through December 31, 2018, we have purchased 119.5 million shares of our common stock at a cost of \$2.9 billion. These shares are available for general corporate purposes. We may purchase additional shares of our common stock from time to time based on market conditions and other factors. This repurchase program has no expiration date and may be modified or discontinued at any time. For further details please see Item 5 “Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities—SCC common stock repurchase plan.”

Dividend: On February 20, 2020, the BOD authorized a dividend of \$0.40 per share to be paid on March 24, 2020, to shareholders of record at the close of business on March 10, 2020.

## FINANCING

Our total debt at December 31, 2019 was \$6,940.8 million, compared to \$5,960.1 million at December 31, 2018, net of the unamortized discount and issuance costs of notes issued under par of \$110.4 million and \$94.1 million at December 31, 2019 and 2018, respectively. This debt is all denominated in dollars at fixed interest rates, weighed at 5.69%.

The ratio of total debt to total capitalization was 50.2% at December 31, 2019, compared to 47.4% at December 31, 2018. In addition, the ratio of net debt to net capitalization was 41.8% at December 31, 2019, compared to 42.6% at December 31, 2018.

We define net debt as total debt, including current maturities, minus cash, cash equivalents and short-term investments balance. We believe that net debt is useful to investors as a measure of our financial position. We define net capitalization as the sum of net debt and equity. We use the net debt to net capitalization ratio as measure of our indebtedness position and to determine how much debt we can take in addition to the use of the equity and the balance sheet in general. We define total capitalization as the sum of the carrying values of our total debt, including current maturities, and equity. A reconciliation of our net debt to net capitalization and total debt to total capitalization as included in the consolidated balance sheet is presented under the sub heading “Non-GAAP Information Reconciliation” below.

Please see Note 11 “Financing” for a discussion about the covenants requirements related to our long-term debt.

## Capital investment programs

A discussion of our capital investment programs is an important part of understanding our liquidity and capital resources. We expect to meet the cash requirements for these capital investments from cash on hand, internally generated funds and from additional external financing if required. For information regarding our capital expenditure programs, please see the discussion under the caption “Capital Investment Program” under this Item 7.

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CONTRACTUAL OBLIGATIONS

The following table summarizes our significant contractual obligations as of December 31, 2019:

|   | Payments due by Period |                  |                |                  |                |                |                        |
|---|------------------------|------------------|----------------|------------------|----------------|----------------|------------------------|
|   | Total                  | 2020             | 2021           | 2022             | 2023           | 2024           | 2025 and<br>Thereafter |
|   | (dollars in millions)  |                  |                |                  |                |                |                        |
| Long-term debt                          | \$ 7,051.1             | \$ 400.0         | \$ —           | \$ 300.0         | \$ —           | \$ —           | \$ 6,351.1             |
| Interest on debt                        | 7,890.0                | 378.8            | 380.0          | 378.4            | 369.4          | 369.5          | 6,013.9                |
| Uncertain tax position(a)               | 68.9                   | 9.8              | 0.7            | —                | —              | —              | —                      |
| Workers' participation                  | 174.9                  | 174.9            | —              | —                | —              | —              | —                      |
| Pension and post-retirement obligations | 40.1                   | 4.5              | 3.2            | 3.3              | 3.4            | 3.7            | 22.0                   |
| Operating leases                        | 1,386.5                | 116.1            | 116.0          | 112.9            | 111.6          | 103.6          | 826.3                  |
| Asset retirement obligation             | 262.3                  | -                | —              | —                | —              | —              | 262.3                  |
| Purchase obligations:                   |                        |                  |                |                  |                |                |                        |
| Commitments to purchase energy          | 3,077.5                | 237.3            | 239.5          | 239.5            | 257.6          | 257.6          | 1,846.0                |
| Capital investment projects             | 198.2                  | 198.2            | —              | —                | —              | —              | —                      |
| <b>Total</b>                            | <b>\$20,149.5</b>      | <b>\$1,519.6</b> | <b>\$739.4</b> | <b>\$1,034.1</b> | <b>\$742.0</b> | <b>\$734.4</b> | <b>\$15,321.6</b>      |

(a) The above table does not include any scheduled payments related to U.S. uncertain tax position liabilities because there is often a high degree of uncertainty regarding the timing of future cash outflows. As of December 31, 2019, the tax liability recognized by the Company is \$68.9 million and is included as non-current liability in the consolidated Balance Sheet. Please refer to Note 7 "Income Taxes" of our consolidated financial statements.

Long-term debt payments do not include the debt discount valuation account and issuance costs of \$110.3 million.

Interest on debt is calculated at rates in effect at December 31, 2019. As all our debt is at fixed rates, future expenditures will not change due to rate changes. Please refer to Note 11 "Financing" of our consolidated financial statements for a description of our long-term debt arrangements and credit facilities.

Workers' participation is currently calculated based on Peruvian Branch and Mexican pre-tax earnings. In Peru, the provision for workers' participation is calculated at 8% of pre-tax

earnings. The current portion of this participation, which is accrued during the year, is based on the Peruvian Branch's taxable income and is largely distributed to workers following determination of final results for the year. Amounts in excess of 18 times a worker's salary is distributed to governmental bodies. In Mexico, workers' participation is determined using the guidelines established in the Mexican income tax law at a rate of 10% of pre-tax earnings as adjusted by the tax law.

Operating leases include lease payments for power generating facilities to MGE, vehicles and properties. Please refer to Note 9 "Leases" of our consolidated financial statements.

Pension and post retirement obligations include the benefits expected to be paid under our pension and post-retirement benefit plans. Please refer to Note 12 "Benefit Plans" of our consolidated financial statements.

Asset retirement obligations include the aggregate amount of the closure and remediation costs of our Peruvian mines and facilities to be paid under the mine closure plans approved by MINEM and the closure and remediation costs of our Mexican operations. See Note 10 "Asset Retirement Obligation."

In June 2014, we entered into a power purchase agreement for 120 megawatt ("MW") with the state company Electroperu S.A., which began supplying energy for our Peruvian operations for twenty years starting on April 17, 2017. In July 2014, we entered into a power purchase agreement for 120MW with a private power generator Kallpa Generacion S.A. ("Kallpa"), which began supplying energy for our Peruvian operations for ten years starting on April 17, 2017. In May 2016, we signed an additional power purchase agreement for a maximum of 80MW with Kallpa,

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under which Kallpa will supply energy for the 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 occurs first.

Also we have a commitment to purchase power for our Mexican operations from MGE, a subsidiary of Grupo Mexico through 2032. See Note 13 “Commitment and Contingencies—Other commitments”.

Amounts indicated on the above table are based on our long-term estimated power costs, which are subject to change as energy generation costs change and our forecasted power requirements through the life of the agreements change. Capital investment projects include committed purchase orders and executed contracts for our Mexican projects, and for our Peruvian expansion projects at Tia Maria and the Toquepala mine.

**CYBERSECURITY:**

Our operations depend upon information technology systems which may be subject to disruption, damage or failure from different sources, including, without limitation, installation of malicious software, computer viruses, security breaches, cyber-attacks and defects in design. In recent years, cybersecurity incidents have increased in frequency and include, but are not limited to, malicious software, attempts to gain unauthorized access to data and other electronic security breaches that could lead to disruptions in systems, unauthorized release of confidential or otherwise protected information and the corruption of data. We have implemented appropriate preventative measures to mitigate potential risks by implementing an information security management system, which ensures putting into effect controls that are frequently reviewed and tested, including a risk matrix that considers all the possible threats with an impact and probability analysis, actions to avoid or mitigate them and the corresponding testing plan.

**NON-GAAP INFORMATION RECONCILIATION**

Operating cash

cost: Following is a reconciliation of “Operating Cash Cost” (see page 70) to cost of sales (exclusive of depreciation, amortization and depletion) as reported in our consolidated statement of earnings, in millions of dollars and dollars per pound in the table below:

|   | 2019              |                | 2018              |                | 2017              |                |
|---|-------------------|----------------|-------------------|----------------|-------------------|----------------|
|   | \$ millions       | \$ per pound   | \$ millions       | \$ per pound   | \$ millions       | \$ per pound   |
| Cost of sales (exclusive of depreciation, amortization and depletion) | \$ 3,606.4        | \$ 1.69        | \$ 3,409.0        | \$ 1.81        | \$ 3,252.8        | \$ 1.74        |
| Add:  |                   |                |                   |                |                   |                |
| Selling, general and administrative                                   | 131.8             | 0.06           | 102.6             | 0.05           | 93.1              | 0.05           |
| Sales premiums, net of treatment and refining charges                 | 28.7              | 0.02           | 13.9              | 0.01           | 22.4              | 0.01           |
| Less:   |                   |                |                   |                |                   |                |
| Workers’ participation  | (214.5)           | (0.10)         | (226.1)           | (0.12)         | (196.2)           | (0.11)         |
| Cost of metals purchased from third parties                           | (263.4)           | (0.12)         | (384.5)           | (0.20)         | (363.2)           | (0.19)         |
| Royalty charge and other, net   | (125.7)           | (0.06)         | (125.0)           | (0.07)         | (150.5)           | (0.08)         |
| Inventory change  | 67.6              | 0.03           | 114.5             | 0.06           | 139.1             | 0.07           |
|   | <b>\$ 3,230.9</b> | <b>\$ 1.52</b> | <b>\$ 2,904.4</b> | <b>\$ 1.54</b> | <b>\$ 2,797.5</b> | <b>\$ 1.49</b> |

**Operating Cash Cost before  
by/product revenues**

|  |                |             |                |             |                |             |
|--|----------------|-------------|----------------|-------------|----------------|-------------|
| Add:   |                |             |                |             |                |             |
| By/product revenues(1)                                       | (1,307.3)      | (0.61)      | (1,211.4)      | (0.64)      | (1,030.2)      | (0.55)      |
| Net revenue on sale of metal<br>purchased from third parties | (51.9)         | (0.03)      | (56.3)         | (0.03)      | (50.2)         | (0.02)      |
| Total by/product revenues                                    | (1,359.2)      | (0.64)      | (1,267.7)      | (0.67)      | (1,080.4)      | (0.57)      |
| <b>Operating Cash Cost net of<br/>by/product revenues</b>    | <b>1,871.7</b> | <b>0.88</b> | <b>1,636.7</b> | <b>0.87</b> | <b>1,717.1</b> | <b>0.92</b> |
| Total pounds of copper produced<br>(in millions)             | 2,133.3        |             | 1,886.8        |             | 1,874.5        |             |

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(1) By-product revenues included in our presentation of operating cash cost contain the following:

|               | 2019                |                  | 2018                |                  | 2017                |                  |
|---------------|---------------------|------------------|---------------------|------------------|---------------------|------------------|
|               | \$ millions         | \$ per pound     | \$ millions         | \$ per pound     | \$ millions         | \$ per pound     |
| Molybdenum    | \$ (549.4)          | \$ (0.26)        | \$ (509.9)          | \$ (0.27)        | \$ (353.4)          | \$ (0.19)        |
| Silver        | (278.3)             | (0.13)           | (244.5)             | (0.13)           | (254.9)             | (0.14)           |
| Zinc          | (211.5)             | (0.10)           | (229.5)             | (0.12)           | (221.6)             | (0.12)           |
| Sulfuric Acid | (158.8)             | (0.07)           | (111.3)             | (0.06)           | (71.9)              | (0.04)           |
| Gold          | (53.2)              | (0.03)           | (53.1)              | (0.03)           | (61.7)              | (0.03)           |
| Other         | (56.1)              | (0.02)           | (63.1)              | (0.03)           | (66.7)              | (0.03)           |
| <b>Total</b>  | <b>\$ (1,307.3)</b> | <b>\$ (0.61)</b> | <b>\$ (1,211.4)</b> | <b>\$ (0.64)</b> | <b>\$ (1,030.2)</b> | <b>\$ (0.55)</b> |

The by-product revenue presented does not match with the sales value reported by segment on page 150 because the above table excludes purchases from third parties, which are reclassified to net revenue on sale of metal purchased from third parties.

Net debt to net capitalization: Net debt to net capitalization as of December 31, 2019 and 2018 is as follows:

|                                | 2019       | 2018       |
|--------------------------------|------------|------------|
| Total debt                     | \$ 6,940.8 | \$ 5,960.1 |
| Cash and cash equivalents      | (1,925.1)  | (844.6)    |
| Short-term investments         | (80.7)     | (213.8)    |
| Net debt                       | 4,935.0    | 4,901.7    |
| Net capitalization:            |            |            |
| Net debt                       | 4,935.0    | 4,901.7    |
| Equity                         | 6,858.2    | 6,612.8    |
| Net capitalization             | \$11,793.2 | \$11,514.5 |
| Net debt/net capitalization(*) | 41.8 %     | 42.6 %     |

(\*) Represents net debt divided by net capitalization.

Total debt to total capitalization: Total debt to total capitalization as of December 31, 2019 and 2018 is as follows:

|                                    | 2019       | 2018       |
|------------------------------------|------------|------------|
| Total debt                         | \$ 6,940.8 | \$ 5,960.1 |
| Capitalization                     |            |            |
| Debt                               | 6,940.8    | 5,960.1    |
| Equity                             | 6,858.2    | 6,612.8    |
| Total capitalization               | \$13,799.0 | \$12,572.9 |
| Total debt/total capitalization(*) | 50.3 %     | 47.4 %     |

(\*) Represents debt divided by total capitalization.



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**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Commodity price risk:

For additional information on metal price sensitivity, refer to “Metal Prices” in Part II, Item 7 of this annual report.

Open sales risk:

Our provisional copper and molybdenum sales contain an embedded derivative that is required to be separate from the host contract for accounting purposes. The host contract is the receivable from the sale of copper or molybdenum concentrates at prevailing market prices at the time of the sale. The embedded derivative, which does not qualify for hedge accounting, is marked to market through earnings each period prior to settlement. See Note 18 to our consolidated financial statements for further information about these provisional sales.

Foreign currency exchange rate risk:

Our functional currency is the U.S. dollar. Portions of our operating costs are denominated in Peruvian soles and Mexican pesos. Since our revenues are primarily denominated in U.S. dollars, when inflation or deflation in our Mexican or Peruvian operations is not offset by a change in the exchange rate of the sol or the peso to the dollar, our financial position, results of operations and cash flows could be affected by local cost conversion when expressed in U.S. dollars. In addition, the dollar value of our net monetary assets denominated in soles or pesos can be affected by an exchange rate variance of the sol or the peso, resulting in a re-measurement gain or loss in our financial statements. Recent inflation and exchange rate variances for the three years ended December 31, 2019, are provided in the table below:

|                            | Year Ended   |        |        |
|----------------------------|--------------|--------|--------|
|                            | December 31, |        |        |
|                            | 2019         | 2018   | 2017   |
| Peru:                      |              |        |        |
| Peruvian inflation rate    | 1.9 %        | 2.5 %  | 1.5 %  |
| Initial exchange rate      | 3.379        | 3.245  | 3.360  |
| Closing exchange rate      | 3.317        | 3.379  | 3.245  |
| Appreciation/(devaluation) | 1.8 %        | (4.1)% | 3.4 %  |
| Mexico:                    |              |        |        |
| Mexican inflation rate     | 2.8 %        | 4.8 %  | 6.8 %  |
| Initial exchange rate      | 19.683       | 19.735 | 20.664 |
| Closing exchange rate      | 18.845       | 19.683 | 19.735 |
| Appreciation/(devaluation) | 4.3 %        | 0.3 %  | 4.5 %  |

Change in monetary position:

Assuming an exchange rate variance of 10% at December 31, 2019, we estimate our net monetary position in Peruvian sol and Mexican peso would increase (decrease) our net earnings as follows:

**Effect in net  
earnings  
(\$ in millions)**

|   |    |        |
|---|----|--------|
| Appreciation of 10% in U.S. dollar vs. Peruvian sol | \$ | 18.0   |
| Devaluation of 10% in U.S. dollar vs. Peruvian sol  | \$ | (22.0) |
| Appreciation of 10% in U.S. dollar vs. Mexican peso | \$ | (9.7)  |
| Devaluation of 10% in U.S. dollar vs. Mexican peso  | \$ | 11.8   |

The net monetary position is net of those assets and liabilities that are sol or peso denominated at December 31, 2019.

Short-term investments:

For additional information on our trading securities and available-for-sale investments, refer to Note 3 Short-term Investments in Part II, Item 8 of this annual report.

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## **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA**

### **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of Southern Copper Corporation:

#### **Opinion on the Consolidated Financial Statements**

We have audited the accompanying consolidated balance sheets of Southern Copper Corporation and subsidiaries (the “Company”) as of December 31, 2019 and 2018, the related consolidated statements of earnings, comprehensive income, changes in stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2019 and the related notes and schedule listed in the Index at Item 15 (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2020 expressed an unqualified opinion on the Company’s internal control over financial reporting.

#### **Basis for Opinion**

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

#### **Critical Audit Matters**

The critical audit matters communicated below are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the

financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

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**Ore stockpiles on Leach Pads– Refer to Note 4 to the consolidated financial statements**

**Critical Audit Matter Description**

The Company has recorded Ore stockpiles on leach pads of \$1,588.7 million as of December 31, 2019 (\$358.4 million presented as current and \$1,230.3 million presented as non-current assets).

The Company used the copper content grade when determining the capitalization of inventory costs related to leachable material. The leachable material inventory determined could be misstated if the monthly average copper content grade and the solubility index used by the Company does not correspond to the actual results obtained from the laboratories.

We identified the copper content grade and solubility index as a critical audit matter because of the significant judgments made by management to support its assertion that these capitalized costs are probable of recovery and the historical recovery data for leachable material. This required a high degree of auditor judgment in evaluating whether the audit evidence obtained supports management’s assertion that these costs are probable of future recovery.

**How the Critical Audit Matter Was Addressed in the Audit**

Our audit procedures related to a reasonable determination of copper content grade and the solubility index, to determine the appropriate amounts of extraction and movement of material that is capitalized included the following, among others:

- We tested the effectiveness of controls over management’s review of the copper content grade used to determine the monthly average rate to be used in the calculation, which included an evaluation of the competence, objectivity and authority of the personnel involved in the determination of the copper content grade and the solubility index.
- We developed an independent expectation of the amounts of leachable material that should have been capitalized and amortized to compare it to the recorded balances.
- We independently recalculated the monthly average copper content grade and the monthly average solubility index to obtain the reasonability of the inputs used in the estimate.
- We involved technical specialists to review the methodology used by the Company to determine the recoverability of copper from the leach pads and challenge, from a technical perspective, the reasonableness of the procedures performed by the Company to determine the copper recoverability.

**Uncertain Tax Positions (Deferred income tax) – Refer to Note 7 to the consolidated financial statements**

**Critical Audit Matter Description**

The Company’s uncertain tax positions (UTPs) as of December 31, 2019, were \$68.9 million, and mainly related to leach dump inventory, book leach amortization and penalties and duties related to lack of supporting documentation for disposals of machinery and equipment.

We identified the UTPs as a critical audit matter because of the multiple jurisdictions in which the Company files its tax returns and the complexity of the tax laws and regulations. This identification process includes resolution of any related appeals or litigation processes that are based on the technical merits of the position. As the Company operates in three

different jurisdictions, this require a high degree of auditor judgment and an increased extent of effort, including the need to involve our income tax specialists.

#### **How the Critical Audit Matter Was Addressed in the Audit**

Our audit procedures related to UTPs included the following, among others:

- We tested the effectiveness of internal controls that address management processes to identify, evaluate, value, record and disclose significant UTPs.
- With the assistance of our income tax specialists, we evaluated the reasonableness of management's assumptions by considering how the tax law, including statutes, regulations and case law, impacted the judgments made, obtained an understanding of potential UTPs through inquiries with management and the tax department and the review of the annual tax returns filed, reviewed the UTP calculations prepared by management and the disclosures

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in the footnotes.

- With the assistance of our income tax specialists, we read and evaluated management's documentation, including relevant accounting policies and the detailed basis for the UTPs and obtained confirmation letters from the Company's external lawyers to evaluate whether any tax contingency exists to determine the completeness of the UTPs identified.
- With the assistance of our income tax specialists, we tested the reasonableness of management's judgments regarding the future resolution of the uncertain tax positions, including an evaluation of the technical merits of the uncertain tax positions.
- We evaluated whether the estimates of UTPs were consistent with evidence obtained in other areas of the audit.

### **Estimate of Tia Maria Project Impairment Indicators (Property and mine development, net)– Refer to Notes 5 and 13 to the consolidated financial statements**

#### **Critical Audit Matter Description**

The Tia Maria mining project in Peru received the construction license approval from the Peruvian Mining Council on October 30, 2019. This project budget is approximately \$1.4 billion and has an investment as of December 31, 2019 of approximately \$339 million including investment in property, plant and equipment of \$214 million and \$125 million representing intangible assets primarily composed of engineering studies and the Environmental Impact Study (EIS). The Company evaluates whether there is an indicator that the project's intangible assets are impaired when events or changes in economic circumstances indicate that the carrying amount of such assets may not be recoverable. This requires the Company's management to evaluate business plans that include assumptions about future metal prices, costs and other economic variables.

We identified the determination of impairment indicators as a critical audit matter because of the significant assumptions the Company's management makes when evaluating the business plans used to determine whether the project's intangible assets are recoverable. This required a high degree of auditor judgment when performing audit procedures to evaluate whether management appropriately identified impairment indicators.

#### **How the Critical Audit Matter Was Addressed in the Audit**

Our audit procedures related to identification of events or changes in circumstances that may indicate the carrying amount of the intangibles related to the Tia Maria Project may not be recoverable included the following, among others:

- We tested the effectiveness of controls over management's identification of possible circumstances that may indicate that the carrying amounts of the project's assets are no longer recoverable.
- We discussed with the Company's management the assumptions used in the business plans, evaluated the consistency of the assumptions used with evidence obtained in other areas of the audit, and searched for any adverse asset-specific and/or market conditions.
- We assessed the impact of changing the key assumptions in the business plan such as copper price and cost changes (increases/decreases), among others on the recoverable amount.

/s/ DANIEL TOLEDO ANTONIO

C.P.C. Daniel Toledo Antonio

We have served as the Company's auditor  
since 2009

Mexico City, Mexico

February 28, 2020

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**Southern Copper Corporation  
and Subsidiaries**

**CONSOLIDATED STATEMENTS OF EARNINGS**

| For the years ended December 31, (in millions, except<br>for per share amounts)                    | <u>2019</u>       | <u>2018</u>       | <u>2017</u>     |
|--|-------------------|-------------------|-----------------|
| Net sales (including sales to related parties,<br>see Note 17)                                     | \$ 7,285.6        | \$ 7,096.7        | \$ 6,654.5      |
| Operating cost and expenses:   |                   |                   |                 |
| Cost of sales (exclusive of depreciation,<br>amortization and depletion shown<br>separately below) | 3,606.4           | 3,409.0           | 3,252.8         |
| Selling, general and administrative  | 131.8             | 102.6             | 93.1            |
| Depreciation, amortization and depletion   | 764.4             | 674.3             | 671.1           |
| Exploration  | 30.0              | 29.6              | 28.8            |
| Environmental remediation  | —                 | —                 | (10.2)          |
| Total operating costs and expenses   | <u>4,532.6</u>    | <u>4,215.5</u>    | <u>4,035.6</u>  |
| Operating income   | 2,753.0           | 2,881.2           | 2,618.9         |
| Interest expense   | (372.9)           | (360.9)           | (357.4)         |
| Capitalized interest   | 32.2              | 83.8              | 51.4            |
| Other income (expense)   | (7.0)             | (30.7)            | (15.7)          |
| Interest income  | 21.2              | 16.0              | 5.5             |
| Income before income taxes   | 2,426.5           | 2,589.4           | 2,302.7         |
| Income taxes (including royalty taxes, see<br>Note 7)  | 966.3             | 1,105.0           | 951.7           |
| Deferred income taxes  | (21.0)            | (51.5)            | 641.7           |
| Net income before equity earnings of affiliate   | 1,481.2           | 1,535.9           | 709.3           |
| Equity earnings (loss) of affiliate, net of<br>income tax  | 10.7              | 12.3              | 23.1            |
| Net income   | 1,491.9           | 1,548.2           | 732.4           |
| Less: Net income attributable to the non-<br>controlling interest                                  | 6.1               | 5.2               | 3.9             |
| Net income attributable to SCC   | <u>\$ 1,485.8</u> | <u>\$ 1,543.0</u> | <u>\$ 728.5</u> |
| Per common share amounts attributable to<br>SCC:   |                   |                   |                 |
| Net earnings-basic and diluted   | \$ 1.92           | \$ 2.00           | \$ 0.94         |
| Weighted average shares outstanding-basic<br>and diluted   | <u>773.1</u>      | <u>773.0</u>      | <u>773.0</u>    |

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

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**Southern Copper Corporation  
and Subsidiaries**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

|  | <u>2019</u>      | <u>2018</u>      | <u>2017</u>     |
|--|------------------|------------------|-----------------|
|  | (in millions)    |                  |                 |
| <b>COMPREHENSIVE INCOME:</b>   |                  |                  |                 |
| Net income and comprehensive income  | \$1,491.9        | \$1,548.2        | \$ 732.4        |
| Other comprehensive income (loss) net of tax:  |                  |                  |                 |
| —Decrease (increase) in pension and other post-retirement benefits (net of income tax of \$3.7, \$2.1 and \$(1.6), respectively) | (7.7)            | (2.9)            | 2.6             |
| —Foreign currency translation adjustments  | —                | —                | 0.3             |
| Total other comprehensive income (loss)  | (7.7)            | (2.9)            | 2.9             |
| Total comprehensive income   | 1,484.2          | 1,545.3          | 735.3           |
| Comprehensive income attributable to the non-controlling interest  | 6.1              | 5.2              | 3.9             |
| Comprehensive income attributable to SCC   | <u>\$1,478.1</u> | <u>\$1,540.1</u> | <u>\$ 731.4</u> |

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

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**Southern Copper Corporation  
and Subsidiaries**

**CONSOLIDATED BALANCE SHEETS**

|   | <b>December 31,</b>  | <b>December 31,</b> |
|---|----------------------|---------------------|
|   | <b>2019</b>          | <b>2018</b>         |
|   | <b>(in millions)</b> |                     |
| <b>ASSETS</b>   |                      |                     |
| Current assets:   |                      |                     |
| Cash and cash equivalents   | \$ 1,925.1           | \$ 844.6            |
| Short-term investments  | 80.7                 | 213.8               |
| Accounts receivable trade   | 832.9                | 822.4               |
| Accounts receivable other (including related parties 2019- \$30.0 and 2018 - \$101.5)                     | 78.9                 | 150.2               |
| Inventories   | 1,068.5              | 1,032.7             |
| Prepaid taxes   | 172.4                | 87.0                |
| Other current assets  | 26.2                 | 29.3                |
| Total current assets  | 4,184.7              | 3,180.0             |
| Property and mine development, net  | 9,371.0              | 9,403.8             |
| Ore stockpiles on leach pads  | 1,230.3              | 1,177.4             |
| Intangible assets, net  | 148.4                | 147.7               |
| Related parties receivable  | 59.5                 | —                   |
| Right-of-use assets   | 1,046.4              | —                   |
| Deferred income tax   | 183.9                | 203.7               |
| Equity method investment  | 111.9                | 103.6               |
| Other non-current assets  | 71.3                 | 71.4                |
| Total assets  | \$ 16,407.4          | \$ 14,287.6         |
| <b>LIABILITIES</b>  |                      |                     |
| Current liabilities:  |                      |                     |
| Current portion of long-term debt   | \$ 399.8             | \$ —                |
| Accounts payable (including related parties 2019- \$86.4 and 2018- \$75.3)                                | 598.3                | 673.4               |
| Accrued income taxes  | 116.3                | 232.8               |
| Accrued workers' participation  | 174.9                | 206.7               |
| Accrued interest  | 96.0                 | 83.9                |
| Lease liabilities current   | 68.6                 | —                   |
| Other accrued liabilities   | 22.6                 | 19.5                |
| Total current liabilities   | 1,476.5              | 1,216.3             |
| Long-term debt  | 6,541.0              | 5,960.1             |
| Lease liabilities   | 977.8                | —                   |
| Deferred income taxes   | 178.3                | 212.5               |
| Non-current taxes payable   | 0.7                  | —                   |
| Other liabilities and reserves  | 112.6                | 68.2                |
| Asset retirement obligation   | 262.3                | 217.7               |
| Total non-current liabilities   | 8,072.7              | 6,458.5             |
| Commitments and contingencies (Note 13)   |                      |                     |
| STOCKHOLDERS' EQUITY (NOTE 14)  |                      |                     |
| Common stock par value \$0.01; shares authorized, 2019 and 2018—2,000; shares issued, 2019 and 2018—884.6 | 8.8                  | 8.8                 |

|  |                    |                    |
|--|--------------------|--------------------|
| Additional paid-in capital                             | 3,424.9            | 3,393.7            |
| Retained earnings                                      | 6,435.6            | 6,186.9            |
| Accumulated other comprehensive income                 | (10.1)             | (2.4)              |
| Treasury stock, at cost, common shares                 | <u>(3,048.9)</u>   | <u>(3,019.6)</u>   |
| Total Southern Copper Corporation stockholders' equity | 6,810.3            | 6,567.4            |
| Non-controlling interest                               | <u>47.9</u>        | <u>45.4</u>        |
| Total equity   | 6,858.2            | 6,612.8            |
| Total liabilities and equity                           | <u>\$ 16,407.4</u> | <u>\$ 14,287.6</u> |

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

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**Southern Copper Corporation  
and Subsidiaries**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

|   | 2019              | 2018             | 2017              |
|---|-------------------|------------------|-------------------|
| <b>OPERATING ACTIVITIES</b>   |                   |                  |                   |
| Net income  | \$ 1,491.9        | \$ 1,548.2       | \$ 732.4          |
| Adjustments to reconcile net earnings to net cash provided from operating activities: |                   |                  |                   |
| Depreciation, amortization and depletion  | 764.4             | 674.3            | 671.1             |
| Equity earnings of affiliate, net of dividends received                               | (6.3)             | (3.9)            | (12.3)            |
| Loss on foreign currency transaction effect   | 17.9              | 17.3             | 24.9              |
| (Benefit) provision for deferred income taxes   | (21.0)            | (51.5)           | 641.5             |
| Other, net  | 12.0              | 27.0             | 8.9               |
| Change in operating assets and liabilities:   |                   |                  |                   |
| (Increase) decrease in accounts receivable  | (10.5)            | 68.3             | (298.7)           |
| (Increase) in inventories   | (88.7)            | (190.8)          | (201.9)           |
| Increase (decrease) in accounts payable and accrued liabilities                       | (184.9)           | 117.8            | 139.5             |
| (Increase) decrease in other operating assets and liabilities                         | (62.9)            | 28.4             | 271.2             |
| Net cash provided by operating activities   | <u>1,911.9</u>    | <u>2,235.1</u>   | <u>1,976.6</u>    |
| <b>INVESTING ACTIVITIES</b>   |                   |                  |                   |
| Capital expenditures  | (707.5)           | (1,121.4)        | (1,023.5)         |
| Purchase of short-term investments  | (284.4)           | (310.6)          | (61.3)            |
| Proceeds on sale of short-term investment   | 417.5             | 147.3            | 62.3              |
| Other, net  | 0.4               | (11.5)           | 3.5               |
| Net cash used in investing activities   | <u>(574.0)</u>    | <u>(1,296.2)</u> | <u>(1,019.0)</u>  |
| <b>FINANCING ACTIVITIES</b>   |                   |                  |                   |
| Proceeds from issuance of debt  | 987.3             | —                | —                 |
| Capitalization of debt issuance cost  | (9.8)             | —                | —                 |
| Cash dividends paid to common stockholders  | (1,236.9)         | (1,082.3)        | (456.1)           |
| SCC shareholder derivative lawsuit — received from AMC                                | 36.5              | —                | —                 |
| SCC shareholder derivative lawsuit — dividend paid                                    | (36.5)            | —                | —                 |
| Distributions to non-controlling interest   | (3.2)             | (1.5)            | (0.3)             |
| Other, net  | 0.4               | 0.4              | 0.3               |
| Net cash provided by (used in) financing activities                                   | <u>(262.2)</u>    | <u>(1,083.4)</u> | <u>(456.1)</u>    |
| Effect of exchange rate changes on cash and cash equivalents                          | 4.8               | (15.7)           | (42.7)            |
| Increase (decrease) in cash and cash equivalents                                      | 1,080.5           | (160.2)          | 458.8             |
| Cash and cash equivalents, at beginning of year                                       | 844.6             | 1,004.8          | 546.0             |
| Cash and cash equivalents, at end of year   | <u>\$ 1,925.1</u> | <u>\$ 844.6</u>  | <u>\$ 1,004.8</u> |

**2019      2018      2017**  
**(in millions)**

*Supplemental disclosure of cash flow information:*

|                                |            |            |          |
|--------------------------------|------------|------------|----------|
| Cash paid during the year for: |            |            |          |
| Interest                       | \$ 356.7   | \$ 356.7   | \$ 356.7 |
| Income taxes                   | \$ 1,138.7 | \$ 1,155.3 | \$ 889.8 |
| Workers' participation         | \$ 224.5   | \$ 194.0   | \$ 136.0 |

*Supplemental schedule of non-cash operating, investing and financing activities:*

|   |    |       |    |       |    |       |
|---|----|-------|----|-------|----|-------|
| Decrease (increase) in pension and other post-retirement benefits | \$ | (7.7) | \$ | (2.9) | \$ | 2.9   |
| Capital expenditures incurred but not yet paid                    | \$ | 2.1   | \$ | 37.7  | \$ | 137.7 |

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

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**Southern Copper Corporation  
and Subsidiaries**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

| (in millions)  | 2019       | 2018       | 2017       |
|--|------------|------------|------------|
| TOTAL EQUITY, beginning of period  | \$ 6,612.8 | \$ 6,149.4 | \$ 5,870.9 |
| STOCKHOLDERS' EQUITY, beginning of period  | 6,567.4    | 6,107.7    | 5,832.3    |
| CAPITAL STOCK:   |            |            |            |
| Balance at beginning and end of period:  | 8.8        | 8.8        | 8.8        |
| ADDITIONAL PAID-IN CAPITAL:  |            |            |            |
| Balance at beginning of period   | 3,393.7    | 3,373.3    | 3,358.2    |
| Other activity of the period   | 31.2       | 20.4       | 15.1       |
| Balance at end of period   | 3,424.9    | 3,393.7    | 3,373.3    |
| TREASURY STOCK:  |            |            |            |
| Southern Copper common shares  |            |            |            |
| Balance at beginning of the period   | (2,768.3)  | (2,768.7)  | (2,769.0)  |
| Used for corporate purposes  | 0.4        | 0.4        | 0.3        |
| Balance at end of period   | (2,767.9)  | (2,768.3)  | (2,768.7)  |
| Parent Company common shares   |            |            |            |
| Balance at beginning of period   | (251.3)    | (232.4)    | (218.6)    |
| Other activity, including dividend, interest and foreign currency transaction effect         | (29.7)     | (18.9)     | (13.8)     |
| Balance at end of period   | (281.0)    | (251.3)    | (232.4)    |
| Treasury stock balance at end of period  | (3,048.9)  | (3,019.6)  | (3,001.1)  |
| RETAINED EARNINGS:   |            |            |            |
| Balance at beginning of period   | 6,186.9    | 5,726.2    | 5,455.3    |
| Net earnings   | 1,485.8    | 1,543.0    | 728.5      |
| Dividends declared and paid, common stock, per share, 2019- \$1.6, 2018- \$1.4 2017 - \$0.59 | (1,236.9)  | (1,082.3)  | (456.1)    |
| SCC shareholder derivative lawsuit — received from AMC                                       | 36.5       | —          | —          |
| SCC shareholder derivative lawsuit — dividend paid   | (36.5)     | —          | —          |
| Other activity of the period   | (0.2)      | —          | (1.5)      |
| Balance at end of period   | 6,435.6    | 6,186.9    | 5,726.2    |
| ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):   |            |            |            |
| Balance at beginning and end of period   | (2.4)      | 0.5        | (2.4)      |
| Other comprehensive income (loss)  | (7.7)      | (2.9)      | 2.9        |
| Balance at end of year   | (10.1)     | (2.4)      | 0.5        |
| STOCKHOLDERS' EQUITY, end of period  | 6,810.3    | 6,567.4    | 6,107.7    |
| NON-CONTROLLING INTEREST, beginning of period  |            |            |            |
|  | 45.4       | 41.7       | 38.6       |
| Net earnings   | 6.1        | 5.2        | 3.9        |
| Distributions paid   | (3.6)      | (1.5)      | (0.8)      |
| NON-CONTROLLING INTEREST, end of period  | 47.9       | 45.4       | 41.7       |
| TOTAL EQUITY, end of period  | \$ 6,858.2 | \$ 6,612.8 | \$ 6,149.4 |

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

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**SOUTHERN COPPER CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**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 December 31, 2019, Grupo Mexico through its wholly-owned subsidiary Americas Mining Corporation (“AMC”) owned 88.9% of the Company’s capital stock. The consolidated financial statements presented herein consist of the accounts of Southern Copper Corporation (“SCC”, “Southern Copper” 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.

**NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

*Principles of consolidation—*

The consolidated financial statements include the accounts of subsidiaries of which the Company has voting control, in accordance with Accounting Standards Codification (“ASC”) 810 *Consolidation*. Such financial statements are prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”).

*Basis of Presentation—*

**Other immaterial restatements** – Subsequent to the issuance of the Company’s consolidated financial statements as of December 31, 2018, the Company’s management identified certain immaterial errors in the presentation of the balances of deferred income taxes in the consolidated balance sheet as of that date. The Company’s management assessed the impact of this error and concluded that it was not material to the consolidated financial statements taken as a whole for the year ended on December 31, 2018. However, Company’s management determined that it was appropriate to make adjustment for such immaterial error. This adjustment was to correct the presentation within the consolidated balance sheet and the corresponding notes of deferred income tax balances. The amount reclassified between non-current taxes payable that reduced the deferred income tax asset was \$207.1 million. The amount reclassified between deferred tax liability that increased the deferred tax asset was \$9.9 million.

*Use of estimates—*

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying value of ore reserves that are the basis for future cash flow estimates and amortization calculations; environmental reclamation, closure and retirement obligations; estimates of recoverable copper in mill and leach stockpiles; asset impairments (including estimates of future cash flows); unrecognized tax benefits; valuation allowances for deferred tax assets; and fair value of financial instruments. Management basis its estimates on the Company’s historical experience and on

various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

*Revenue recognition—*

The Company adopted ASC 606, Revenue from Contracts with Customers, effective January 1, 2018, on a modified retrospective basis, applying the standard to all contracts that are not completed as such date. The Company's revenue consists of product revenue resulting from the sale of copper and non-copper products, such as molybdenum, silver, zinc, lead and gold. Other than increased disclosures, the adoption of the new guidance did not have an impact on the Company's revenue recognition.

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**SOUTHERN COPPER CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company accounts for a contract with a customer when there is a legally enforceable contract between the Company and the customer, the rights of the parties are identified, the contract has commercial substance, and collectability of the contract consideration is probable. The Company's revenues are measured based on consideration specified in the contract with each customer. Disclosures regarding disaggregation of revenues and contract balances are disclosed within Note 18 "Segment and related information".

The Company's marketing strategy and annual sales planning emphasize developing and maintaining long-term customer relationships. Generally, 80% to 90% of the Company's metal production is sold under annual or longer-term contracts, which specify a volume of mineral to be sold over a stated period and delivery schedule; the price at which mineral will be sold at each delivery date is generally determined by the weekly or monthly average rate of the commodity published by major metal exchanges at specific dates stipulated within each contract. The Company considers each contract to be a single performance obligation, represented by the delivery of a series of distinct goods that are substantially the same, with the same pattern of transfer to the Company's customers. The Company concluded this as, based on the nature of its contracts, customers receive the benefit of mineral sold as it is shipped per the terms of the contracts at each contractual delivery date. Likewise, each shipment of product represents the same measure of progress as other shipments within the contract. Accordingly, the Company recognizes revenues for each contract over the period of time in which the specified quantity of mineral is delivered. In doing so, the Company considers that it has a right to consideration from its customers in an amount that corresponds directly to the value transferred to those customers that being the quantity of mineral delivered at the price per unit delivered. Accordingly, the Company recognizes revenue at the amount to which it has the right to invoice (the invoice practical expedient), as it believes that this method is a faithful depiction of the transfer of goods to its customers.

For contracts with a term greater than one year, the Company is unable to disclose an allocation of the transaction price to the remaining unsatisfied performance obligation, given that unit prices of mineral sold are determined by published commodity prices at specified dates within the contract. The volume of mineral to be delivered after the first year of the contract is subject to annual volume negotiations in accordance with the terms of the contract. As of December 31, 2019, the Company has long-term contracts with promises to deliver in 2020 a total of 870,000 metric tons of copper concentrate, 48,000 metric tons of copper cathodes, 24,000 tons of molybdenum concentrate and 292,400 tons of sulfuric acid. This is an estimate that will vary in 2020 and 2021 based on the negotiations with the customers as mentioned above.

The remainder of the Company's revenues, including its by-product revenues, are generated by spot sales that are recognized at a point in time.

Under both sales models, revenue is recognized when or as the performance obligations are satisfied, when the Company transfers control of the goods and title passes to the customer. Considering the International Commercial Terms (Incoterms) utilized by the Company, control is transferred generally upon the completion of loading the material at the point of origin. This is the point at which the customer obtains legal title to the product as well as the ability to direct the use of and obtain substantially all of the remaining benefits of ownership of the asset. Additionally, payment is generally due upon the delivery of the shipping and title documents at the point of origin, customers typically have 30 days to remit payment. Copper and non-copper revenues are measured based on the monthly average of prevailing

commodity prices according to the terms of the contracts. The Company provides allowances for doubtful accounts based upon historical bad debt and claims experience and periodic evaluation of specific customer accounts.

Substantially all of the Company's sales are made under carriage and insurance paid to, or cost, insurance and freight Incoterms, whereby the Company is responsible for providing shipping and insurance after control of the inventory has been transferred to the customer. According to the terms of the Company's contracts, these services are not distinct within the context of the contract, and they are not separately identifiable from the other promises within the contract. Additionally, it is the Company policy and it has a long-standing history of providing shipping and insurance services to

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**SOUTHERN COPPER CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

its customers. Accordingly, shipping and insurance are not considered separate performance obligations. The related costs of shipping and insurance are presented within the cost of sales line in the accompanying consolidated statements of income.

Furthermore, the Company considered the impact of the shipping and insurance services on the determination of when control is transferred to its customers. It has concluded that the terms of these services do not impact its customers' ability to sell, pledge, or otherwise use the products in shipment. Also, there is a small likelihood and minimal history of lost or damaged goods during shipment. Considering these factors, combined with the other indicators of control previously mentioned, the Company has concluded that these services do not impact the determination that control is transferred at the point of origin.

For certain of the Company's sales of copper and molybdenum products, customer contracts allow for pricing based on a month subsequent to shipping, in most cases within the following three months and occasionally in some cases a few additional months. In such cases, revenue is recorded at a provisional price at the time of shipment. The provisionally priced copper sales are adjusted to reflect forward LME or COMEX copper prices at the end of each month until a final adjustment is made to the price of the shipments upon settlement with customers pursuant to the terms of the contract. In the case of molybdenum sales, for which there are no published forward prices, the provisionally priced sales are adjusted to reflect the market prices at the end of each month until a final adjustment is made to the price of the shipments upon settlement with customers pursuant to the terms of the contract.

These provisional pricing arrangements are accounted for separately from the contract as an embedded derivative instrument under ASC 815-30 "Derivatives and Hedging—Cash Flow Hedges." The Company sells copper in concentrate, anode, blister and refined form at industry standard commercial terms. Net sales include the invoiced value of copper, zinc, silver, molybdenum, sulfuric acid and other metals and the corresponding fair value adjustment of the related forward contract of copper and molybdenum. Disclosure regarding adjustments to sales for provisionally priced contracts is disclosed within Note 18 "Segment and related information".

*Cash and cash equivalents—*

Cash and cash equivalents include bank deposits, certificates of deposit and short-term investment funds with original maturities of three months or less at the date of purchase. The carrying value of cash and cash equivalents approximates fair value.

*Short-term investments—*

The Company accounts for short-term investments in accordance with ASC 320-10 "Investments Debt and Equity Securities-Recognition." The Company determines the appropriate classification of all short-term investments as held-to-maturity, available-for-sale or trading at the time of purchase and re-evaluates such classifications as of each balance sheet date. Unrealized gains and losses on available-for-sale investments, net of taxes, are reported as a component of accumulated other comprehensive income (loss) in stockholders' equity, unless such loss is deemed to be other than temporary.

*Inventories—*

The Company principally produces copper and, in the production process, obtains several by-products, including molybdenum, silver, zinc, sulfuric acid and other metals.

Metal inventories, consisting of work-in-process and finished goods, are carried at the lower of average cost or net realizable value (NRV). Costs of work-in-process inventories and finished goods mainly include power, labor, fuel, operating and repair materials, depreciation, amortization, depletion, and other necessary costs related to the extraction

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**SOUTHERN COPPER CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

and processing of ore, including mining, milling, concentrating, smelting, refining, leaching and chemical processing. Costs incurred in the production of metal inventories exclude general and administrative costs. Once molybdenum, silver, zinc and other by-products are identified, they are transferred to their respective production facilities and the incremental cost required to complete production is assigned to their inventory value.

Work-in-process inventories represent materials that are in the process of being converted into a saleable product. Conversion processes vary depending on the nature of the copper ore and the specific mining operation. For sulfide ores, processing includes milling and concentrating and results in the production of copper and molybdenum concentrates.

Finished goods include saleable products (e.g., copper concentrates, copper anodes, copper cathodes, copper rod, molybdenum concentrate and other metallurgical products).

Supplies inventories are carried at the lower of average cost or net realizable value (NRV).

*Long-term inventory-Ore stockpiles on leach pads.*

The leaching process is an integral part of the mining operations carried out at the Company's open-pit mines. The Company capitalizes the production cost of leachable material at its Toquepala, La Caridad and Buenavista mines recognizing it as inventory. This cost includes mining and haulage costs incurred to deliver ore to leach pads, depreciation, amortization, depletion and site overhead costs. The estimates of recoverable mineral content contained in the leaching dumps are supported by engineering studies. As the production cycle of the leaching process is significantly longer than the conventional process of concentrating, smelting and electrolytic refining, the Company includes on its balance sheet current leach inventory (included in work-in-process inventories) and long-term leach inventory. At the Company's Mexican operations, the amortization of leachable material is recorded by the units of production method. At the Company's Peruvian operations, the amortization is based on the historical recovery percentages of each mine.

*Property—*

Property is recorded at acquisition cost, net of accumulated depreciation and amortization. Cost includes major expenditures for improvements and replacements, which extend useful lives or increase capacity and interest costs associated with significant capital additions. Maintenance, repairs, normal development costs at existing mines and gains or losses on assets retired or sold are reflected in earnings as incurred.

Buildings and equipment are depreciated on the straight-line method over estimated lives from two to 50 years or the estimated life of the mine if shorter.

*Mine development—*

Mine development includes primarily the cost of acquiring land rights to an exploitable ore body, pre-production stripping costs at new mines that are commercially exploitable, costs associated with bringing new mineral properties into production, and removal of overburden to prepare unique and identifiable areas outside the current mining area for such future production. Mine development costs are amortized on a unit of production basis over the remaining life of the mines.

There is a diversity of practices in the mining industry in the treatment of drilling and other related costs to delineate new ore reserves. The Company follows the practices outlined in the next two paragraphs in its treatment of drilling and related costs.

Drilling and other associated costs incurred in the Company's efforts to delineate new resources, whether near-mine or Greenfield are expensed as incurred. These costs are classified as mineral exploration costs. Once the Company

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## **SOUTHERN COPPER CORPORATION AND SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

determines through feasibility studies that proven and probable reserves exist and that the drilling and other associated costs embody a probable future benefit that involves a capacity, singly or in combination with other assets, to contribute directly or indirectly to future net cash inflow, then the costs are classified as mine development costs. These mine development costs incurred prospectively to develop the property are capitalized as incurred, until the commencement of production, and are amortized using the units of production method over estimated life of the ore body. During the production stage, drilling and other related costs incurred to maintain production are included in production cost in the period in which they are incurred.

Drilling and other related costs incurred in the Company's efforts to delineate a major expansion of reserves at an existing production property are expensed as incurred. Once the Company determines through feasibility studies that proven and probable incremental reserves exist and that the drilling and other associated costs embody a probable future benefit that involves a capacity, singly or in combination with other assets, to contribute directly or indirectly to future net cash inflow, then the costs are classified as mine development costs. These incremental mine development costs are capitalized as incurred, until the commencement of production and amortized using the units of production method over the estimated life of the ore body. A major expansion of reserves is one that increases total reserves at a property by approximately 10% or more.

For the years ended December 31, 2019, 2018 and 2017, the Company did not capitalize any drilling and related costs.

#### *Asset retirement obligations (reclamation and remediation costs)—*

The fair value of a liability for asset retirement obligations is recognized in the period in which the liability is incurred. The liability is measured at fair value and is adjusted to its present value in subsequent periods as accretion expense is recorded. The corresponding asset retirement costs are capitalized as part of the carrying value of the related long-lived assets and depreciated over the asset's useful life.

#### *Intangible assets—*

Intangible assets include primarily the excess amount paid over the book value for investment shares which are presented as mining concessions, and mining and engineering development studies. Intangible assets are carried at acquisition costs, net of accumulated amortization and are amortized principally on a unit of production basis over the estimated remaining life of the mines. Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable.

#### *Debt issuance costs—*

Debt issuance costs related to a recognized debt liability are 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.

#### *Ore reserves—*

The Company periodically reevaluates estimates of its ore reserves, which represent the Company's estimate as to the amount of unmined copper remaining in its existing mine locations that can be produced and sold at a profit. Such estimates are based on engineering evaluations derived from samples of drill holes and other openings, combined with assumptions about copper market prices and production costs at each of the respective mines.

The Company updates its estimate of ore reserves at the beginning of each year. In this calculation, the Company uses current metal prices which are defined as the average metal price over the preceding three years. The current price per pound of copper, as defined, was \$2.82, \$2.64 and \$2.50 at the end of 2019, 2018 and 2017, respectively. The ore reserve estimates are used to determine the amortization of mine development and intangible assets.

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**SOUTHERN COPPER CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Once the Company determines through feasibility studies that proven and probable reserves exist and that the drilling and other associated costs embody a probable future benefit that involves a capacity, singly or in combination with other assets, to contribute directly or indirectly to future net cash inflow, then the costs are classified as mine development costs and the Company discloses the related ore reserves.

*Exploration—*

Tangible and intangible costs incurred in the search for mineral properties are charged against earnings when incurred.

*Income taxes—*

Provisions for income taxes are based on taxes payable or refundable for the current year and deferred taxes on temporary differences between the amount of taxable income and pretax financial income and between the tax bases of assets and liabilities and their reported amounts in the financial statements. Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized and settled as prescribed in ASC 740 “Income taxes.” As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. Deferred income tax assets are reduced by any benefits that, in the opinion of management, are more likely not to be realized.

The Company’s operations involve dealing with uncertainties and judgments in the application of complex tax regulations in multiple jurisdictions. The final taxes paid are dependent upon many factors, including negotiations with taxing authorities in various jurisdictions and resolution of disputes arising from federal, state, and international tax audits. The Company recognizes potential liabilities and records tax liabilities for anticipated tax audit issues in the U.S. and other tax jurisdictions based on its estimate of whether, and the extent to which, additional taxes will be due. The Company follows the guidance of ASC 740 “Income taxes” to record these liabilities. (See Note 7 “Income taxes” of the consolidated financial statements for additional information). The Company adjusts these reserves in light of changing facts and circumstances; however, due to the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from the Company’s current estimate of the tax liabilities. If its estimate of tax liabilities proves to be less than the ultimate assessment, an additional charge to expense would result. If payment of these amounts ultimately proves to be less than the recorded amounts, the reversal of the liabilities would result in tax benefits being recognized in the period when the Company determines the liabilities are no longer necessary.

The Company classifies income tax-related interest and penalties as income taxes in the financial statements, as well as interest and penalties, if any, related to unrecognized tax benefits.

On December 22, 2017, the U.S. government enacted the “Tax Cuts and Jobs Act” (the “TCJA”). The TCJA contains numerous provisions, the following of which most significantly impact the Company: (i) a decrease in the corporate tax rate from 35% to 21%; (ii) a transition of the U.S. taxation of international operation from a worldwide system to a quasi-territorial system and a one-time transition tax on the mandatory deemed repatriation of the higher accumulated post-1986 deferred foreign income as of November 2, 2017 or

December 31, 2017, (iii) generally eliminates U.S. federal income taxes on dividends from foreign subsidiaries, requiring a current inclusion in U.S. federal taxable income of certain earnings of controlled foreign corporations and (iv) limitations on the use of foreign tax credits to reduce the U.S. income tax liability.

The U.S. Securities and Exchange Commission (“SEC”) issued Staff Accounting Bulletin No. 118 (“SAB 118”), which provides guidance on accounting for the tax effects of the TCJA. The Company has adopted SAB 118. Accordingly, the provisions of the TCJA deemed most relevant to the Company were considered in preparation of its financial statements as of December 31, 2017 based on the Company’s best estimate, and the provisions of the TCJA were finalized in its

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**SOUTHERN COPPER CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

financial statements as of December 31, 2018. See further disclosure regarding the impacts of the TCJA and the adoption of SAB 118 in Note 7 to the accompanying consolidated financial statements.

*Foreign exchange—*

The Company's functional currency is the U.S. dollar. As required by local law, both the Peruvian Branch and Minera Mexico maintain their books of accounts in Peruvian soles and Mexican pesos, respectively.

Foreign currency assets and liabilities are remeasured into U.S. dollars at current exchange rates, except for non-monetary items such as inventory, property, intangible assets and other assets which are remeasured at historical exchange rates. Revenues and expenses are generally translated at actual exchange rates in effect during the period, except for those items related to balance sheet amounts that are remeasured at historical exchange rates. Gains and losses from foreign currency remeasurement are included in earnings of the period.

Gains and (losses) resulting from foreign currency transactions are included in "Cost of sales (exclusive of depreciation, amortization and depletion)."

*Asset impairments -*

The Company evaluates long-term assets when events or changes in economic circumstances indicate that the carrying amount of such assets may not be recoverable. These evaluations are based on business plans that are prepared using a time horizon that is reflective of the Company's expectations of metal prices over its business cycle. The Company is currently using a long-term average copper price and an average molybdenum price for impairment tests, reflective of what the Company believes is the lower level of the current price environment. The results of its impairment tests using these long-term copper and molybdenum prices show no impairment in the carrying value of their assets.

In recent years testing using assumptions for long-term average prices have resulted in stricter evaluation for impairment analysis than would the higher three year average prices for copper and molybdenum prices. Should this situation reverse in the future with three year average prices below the long-term price assumption, the Company would assess the need to use the three year average prices in its evaluations. The Company uses an estimate of the future undiscounted net cash flows of the related asset or asset group over the remaining life to measure whether the assets are recoverable and measures any impairment by reference to fair value.

*Other comprehensive income—*

Comprehensive income represents changes in equity during a period, except those resulting from investments by owners and distributions to owners. During the fiscal years ended December 31, 2019, 2018 and 2017, the components of "other comprehensive income (loss)" were, the unrecognized gain (loss) on employee benefit obligations and foreign currency translation adjustments.

*Business segments-*

Company management views Southern Copper as having three reportable segments and manages it on the basis of these segments. The segments identified by the Company are: 1) the Peruvian operations, which include the two open-pit copper mines in Peru and the plants and services supporting such mines, 2) the Mexican open-pit copper mines, which include La Caridad and Buenavista mine complexes and their supporting facilities and 3) the Mexican underground mining operations, which include five underground mines that produce zinc, lead, copper, silver and gold, a coal mine and a zinc refinery. Please see Note 18 “Segments and Related Information.”

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**SOUTHERN COPPER CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Senior management of the Company focus on operating income as measure of performance to evaluate different segments, and to make decisions to allocate resources to the reported segments. This is a common measure in the mining industry.

*Leases -*

The Company adopted FASB ASC 842, Leases, effective January 1, 2019. The Company determined if a contract is or contained a lease at its inception. The Company evaluated if a contract gave the right to obtain substantially all of the economic benefits from use of an identified asset and the right to direct the use of the asset, in order to determine if a contract contained a lease. All of the Company's existing lease contracts are operating lease contracts. For these leases, the Company recognized right-of-use assets and the corresponding operating lease liabilities on its consolidated balance sheet. Right-of-use assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent an obligation by the Company to make lease payments which arise from the lease. Lease right-of-use assets and liabilities are recognized at the inception date based on the present value of lease payments over the lease term. As the Company's lease contracts do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at the inception date in order to determine the present value of lease payments. Lease expense for lease payments is recognized on a straight-line basis over the lease term, in the cost of sales and operating expenses. The Company elected the transition approach whereby it applied the new leases standard at the adoption date and recognized a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company elected the short-term lease recognition exemption (short-term lease practical expedient) by class of underlying asset (which results in off-balance-sheet accounting for the lease).

**NOTE 3—SHORT-TERM INVESTMENTS:**

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

|                                | <u>At December 31,</u> |                 |
|--------------------------------|------------------------|-----------------|
|                                | <u>2019</u>            | <u>2018</u>     |
| Trading securities             | \$ 80.0                | \$ 213.1        |
| Weighted average interest rate | 2.0 %                  | 2.2 %           |
| Available-for-sale             | \$ 0.7                 | \$ 0.7          |
| Weighted average interest rate | 0.7 %                  | 0.7 %           |
| Total                          | <u>\$ 80.7</u>         | <u>\$ 213.8</u> |

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, as of December 31, 2019 and 2018, included corporate bonds and asset and mortgage backed obligations. As of December 31, 2019 and 2018, 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 consolidated statement of earnings. Also the Company redeemed some of these securities and recognized gains (losses) due to changes in fair value, which were recorded as other income (expense) in the consolidated statement of earnings.

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**SOUTHERN COPPER CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

|   | <b>Years ended</b>  |             |
|---|---------------------|-------------|
|   | <b>December 31,</b> |             |
|   | <b>2019</b>         | <b>2018</b> |
| <b>Trading:</b>                                 |                     |             |
| Interest earned                                 | \$0.6               | \$ 0.5      |
| Unrealized gain (loss) at the end of the period | \$(*)               | \$(0.2)     |
| <b>Available-for-sale:</b>                      |                     |             |
| Interest earned                                 | (*)                 | (*)         |
| Investment redeemed                             | \$ —                | \$ 0.3      |

(\*) Less than \$0.1 million

At December 31, 2019 and 2018, contractual maturities of the available-for-sale debt securities are as follows (in millions):

|   | <b>2019</b>   | <b>2018</b>   |
|---|---------------|---------------|
| One year or less                            | \$ —          | \$ —          |
| Maturing after one year through five years  | —             | —             |
| Maturing after five years through ten years | —             | —             |
| Due after 10 years                          | 0.7           | 0.7           |
| <b>Total debt securities</b>                | <b>\$ 0.7</b> | <b>\$ 0.7</b> |

**NOTE 4—INVENTORIES:**

|                                | <b>At December 31,</b> |                  |
|--------------------------------|------------------------|------------------|
| <b>(in millions)</b>           | <b>2019</b>            | <b>2018</b>      |
| <b>Inventory, current:</b>     |                        |                  |
| Metals at average cost:        |                        |                  |
| Finished goods                 | \$ 87.2                | \$ 69.6          |
| Work-in-process                | 259.7                  | 256.8            |
| Ore stockpiles on leach pads   | 358.4                  | 328.0            |
| Supplies at average cost       | 363.2                  | 378.3            |
| <b>Total current inventory</b> | <b>\$1,068.5</b>       | <b>\$1,032.7</b> |
| <b>Inventory, long-term:</b>   |                        |                  |
| Ore stockpiles on leach pads   | \$1,230.3              | \$1,177.4        |

Total leaching costs added as long-term inventory of ore stockpiles in leach pads amounted to \$469.0 million, \$506.6 million and \$513.9 million in 2019, 2018 and 2017, respectively. Long-term leaching inventories recognized as cost of sales amounted to \$385.8 million, \$299.4 million and \$333.5 million in 2019, 2018 and 2017, respectively.

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**SOUTHERN COPPER CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 5—PROPERTY:**

| (in millions)  | At December 31,   |                   |
|--|-------------------|-------------------|
|  | 2019              | 2018              |
| Buildings and equipment                              | \$15,016.1        | \$14,294.0        |
| Construction in progress                             | 1,294.8           | 1,516.9           |
| Mine development                                     | 267.5             | 267.9             |
| Mineral assets                                       | 83.2              | 83.2              |
| Land, other than mineral                             | 200.1             | 164.1             |
| Total property                                       | 16,861.7          | 16,326.1          |
| Accumulated depreciation, amortization and depletion | (7,490.7)         | (6,922.3)         |
| Total property and mine development, net             | <u>\$ 9,371.0</u> | <u>\$ 9,403.8</u> |

Construction in progress decreased in 2019 as a result of the completion of some of the Company expansion projects. Depreciation and depletion expense for the years ended December 31, 2019, 2018 and 2017, amounted to \$759.9 million, \$668.9 million and \$665.2 million, respectively.

**NOTE 6—INTANGIBLE ASSETS:**

| (in millions)                            | At December 31, |                 |
|--|-----------------|-----------------|
|  | 2019            | 2018            |
| Mining concessions                       | \$ 121.2        | \$ 121.2        |
| Mine engineering and development studies | 19.8            | 19.8            |
| Software                                 | 55.9            | 49.6            |
|  | 196.9           | 190.6           |
| Accumulated amortization:                |                 |                 |
| Mining concessions                       | (38.0)          | (37.4)          |
| Mine engineering and development studies | (16.3)          | (15.3)          |
| Software                                 | (36.1)          | (32.1)          |
|  | (90.4)          | (84.8)          |
| Goodwill                                 | 41.9            | 41.9            |
| Intangible assets, net                   | <u>\$ 148.4</u> | <u>\$ 147.7</u> |

Amortization of intangibles for the years ended December 31, 2019, 2018 and 2017, amounted to \$4.5 million, \$5.4 million and \$5.9 million, respectively. Estimated amortization is as follows:

| Estimated amortization expense (in millions): |               |
|---|---------------|
| 2020  | \$ 9.6        |
| 2021  | 5.5           |
| 2022  | 5.6           |
| 2023  | 5.5           |
| 2024  | 4.3           |
| Total 2020 - 2024                             | \$ 30.5       |
| Average annual                                | <u>\$ 6.1</u> |

Goodwill includes \$17.0 million generated in 1997 as a result of purchasing a third party interest in the Buenavista mine. It also includes \$24.9 million representing the amount of the purchase price in excess of the fair value of the net assets acquired from El Pilar mine. 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.



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## **SOUTHERN COPPER CORPORATION AND SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

#### **NOTE 7—INCOME TAXES:**

Since March 2009, Grupo Mexico, through its wholly-owned subsidiary AMC, owns an interest in excess of 80% of SCC. Accordingly, SCC's results are included in the consolidated results of the Grupo Mexico subsidiary for U.S. federal income tax reporting. SCC provides current and deferred income taxes, as if it were filing a separate U.S. federal income tax return.

On December 22, 2017, the TCJA was signed into law, making substantial changes to the 1986 Internal Revenue Code. Changes under the TCJA include, among others, a decrease in the corporate tax rate from 35% to 21%, the transition of the U.S. taxation of international operation from a worldwide system to a quasi-territorial system, a one-time transition tax on the mandatory deemed repatriation of the higher of the accumulated foreign income as of November 2, 2017 or December 31, 2017, a general elimination of U.S. federal income taxes on dividends from foreign subsidiaries, and a current inclusion in U.S. federal taxable income of certain earnings of controlled foreign corporations.

Although most provisions of the TCJA began on January 1, 2018, ASC 740 "Income Taxes" requires that the effects of tax law changes be recognized in the year and period of the law change and be reflected in the company's financial results for 2017. On December 22, 2017, the SEC staff issued SAB 118 to address the application of U.S. GAAP in situations when a registrant did not have the necessary information available, prepared, or analyzed in reasonable detail to complete the accounting for certain income tax effects of the TCJA. SAB 118 required a company to reflect the income tax effects of the TCJA for which the accounting under ASC 740 "Income Taxes" is complete; if it is incomplete but the Company is able to determine a reasonable estimate, a provisional estimate must be provided in the financial statements. If a provisional estimate cannot be reasonably prepared, the Company should continue to apply ASC 740 on the basis of the provision of the tax law that were in effect immediately before the enactment of the TCJA. Companies had one year from the enactment of the TCJA to finalize accounting for the impacts of the TCJA.

The Company adopted SAB 118 and accordingly recorded a provisional \$785.9 million non-cash tax expense for the estimated effects of the TCJA in its 2017 financial statements as a result of adjustments related to the valuation allowances for foreign tax credits and other deferred tax assets, valuation of net deferred tax assets due to the rate change from 35% to 21% and the transition tax on the repatriation of cumulative foreign earnings. In 2018, the Company determined the final impact of the TCJA to be \$816.8 million, a \$30.9 million change from the provisional amount estimated at December 31, 2017.

For 2018, the TCJA created a new category of foreign income, the Global Intangible Low Tax Income or GILTI.

The new GILTI provisions impose a tax on foreign income in excess of a deemed return on tangible assets of foreign corporations. For 2018, there was no U.S. tax liability from the GILTI inclusion. The Company does not anticipate a tax on GILTI in the future because of increased fixed asset amounts and with a Mexican tax rate of 30% no U.S. deferred taxes would be recorded. Accordingly, the Company has elected that if GILTI were to apply in the future, a current period expense would be recorded when incurred.

The Base Erosion Anti-Abuse Tax (BEAT) is a 5% minimum tax for tax year 2018, 10% for the years 2019 through 2025 and 12.5% in years thereafter. It is calculated on a base equal to

the Company's income determined without the tax benefit arising from base erosion payments. The Company did not incur a BEAT liability in 2018 and 2019 since it has met the safe harbor rule that provides a Company not to be subject to the BEAT if related party payments from the U.S. to foreign entities does not exceed 3% of expenses excluding cost of goods sold. The Company must continue to analyze applicability of the BEAT provisions on a quarterly basis.

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**SOUTHERN COPPER CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The components of the provision for income taxes for the three years ended December 31, 2019, are as follows:

| (in millions)                    | 2019           | 2018             | 2017             |
|----------------------------------|----------------|------------------|------------------|
| U.S. federal and state:          |                |                  |                  |
| Current                          | \$ —           | \$ 2.6           | \$ —             |
| Deferred                         | —              | (13.0)           | 686.2            |
| Uncertain tax positions          | (1.3)          | —                | 16.2             |
|                                  | <u>(1.3)</u>   | <u>(10.4)</u>    | <u>702.4</u>     |
| Foreign (Peru and Mexico):       |                |                  |                  |
| Current                          | 966.3          | 1,102.4          | 951.7            |
| Deferred                         | (30.1)         | (38.5)           | (60.7)           |
| Uncertain tax positions          | 10.4           | —                | —                |
|                                  | <u>946.6</u>   | <u>1,063.9</u>   | <u>891.0</u>     |
| Total provision for income taxes | <u>\$945.3</u> | <u>\$1,053.5</u> | <u>\$1,593.4</u> |

The source of income is as follows:

| (in millions)                   | 2019             | 2018             | 2017             |
|---------------------------------|------------------|------------------|------------------|
| Earnings by location:           |                  |                  |                  |
| U.S.                            | \$ (1.9)         | \$ (2.3)         | \$ (1.5)         |
| Foreign                         |                  |                  |                  |
| Peru                            | 513.0            | 441.8            | 284.6            |
| Mexico                          | <u>1,915.4</u>   | <u>2,149.9</u>   | <u>2,019.6</u>   |
|                                 | <u>2,428.4</u>   | <u>2,591.7</u>   | <u>2,304.2</u>   |
| Earnings before taxes on income | <u>\$2,426.5</u> | <u>\$2,589.4</u> | <u>\$2,302.7</u> |

The reconciliation of the statutory income tax rate to the effective tax rate for the three years ended December 31, 2019, is as follows (in percentage points):

|   | 2019          | 2018          | 2017          |
|---|---------------|---------------|---------------|
| Expected tax at U.S. statutory rate   | 21.0 %        | 21.0 %        | 35.0 %        |
| Foreign tax at other than statutory rate, net of foreign tax credit benefit (1)   | 14.0          | 13.9          | 0.6           |
| Percentage depletion  | (2.7)         | (2.1)         | (2.9)         |
| Other permanent differences   | 0.1           | 0.4           | 5.2           |
| Change in 2017 valuation allowance on U.S. deferred tax assets, foreign tax credits and U.S. tax effect on Peruvian deferred taxes  | —             | 7.5           | 26.9          |
| Additional valuation allowance on 2018 U.S. deferred tax assets, foreign tax credits and U.S. tax effect on Peruvian deferred taxes | 10.1          | 1.0           | —             |
| Decrease in 2017 U.S. deferred tax asset due to tax rate changes  | —             | (0.2)         | 4.8           |
| U.S. one time transition tax on accumulated foreign earnings  | —             | 0.4           | 2.4           |
| Increase (decrease) in unrecognized tax benefits for uncertain tax positions  | (2.1)         | —             | 0.7           |
| Repatriated foreign earnings  | —             | —             | (2.0)         |
| Amounts (over) / under provided in prior years  | (1.1)         | (1.3)         | (0.1)         |
| Other   | (0.3)         | 0.1           | (1.4)         |
| Effective income tax rate   | <u>39.0 %</u> | <u>40.7 %</u> | <u>69.2 %</u> |

- (1) Foreign tax at other than statutory rates, net of foreign tax credit benefit, also includes the effects of permanent differences in Peru and Mexico, that are determined at the local statutory rate.

The Company files income tax returns in three jurisdictions, Peru, Mexico and the United States. For the three years presented above, the statutory income tax rate for Mexico was 30%. The United States tax rate was 21% in 2019 and

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**SOUTHERN COPPER CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

2018, and 35% for 2017. The Peruvian tax rate was 29.5% for the three years presented above. While the largest components of income taxes are the Peruvian and Mexican taxes, the Company is a domestic U.S. entity. Therefore, the rate used in the above reconciliation is the U.S. statutory rate.

For all of the years presented, both the Peruvian branch and Minera Mexico filed separate tax returns in their respective tax jurisdictions. Although the tax rules and regulations imposed in the separate tax jurisdictions may vary significantly, similar permanent items exist, such as items which are nondeductible or nontaxable. Some permanent differences relate specifically to SCC such as the allowance in the United States for percentage depletion.

Deferred taxes include the U.S., Peruvian and Mexican tax effects of the following types of temporary differences and carryforwards:

| (in millions)   | At December 31, |              |
|---|-----------------|--------------|
|   | 2019            | 2018         |
| <b>Assets:</b>  |                 |              |
| Inventories   | \$ 55.7         | \$ 61.5      |
| Capitalized exploration expenses  | 14.0            | 11.1         |
| U.S. foreign tax credit carryforward, net of FIN 48 liability   | 731.8           | 483.4        |
| U.S. tax effect of Peruvian deferred tax liability  | 131.3           | 165.1        |
| Provisions  | 145.0           | 155.0        |
| Mexican tax on consolidated dividends   | 9.0             | 14.8         |
| Deferred workers participation  | 24.7            | 27.0         |
| Accrued salaries, wages and vacations   | 10.0            | 9.1          |
| Sales price adjustment (PUI)  | 3.0             | 2.7          |
| Social responsibility expenses  | 2.1             | 2.1          |
| Deferred charges  | 14.5            | 6.1          |
| Valuation allowance on U.S. deferred tax assets, foreign tax credits and U.S. tax effect on Peruvian deferred | (1,097.0)       | (819.1)      |
| Other   | 9.9             | 10.1         |
| <b>Total deferred tax assets</b>  | <b>54.0</b>     | <b>128.9</b> |

| (in millions)  | At December 31, |                 |
|--|-----------------|-----------------|
|  | 2019            | 2018            |
| <b>Liabilities:</b>                                  |                 |                 |
| Property, plant and equipment                        | (45.4)          | (137.3)         |
| Other  | (3.0)           | (0.4)           |
| <b>Total deferred tax liabilities</b>                | <b>(48.4)</b>   | <b>(137.7)</b>  |
| <b>Total net deferred tax (liabilities) / assets</b> | <b>\$ 5.6</b>   | <b>\$ (8.8)</b> |

The valuation allowance increased by \$277.9 million over 2018, mostly due to the valuation of unutilized Foreign Tax Credits generated in 2019 and the valuation of Foreign Tax Credits that were not utilized in the settlement of the 2011-2013 IRS field audit. The Peru branch operations are taxed in the U.S. as a flow through entity to SCC. Prior to 2017 U.S. Tax Reform, the U.S. corporate income tax rate was 35% on the Peru earnings, which enabled the company to use more currently generated foreign tax credits. Since tax reform reduced the U.S. tax rate to 21%, there is less U.S. income tax to absorb currently generated FTC's or carryforwards. Additionally, allowable expenses in the U.S. for percentage depletion and

U.S. sourced interest expense on debt reduced the branch income subject to U.S. tax, further limiting utilization of foreign tax credits.

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**SOUTHERN COPPER CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*U.S. Tax Matters—*

As of December 31, 2019, the Company considers its ownership of the stock of Minera Mexico to be essentially permanent in duration.

As of December 31, 2019, \$1,106.7 million of the Company's total cash, cash equivalents, restricted cash and short-term investments of \$2,005.8 million were held by foreign subsidiaries. The cash, cash equivalents and short-term investments maintained in our foreign operations are generally used to cover local operating and investment expenses. At December 31, 2017, Minera Mexico had determined that it had earnings available for dividends to the United States of \$555.5 million. The 2017 U.S. tax reform introduced a one-time transition tax that is based upon the higher of the Company's total accumulated post-1986 deferred foreign income as of November 2, 2017 or December 31, 2017 estimated to be \$8.9 billion, the majority of which was previously considered to be indefinitely reinvested and accordingly, no U.S. federal and state income taxes were provided. During 2018, the Company finalized its transition tax at \$153.1 million, which was fully offset by foreign tax credits. Upon enactment of the 2017 U.S. tax reform, the Company had calculated and recorded in 2017 a provisional amount of \$181.1 million and reduced it by \$28 million in 2018 when the calculation was finalized. The Company also finalized its calculation of the total accumulated post-1986 deferred foreign income for the applicable entities and amounts held in liquid and non-liquid deferred income. The Company has determined that as of December 31, 2019, a deferred tax asset of \$0.4 billion exists with respect to its investment in foreign subsidiaries. Tax accounting guidance provided in ASC 740 requires this asset to be recognized only if the basis difference will reverse in the foreseeable future. Management has no plans that would result in the reversal of this temporary difference and consequently no deferred tax asset has been recorded. Future dividends from these subsidiaries are no longer subject to federal income tax in the U.S., and the Company incurs no state income tax liability. Additionally there are no withholding taxes due to the tax treaty between the United States and Mexico. Earnings from the Company's Peruvian branch are not subject to transition taxes since they are taxed in the United States on a current basis.

At December 31, 2019, there were \$790.2 million of foreign tax credits available for carryback or carryforward. These credits have a one-year carryback and a ten-year carryforward period and can only be used to reduce U.S. income tax on foreign earnings. There were no other unused U.S. tax credits at December 31, 2019. These credits will expire as follows:

| <b>Year</b>  | <b>Amount</b>   |
|--------------|-----------------|
| 2024         | 39.4            |
| 2025         | 102.0           |
| 2026         | 189.5           |
| 2027         | 105.6           |
| 2028         | 159.6           |
| 2030         | 194.1           |
| <b>Total</b> | <b>\$ 790.2</b> |

These foreign tax credits are presented above on a gross basis and have not been reduced here for any unrecognized tax benefits. These foreign tax credits have been adjusted to include the 2016 Net Operating Loss carryback in the U.S. jurisdiction, increasing foreign tax credits by approximately \$15.9 million. In accordance with ASU 2013-11 the Company has recorded \$58.4 million of an unrecognized tax benefit as an offset to the Company's

deferred tax asset for foreign tax credits. The remaining foreign tax credits of \$731.8 million are being re-valued to zero at December 31, 2019. It is the opinion of management that with the reduction in the U.S. corporate tax rate to 21% and the corporate tax rates in Mexico of 30% and in Peru at 29.5%, it is unlikely the excess foreign tax credits can be utilized. Additionally, foreign dividends will no longer be taxed in the U.S. thereby reducing the U.S. tax on the foreign source income that the credits can be used to offset.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*Peruvian Tax Matters—*

Royalty mining charge: The 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. The minimum royalty charge is recorded as cost of sales and those amounts assessed at higher rates are included in the income tax provision. The Company has accrued \$42.3 million, \$32.9 million and \$23.4 million of royalty charges in 2019, 2018 and 2017, respectively, of which \$14.2 million, \$9.0 million and \$2.5 million were included in income taxes in 2019, 2018 and 2017, respectively.

Peruvian special mining tax: This tax is based on operating income with graduated rates increasing from 2% to 8.4%. The Company recognized \$38.1 million, \$30.6 million and \$23.3 million in 2019, 2018 and 2017, respectively, with respect to this tax. These amounts are included as “income taxes” in the consolidated statement of earnings.

*Mexican Tax Matters—*

In 2013, the Mexican Congress enacted tax law changes that became effective on January 1, 2014. Among other effects, the amounts that Minera Mexico recorded during 2019 were:

- Mining royalty at the rate of 7.5% on taxable earnings before taxes: \$61.6 million.
- Additional royalty of 0.5% over gross income from sales of gold, silver and platinum: \$0.9 million.

On December 28, 2018, the Federal Revenue Law for fiscal year 2019, was published in the Federal Official Gazette, effective as of January 1, 2019. The main tax matters are reported as follows:

The option regarding the benefit of offsetting recoverable balances derived from different federal tax liabilities (e. g. income taxes versus value added tax (VAT)), whether from their own tax obligations or from withholding taxes to third parties, (“universal basis”) was eliminated.

Therefore, effective January 1, 2019, taxpayers will only be able to offset their recoverable balances against those they must pay for their own tax liabilities, including ancillary charge (restatement for inflation and surcharges).

As a consequence of the change mentioned in the previous paragraph, taxpayers will only be able to credit their recoverable balance against their own VAT payable in subsequent months until its exhaustion, or request for a tax refund in full on such recoverable balance.

Notwithstanding the above, the Mexican tax authorities issued a new rule where the taxpayers had the possibility to apply in 2019 the benefit of offsetting recoverable balances from different tax liabilities (VAT versus Income Tax or Income Tax versus VAT) generated up to December 31, 2018, against those recoverable balances for which no offsetting had been made or no tax refund had been previously requested. Based on such rule, taxpayers may offset recoverable balances from their own tax liabilities generated up to December 31, 2018, against those taxes they must pay for their own tax liabilities derived from different federal taxes generated in 2019, including ancillary charges.

The possibility to offset withholding taxes to third parties against taxpayers own tax liabilities is also eliminated.

Effective January 1 2019, the annual income tax withholding rate applicable to interests paid by financial entities to individuals and companies residents in Mexico increased from 0.46% in fiscal year 2018, to 1.04% for fiscal year 2019.

On December 31, 2018, the decree of tax incentives of the Northern Region of Mexico was published in the Official Gazette intending to promote and develop an economic plan for this zone of the country. Such decree provides for a reduction of the income tax at a rate of 20% (in general terms) and the value added tax at a rate of 8%, by means of a tax

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

credit for such purposes, applicable to business activities carried out by individuals, companies and permanent establishments located in the specified territories. These tax incentives are effective from January 1, 2019, and shall be in force in fiscal years 2019 and 2020.

*Accounting for Uncertainty in Income Taxes—*

The total amount of unrecognized tax benefits in 2019, 2018 and 2017, was as follows (in millions):

|  | <u>2019</u>    | <u>2018</u>    | <u>2017</u>    |
|--|----------------|----------------|----------------|
| Unrecognized tax benefits, opening balance               | \$ 214.5       | \$214.5        | \$304.0        |
| Gross increases—tax positions in prior period            | (7.5)          | —              | (89.5)         |
| Gross increases—current-period tax positions             | (4.2)          | —              | —              |
| Decreases related to settlements with taxing authorities | (144.4)        | —              | —              |
|  | <u>(156.1)</u> | <u>—</u>       | <u>(89.5)</u>  |
| Unrecognized tax benefits, ending balance                | <u>\$ 58.4</u> | <u>\$214.5</u> | <u>\$214.5</u> |

The amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$10.5 million at December 31, 2019 for unrecognized tax benefits in the Peruvian jurisdiction. Any recognition of unrecognized tax benefits within the U.S. jurisdiction would not affect the effective tax rate as long as the Company continues to value U.S. deferred tax assets including foreign tax credits. The Company has no unrecognized Mexican tax benefits.

The Company effectively settled and closed the U.S. 2011-2013 IRS field audit in the second quarter of 2019. The Company's U.S. IRS audit of 2014 -2016 commenced in 2019.

As of December 31, 2019, the Company's liability for uncertain tax positions included accrued interest and penalties in the Peruvian jurisdiction of \$ 10.5 million. As of December 31, 2018 and December 31, 2017 the Company's liability for uncertain tax positions included U.S. accrued interest and penalties of \$1.9 million.

The following tax years remain open to examination and adjustment in the Company's three major tax jurisdictions:

|         |                               |
|---------|-------------------------------|
| Peru:   | 2014 and all subsequent years |
| U.S.:   | 2014 and all subsequent years |
| Mexico: | 2014 and all subsequent years |

Management does not expect that any of the open years will result in a cash payment within the U.S. jurisdiction in the upcoming twelve months ending December 31, 2020. Management expects that \$9.8 million in cash payments in the Peruvian jurisdiction will be paid within the upcoming twelve months ending December 31, 2020. The Company's reasonable expectations about future resolutions of uncertain items did not materially change during the year ended December 31, 2019.

**NOTE 8—WORKERS' PARTICIPATION:**

The Company's operations in Peru and Mexico are subject to statutory workers' participation.

In Peru, the provision for workers' participation is calculated at 8% of pre-tax earnings. The current portion of this participation, which is accrued during the year, is based on the Peruvian Branch's taxable income and is distributed to workers following determination of final results for the year. The annual amount payable to an individual worker is capped at the worker's salary for an 18 month period. Amounts determined in excess of the 18 months of worker's salary is no longer made as a payment to the worker and is levied first for the benefit of the "Fondo Nacional de Capacitacion

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“Laboral y de Promocion del Empleo” (National Workers’ Training and Employment Promotion Fund) until this entity receives from all employers in its region an amount equivalent to 2,200 Peruvian taxable units (approximately \$2.8 million in 2019). Any remaining excess is levied as payment for the benefit of the regional governments. These levies fund worker training, employment promotion, entrepreneurship and various other programs.

In Mexico, workers’ participation is determined using the guidelines established in the Mexican income tax law at a rate of 10% of pre-tax earnings as adjusted by the tax law.

The provision for workers’ participation is allocated to “Cost of sales (exclusive of depreciation, amortization and depletion)” and to “selling, general and administrative” in the consolidated statement of earnings, proportional to the number of workers in the production and administrative areas, respectively. Workers’ participation expense for the three years ended December 31, 2019 was as follows (in millions):

|          | <u>2019</u>    | <u>2018</u>    | <u>2017</u>    |
|----------|----------------|----------------|----------------|
| Current  | \$188.8        | \$219.9        | \$192.7        |
| Deferred | 29.8           | 9.8            | 6.6            |
|          | <u>\$218.6</u> | <u>\$229.7</u> | <u>\$199.3</u> |

**NOTE 9—LEASES:**

The Company has operating leases for power generating facilities, vehicles and properties. The Company recognizes lease expense for these leases on a straight-line basis over the lease term. Some of the Company’s leases include both lease and non-lease components which are accounted for separately. The Company’s leases have remaining lease terms of two years to 13 years, and do not include options to extend the leases. The Company’s lease agreements do not contain options to purchase the leased assets or to terminate the leases before the expiration date. In addition, the Company’s lease contracts do not have any material residual value guarantees or material restrictive covenants. As none of the Company’s leases provides an implicit rate, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments.

The weighted average remaining lease term for the Company’s leases is 9 years, and the weighted average discount rate for these leases is 3.66%.

The operating lease expense recognized in the twelve months ended December 31, 2019 was classified as follows (in millions):

| <u>Classification</u>   | <u>2019</u>     |
|---|-----------------|
| Cost of sales (exclusive of depreciation, amortization and depletion) | \$ 114.4        |
| Selling, general and administrative                                   | 0.2             |
| Exploration   | 0.2             |
| Total lease expense   | <u>\$ 114.8</u> |

The Company’s short-term lease costs for the twelve months ended December 31, 2019 was \$0.4 million.

Maturities of lease liabilities were as follows:

| <b>Year</b> | <b>Lease liabilities<br/>(in millions)</b> |
|-------------|--|
| 2020        | \$ 116.1                                   |
| 2021        | 116.0                                      |
| 2022        | 112.9                                      |
| 2023        | 111.6                                      |
| 2024        | 103.6                                      |
| After 2024  | <u>826.3</u>                               |

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

|                                     |                   |
|-------------------------------------|-------------------|
| Total lease payments                | \$ 1,386.5        |
| Less: interest on lease liabilities | (340.1)           |
| Present value of lease payments     | <u>\$ 1,046.4</u> |

**NOTE 10—ASSET RETIREMENT OBLIGATION:**

The Company maintains an 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.

On June 24, 2019, MINEM approved a change to the guarantees required for the mining closure plans. The new regulation specifies that the annual guarantees can be secured with real estate up to a maximum of 50% and the remaining amount with credit instruments. Currently, the Company has pledged the value of its Lima office complex for the 50% of the guarantee and with a stand-by letter of credit for the other 50% as security for this obligation. Through January 2020, the Company has provided total guarantees of \$47.1 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 Ilo smelter and refinery, and the shops and auxiliary facilities at the three units. In March 2016, MINEM approved the Mining Closure Plan for the Toquepala expansion project and the revised closure plans for the Cuajone mine and the Ilo facilities were approved in January and October 2019, respectively. As result of these new estimates, the Company increased the asset retirement obligation by \$28.1 million in 2019. The closure plan for the Tia Maria project was approved in February 2017. The Company, however, has not recorded a retirement obligation for the project because the work on the project is on hold. The Company believes that under these circumstances the recording of a retirement obligation is not appropriate.

The Company has recognized an estimated asset retirement obligation for its mining properties in Mexico as part of its environmental commitment. Even though there is currently no enacted law, statute, ordinance, written or oral contract requiring the Company to carry out mine closure and environmental remediation activities, the Company believes that an obligation presently exists based on historical government requirements for the closure of any facility. The overall cost recognized for mining closure in Mexico includes the estimated costs of dismantling concentrators, smelter and refinery plants, shops and other facilities. During 2018, the Company made a change in the estimate for the asset retirement obligation for its Mexican operations, mainly due to a change in the discount rate used to determine such obligation. The effect of this change was a reduction in the asset retirement obligation of \$10.4 million, which was recorded in the second quarter of 2018.

The following table summarizes the asset retirement obligation activity for years ended December 31, 2019 and 2018 (in millions):

|                         | <u>2019</u> | <u>2018</u> |
|-------------------------|-------------|-------------|
| Balance as of January 1 | \$ 217.7    | \$ 222.5    |
| Changes in estimates    | 36.4        | (15.6)      |

|                            |                 |                 |
|----------------------------|-----------------|-----------------|
| Closure payments           | (5.3)           | (0.6)           |
| Accretion expense          | 13.5            | 11.4            |
| Balance as of December 31, | <u>\$ 262.3</u> | <u>\$ 217.7</u> |

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 11—FINANCING:**

*Long-term debt (in millions):*

|  | Face<br>amount    | Issuance<br>discount | Issuance<br>costs | Carrying<br>value as of<br>December 31,<br>2019 |
|--|-------------------|----------------------|-------------------|---|
| 5.375% Senior unsecured notes due 2020               | \$ 400            | (0.1)                | \$ (0.1)          | \$ 399.8  |
| 3.500% Senior unsecured notes due 2022               | 300               | (0.3)                | (0.5)             | 299.2   |
| 3.875% Senior unsecured notes due 2025               | 500               | (1.6)                | (1.5)             | 496.9   |
| 9.250% Yankee bonds due 2028                         | 51.2              | —                    | —                 | 51.2  |
| 7.500% Senior unsecured notes due 2035               | 1,000             | (12.4)               | (8.3)             | 979.3   |
| 6.750% Senior unsecured notes due 2040               | 1,100             | (7.1)                | (5.7)             | 1,087.2   |
| 5.250% Senior unsecured notes due 2042               | 1,200             | (19.0)               | (6.3)             | 1,174.7   |
| 5.875% Senior unsecured notes due 2045               | 1,500             | (16.4)               | (8.6)             | 1,475.0   |
| 4.500% Minera Mexico Senior unsecured notes due 2050 | 1,000             | (12.7)               | (9.8)             | 977.5   |
| Total  | <u>\$ 7,051.2</u> | <u>\$ (69.6)</u>     | <u>\$ (40.8)</u>  | 6,940.8   |
| Less, current portion                                |                   |                      |                   | (399.8)   |
| Total long-term debt                                 |                   |                      |                   | <u>\$ 6,541.0</u>                               |

|  | Face<br>amount  | Issuance<br>discount | Issuance<br>costs | Carrying<br>value as of<br>December 31,<br>2018 |
|--|-----------------|----------------------|-------------------|---|
| 5.375% Senior unsecured notes due 2020 | \$ 400          | \$ (0.3)             | \$ (0.4)          | \$ 399.3  |
| 3.500% Senior unsecured notes due 2022 | 300             | (0.5)                | (0.6)             | 298.9   |
| 3.875% Senior unsecured notes due 2025 | 500             | (1.8)                | (1.8)             | 496.4   |
| 9.250% Yankee bonds due 2028           | 125             | —                    | —                 | 51.2  |
| 7.500% Senior unsecured notes due 2035 | 1,000           | (12.9)               | (8.4)             | 978.7   |
| 6.750% Senior unsecured notes due 2040 | 1,100           | (7.3)                | (5.8)             | 1,086.9   |
| 5.250% Senior unsecured notes due 2042 | 1,200           | (19.4)               | (6.5)             | 1,174.1   |
| 5.875% Senior unsecured notes due 2045 | 1,500           | (16.6)               | (8.8)             | 1,474.6   |
| Total                                  | <u>\$ 6,125</u> | <u>\$ (58.8)</u>     | <u>\$ (32.3)</u>  | 5,960.1   |
| Less, current portion                  |                 |                      |                   | —   |
| Total long-term debt                   |                 |                      |                   | <u>\$ 5,960.1</u>                               |

The bonds, referred above as “Yankee bonds”, contain a covenant requiring Minera Mexico to maintain a ratio of EBITDA to interest expense of not less than 2.5 to 1.0 as such terms are defined in the debt instrument. At December 31, 2019, Minera Mexico was in compliance with this covenant.

Between July 2005 and November 2012 the Company issued senior unsecured notes six times totaling \$4.2 billion, as listed above. Interest on the notes is paid semi-annually in

arrears. The notes rank *pari passu* with each other and rank *pari passu* in right of payment with all of the Company's other existing and future unsecured and unsubordinated indebtedness. On April 20, 2015, the Company issued \$2.0 billion of fixed-rate senior unsecured notes. This debt was issued in two tranches, \$500 million due 2025 at an annual interest rate of 3.875% and \$1.5 billion due 2045 at an annual interest rate of 5.875%. These notes are general unsecured obligations of the Company and rank equally with all of its existing and future unsecured and unsubordinated debt. Net proceeds are being used for general corporate purposes, including the financing of the Company's capital investment program. The notes were issued with an underwriters' discount of \$20.2 million. Additionally, issuance costs of \$11.8 million associated with these notes were paid and

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

deferred. The unamortized balance of the discount and the costs are presented net of the carrying value of the debt issued and are amortized as interest expense over the life of the loan.

The indentures relating to the notes contain certain restrictive covenants, including limitations on liens, limitations on sale and leaseback transactions, rights of the holders of the notes upon the occurrence of a change of control triggering event, limitations on subsidiary indebtedness and limitations on consolidations, mergers, sales or conveyances. Certain of these covenants cease to be applicable before the notes mature if the Company obtains an investment grade rating. The Company obtained investment grade rating in 2005. The Company has registered these notes under the Securities Act of 1933, as amended. The Company may issue additional debt from time to time pursuant to certain of the indentures.

If the Company experiences a “Change of Control Triggering Event”, the Company must offer to repurchase the notes at a purchase price equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any. A Change of Control Trigger Event means a Change of Control (as defined) and a rating decline (as defined), that is, if the rating of the notes, by at least one of the rating agencies shall be decreased by one or more gradations.

At December 31, 2019, the Company was in compliance with the covenants of the notes.

**New Minera Mexico S.A. de C.V. Notes:**

On September 26, 2019, SCC’s subsidiary Minera Mexico S.A. de C.V. issued \$1.0 billion of fixed-rate senior notes with a discount of \$12.7 million, which is being amortized over the term of the related debt. This debt was issued in one tranche, due in 2050 at an annual interest rate of 4.5%. Interest on the notes will be paid semi-annually in arrears. The Company intends to use the net proceeds from this offering (i) to finance Minera Mexico expansion program, including the Buenavista Zinc, Pilares and El Pilar projects, (ii) for other capital expenditures and (iii) for general corporate purposes.

The notes constitute general unsecured obligations of Minera Mexico. The notes were issued in an unregistered offering pursuant to Rule 144A and Regulation S under the Securities Act of 1933.

The Company capitalized the costs associated with the issuance of this facility, which are included as part of the amortized cost of the long-term debt in the consolidated balance sheet.

In connection with the transaction, on September 26, 2019, Minera Mexico entered into an indenture with Wells Fargo Bank, National Association, as trustee, which provided for the issuance, and set forth the terms of the notes described above. The indenture contains covenants that limit Minera Mexico’s ability to, among other things, incur certain liens securing indebtedness, engage in certain sale and leaseback transactions, and enter into certain consolidations, mergers, conveyances, transfers or leases of all or substantially all the Minera Mexico’s assets.

**Credit risk rating:**

On September 19, 2019 Moody's investors service assigned Baa2 as debt rating on the new notes issued. Also on September 19, 2019 Fitch and Standard & Poor's ratings services assigned its 'BBB+', as debt rating on the new notes issued.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Aggregate maturities of the outstanding borrowings at December 31, 2019, are as follows:

| Years        | Principal<br>Due(*)<br>(in millions) |
|--------------|--------------------------------------|
| 2020         | \$ 400.0                             |
| 2021         | —                                    |
| 2022         | 300.0                                |
| 2023         | —                                    |
| 2024         | —                                    |
| Thereafter   | 6,351.2                              |
| <b>Total</b> | <b>\$ 7,051.2</b>                    |

(\*) Total debt maturities do not include the debt discount valuation account of \$110.4 million.

**NOTE 12—BENEFIT PLANS:**

*Post retirement defined benefit plans and defined contribution plan*

The Company has two noncontributory defined benefit pension plans covering former salaried employees in the United States and certain former expatriate employees in Peru (the “Expatriate Plan”). 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 “Mexican Plan”).

The components of net periodic benefit costs calculated in accordance with ASC 715 “Compensation retirement benefits,” using December 31 as a measurement date, consist of the following:

| (in millions)                                 | 2019            | 2018            | 2017            |
|---|-----------------|-----------------|-----------------|
| Service cost                                  | \$ 1.1          | \$ 1.0          | \$ 0.8          |
| Interest cost                                 | 1.8             | 1.6             | 1.4             |
| Expected return on plan assets                | (3.5)           | (3.4)           | (2.9)           |
| Amortization of prior service cost / (credit) | 0.2             | 0.2             | 0.1             |
| Settlement / Curtailment                      | —               | (0.2)           | 0.1             |
| Amortization of net loss/(gain)               | 0.3             | 0.2             | 0.2             |
| <b>Net periodic benefit cost</b>              | <b>\$ (0.1)</b> | <b>\$ (0.6)</b> | <b>\$ (0.3)</b> |

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**SOUTHERN COPPER CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The change in benefit obligation and plan assets and a reconciliation of funded status are as follows:

| (in millions)  | <u>As of December 31,</u> |                |
|--|---------------------------|----------------|
|  | <u>2019</u>               | <u>2018</u>    |
| <i>Change in benefit obligation:</i>   |                           |                |
| Projected benefit obligation at beginning of year  | \$ 27.4                   | \$ 27.5        |
| Service cost   | 1.1                       | 1.0            |
| Interest cost  | 1.8                       | 1.6            |
| Settlement   | —                         | —              |
| Benefits paid  | (1.8)                     | (1.6)          |
| Actuarial (gain)/loss  | 3.6                       | (0.2)          |
| Actuarial gain assumption changes  | 0.9                       | (0.8)          |
| Inflation adjustment   | 0.7                       | (0.1)          |
| Projected benefit obligation at end of year  | <u>\$ 33.7</u>            | <u>\$ 27.4</u> |
| <i>Change in plan assets:</i>  |                           |                |
| Fair value of plan assets at beginning of year   | \$ 46.7                   | \$ 51.6        |
| Actual return on plan assets   | 4.8                       | (3.5)          |
| Employer contributions   | (0.6)                     | (0.4)          |
| Benefits paid  | (0.9)                     | (1.0)          |
| Currency exchange rate adjustment  | 1.6                       | —              |
| Fair value of plan assets at end of year   | <u>\$ 51.6</u>            | <u>\$ 46.7</u> |
| Funded status at end of year:  | <u>\$ 17.9</u>            | <u>\$ 19.3</u> |
| <i>ASC-715 amounts recognized in statement of financial position consists of:</i>  |                           |                |
| Non-current assets   | \$ 17.9                   | \$ 19.4        |
| Total  | <u>\$ 17.9</u>            | <u>\$ 19.4</u> |
| <i>ASC-715 amounts recognized in accumulated other comprehensive income (net of income taxes of \$(5.4) million and \$(4.3) million in 2019 and 2018, respectively) consists of:</i> |                           |                |
| Net loss (gain)  | \$ 7.6                    | \$ 5.8         |
| Prior service cost   | 1.4                       | 1.4            |
| Total  | <u>\$ 9.0</u>             | <u>\$ 7.2</u>  |

The following table summarizes the changes in accumulated other comprehensive income for the years ended December 31, related to the defined benefit pension plan, net of income tax:

| (in millions)  | <u>2019</u> | <u>2018</u> |
|--|-------------|-------------|
| <i>Reconciliation of accumulated other comprehensive income:</i>   |             |             |
| Accumulated other comprehensive income at beginning of plan year   | \$ 7.2      | \$ 3.8      |
| Net loss/(gain) amortized during the year  | 1.9         | 3.6         |
| Net loss/(gain) occurring during the year  | (0.2)       | (0.1)       |
| Prior service cost (credit)  | —           | —           |
| Currency exchange rate adjustment  | 0.1         | (0.1)       |
| Net adjustment to accumulated other comprehensive income (net of income taxes of \$(2.2) million and \$(2.2) million in 2019 and 2018, respectively) | <u>1.8</u>  | <u>3.4</u>  |

|   |            |            |
|---|------------|------------|
| Accumulated other comprehensive income at end of<br>plan year | <u>9.0</u> | <u>7.2</u> |
|---|------------|------------|

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**SOUTHERN COPPER CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table summarizes the amounts in accumulated other comprehensive income amortized and recognized as a component of net periodic benefit cost in 2019 and 2018, net of income tax:

| (in millions)                                | 2019          | 2018          |
|--|---------------|---------------|
| Net loss / (gain)                            | \$ 1.8        | \$ 3.6        |
| Amortization of net (loss) gain              | (0.2)         | (0.1)         |
| Amortization of prior services cost (credit) | —             | —             |
| Total amortization expenses                  | <u>\$ 1.6</u> | <u>\$ 3.5</u> |

The assumptions used to determine the pension obligations are:

| <u>Expatriate Plan</u>                          | <u>2019</u> | <u>2018</u> | <u>2017</u> |
|---|-------------|-------------|-------------|
| Discount rate                                   | 2.85 %      | 3.90 %      | 3.25 %      |
| Expected long-term rate of return on plan asset | 4.00 %      | 4.00 %      | 4.00 %      |
| Rate of increase in future compensation level   | N/A         | N/A         | N/A         |

  

| <u>Mexican Plan(*)</u>                          | <u>2019</u> | <u>2018</u> | <u>2017</u> |
|---|-------------|-------------|-------------|
| Discount rate                                   | 7.15 %      | 8.45 %      | 7.80 %      |
| Expected long-term rate of return on plan asset | 7.15 %      | 8.45 %      | 7.55 %      |
| Rate of increase in future compensation level   | 4.50 %      | 4.50 %      | 4.50 %      |

(\*) These rates are based on Mexican pesos as pension obligations are denominated in pesos.

The scheduled maturities of the benefits expected to be paid in each of the next five years, and thereafter, are as follows:

| <u>Years</u> | <u>Expected<br/>Benefit Payments</u><br>(in millions) |
|--------------|---|
| 2020         | \$ 3.2  |
| 2021         | 1.9   |
| 2022         | 2.0   |
| 2023         | 2.0   |
| 2024         | 2.3   |
| 2025 to 2027 | 14.7  |
| Total        | <u>\$ 26.1</u>  |

*Expatriate Plan*

The Company's funding policy is to contribute amounts to the qualified plan sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974 plus such additional amounts as the Company may determine to be appropriate.

Plan assets are invested in a group annuity contract with Metropolitan Life Insurance Company ("MetLife"). The Contract invests in the MetLife General Account Payment Fund (the "Money Fund") and the MetLife Broad Market Core Bond Fund (the "Bond Fund") managed by BlackRock, Inc.

The Money Fund seeks to earn interest and maintain a \$1.00 per share net asset value, by investing in U.S. Dollar-denominated money market securities.

The Bond Fund seeks to outperform the Bloomberg Barclays ® U.S. Aggregate Bond Index, net of fees, over a full market cycle. The Bond Fund invests in publicly traded, investment grade securities. These may include corporate securities, mortgage securities, treasuries and cash, agency securities, commercial mortgage backed securities and other

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**SOUTHERN COPPER CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

investment vehicles adhering to the fund's investment objectives. These investments are classified as Level 1 because they are valued using quoted prices of the same securities as they consist of instruments which are publicly traded.

Plan assets are invested with the objective of maximizing returns with an acceptable level of risk and maintaining adequate liquidity to fund expected benefit payments. The Company's policy for determining asset mix-targets to meet investment objectives includes periodic consultation with recognized third party investment consultants.

The expected long-term rate of return on plan assets is reviewed annually, taking into consideration asset allocations, historical returns and the current economic environment. Based on these factors the Company expects its assets will earn an average of 4.00% per annum assuming its long-term mix will be consistent with its current mix.

*Mexican Plan*

Minera Mexico's policy for determining asset mix targets includes periodic consultation with recognized third party investment consultants. The expected long-term rate of return on plan assets is updated periodically, taking into consideration assets allocations, historical returns and the current economic environment. The fair value of plan assets is impacted by general market conditions. If actual returns on plan assets vary from the expected returns, actual results could differ.

The plan assets are managed by three financial institutions, Scotiabank Inverlat S.A., Banco Santander and GBM Grupo Bursatil Mexicano, S.A. 80% of the funds are invested in Mexican government securities, including treasury certificates and development bonds of the Mexican government. The remaining 20% is invested in common shares of Grupo Mexico. The plan assets are invested without restriction in active markets that are accessible when required and are therefore considered as level 1, in accordance with ASC 820 "Fair Value Measurement."

These plans accounted for approximately 100% of benefit obligations. The following table represents the asset mix of the investment portfolio as of December 31:

|                   | <u>2019</u>  | <u>2018</u>  |
|-------------------|--------------|--------------|
| Asset category:   |              |              |
| Treasury bills    | 80 %         | 78 %         |
| Equity securities | 20 %         | 22 %         |
|                   | <u>100 %</u> | <u>100 %</u> |

The amount of contributions that the Company expects to pay to the plan during 2020 is \$2.5 million, which excludes \$1.7 million of pending payments to former Buenavista workers.

*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."

In Mexico, health services are provided by the Mexican Social Security Institute.



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The components of net period benefit costs for the three years ended December 31, 2019 are as follows:

| (in millions)                                | 2019          | 2018          | 2017          |
|--|---------------|---------------|---------------|
| Interest cost                                | \$ 0.9        | \$ 0.9        | \$ 0.9        |
| Amortization of prior service cost/ (credit) | (0.2)         | (0.2)         | (0.2)         |
| Net periodic benefit cost                    | <u>\$ 0.7</u> | <u>\$ 0.7</u> | <u>\$ 0.7</u> |

The change in benefit obligation and a reconciliation of funded status are as follows:

| (in millions)   | <u>As of December 31,</u> |                 |
|---|---------------------------|-----------------|
|   | 2019                      | 2018            |
| <i>Change in benefit obligation:</i>  |                           |                 |
| Projected benefit obligation at beginning of year   | \$ 11.9                   | \$ 12.5         |
| Interest cost   | 0.9                       | 0.9             |
| Actuarial loss/ (gain)-claims cost  | —                         | 0.2             |
| Benefits paid   | (1.3)                     | (0.9)           |
| Actuarial (gain)/loss   | 8.6                       | (0.9)           |
| Inflation adjustment  | 0.5                       | 0.1             |
| Projected benefit obligation at end of year   | <u>\$ 20.6</u>            | <u>\$ 11.9</u>  |
| <i>Change in plan assets:</i>   |                           |                 |
| Fair value of plan assets at beginning of year  | \$ —                      | \$ —            |
| Employer contributions  | 0.1                       | 0.1             |
| Benefits paid   | (0.1)                     | (0.1)           |
| Fair value of plan assets at end of year  | <u>\$ —</u>               | <u>\$ —</u>     |
| Funded status at end of year:   | <u>\$ 20.6</u>            | <u>\$ 11.9</u>  |
| <i>ASC-715 amounts recognized in statement of financial position consists of:</i>               |                           |                 |
| Current liabilities   | \$ (0.1)                  | \$ (0.1)        |
| Non-current liabilities   | (20.5)                    | (11.8)          |
| Total   | <u>\$(20.6)</u>           | <u>\$(11.9)</u> |
| <i>ASC-715 amounts recognized in accumulated other comprehensive income consists of:</i>        |                           |                 |
| Net loss (gain)   | \$ 1.5                    | \$ (4.4)        |
| Total (net of income taxes of \$(0.7) million and \$1.9 million in 2019 and 2018, respectively) | <u>\$ 1.5</u>             | <u>\$ (4.4)</u> |

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**SOUTHERN COPPER CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table summarizes the changes in accumulated other comprehensive income for the years ended December 31, related to the post-retirement health care plan, net of income tax:

| (in millions)  | As of December 31, |                 |
|--|--------------------|-----------------|
|  | 2019               | 2018            |
| <i>Reconciliation of accumulated other comprehensive income:</i>   |                    |                 |
| Accumulated other comprehensive income at beginning of plan year   | \$ (4.4)           | \$ (3.9)        |
| Net loss/(gain) occurring during the year  | 6.0                | (0.6)           |
| Net loss/(gain) amortized during the year  | 0.1                | 0.1             |
| Currency exchange rate adjustment  | (0.2)              | —               |
| Net adjustment to accumulated other comprehensive income (net of income taxes of \$(2.6) million and \$0.2 million in 2019 and 2018, respectively) | 5.9                | (0.5)           |
| Accumulated other comprehensive income at end of plan year   | <u>\$ 1.5</u>      | <u>\$ (4.4)</u> |

The following table summarizes the amounts in accumulated other comprehensive income amortized and recognized as a component of net periodic benefit cost in 2019 and 2018, net of income tax:

| (in millions)                   | As of December 31, |                 |
|---------------------------------|--------------------|-----------------|
|                                 | 2019               | 2018            |
| Net loss / (gain)               | \$ 5.9             | \$ (0.6)        |
| Amortization of net (loss) gain | 0.2                | 0.2             |
| Total amortization expenses     | <u>\$ 6.1</u>      | <u>\$ (0.4)</u> |

The discount rates used in the calculation of other post-retirement benefits and cost as of December 31 were:

|                                      | 2019   | 2018   | 2017   |
|--------------------------------------|--------|--------|--------|
| <b><i>Expatriate health plan</i></b> |        |        |        |
| Discount rate                        | 2.85 % | 3.90 % | 3.25 % |
| <b><i>Mexican health plan</i></b>    |        |        |        |
| Weighted average discount rate       | 7.15 % | 8.45 % | 7.80 % |

The benefits expected to be paid in each of the next five years, and thereafter, are as follows:

| Year | Expected<br>Benefit Payments<br>(in millions) |
|------|---|
| 2020 | \$ 1.3  |
| 2021 | 1.3   |
| 2022 | 1.3   |
| 2023 | 1.4   |
| 2024 | 1.4   |

|              |         |
|--------------|---------|
| 2025 to 2029 | 7.3     |
| Total        | \$ 14.0 |

*Expatriate Health Plan*

For measurement purposes for pre 65 year old participants, a 5.8% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2019 which gradually decrease to 4.2%. For post 65 year old the annual rate of increase in the per capita cost for 2019 is 5.2% which is assumed to decrease gradually to 4.0%.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Assumed health care cost trend rates can have a significant effect on amounts reported for health care plans. However, because of the size of the Company's plan, a one percentage-point change in assumed health care trend rate would not have a significant effect.

*Mexican Health Plan*

For measurement purposes, a 4.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2019 and remains at that level thereafter.

An increase in other benefit cost trend rates have a significant effect on the amount of the reported obligations, as well as component cost of the other benefit plan. One percentage-point change in assumed other benefits cost trend rates would have the following effects:

| (in millions)  | One Percentage Point |          |
|--|----------------------|----------|
|  | Increase             | Decrease |
| Effect on total service and interest cost components | \$ 1.4               | \$ 0.9   |
| Effect on the post-retirement benefit obligation     | \$ 18.8              | \$ 12.2  |

**NOTE 13—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.

Environmental capital investments in years 2019, 2018 and 2017, were as follows (in millions):

|                     | 2019           | 2018            | 2017           |
|---------------------|----------------|-----------------|----------------|
| Peruvian operations | \$ 18.6        | \$ 59.3         | \$ 93.7        |
| Mexican operations  | 64.3           | 43.5            | 128.9          |
|                     | <u>\$ 82.9</u> | <u>\$ 102.8</u> | <u>\$222.6</u> |

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 10 "Asset retirement obligation," for further discussion of this matter.

*Air Quality Standards (“AQS”)*: In June 2017, MINAM enacted a supreme decree which defines new AQS for daily sulfur dioxide in the air. As of December 31, 2019, the Company maintains a lower daily average level of  $\mu\text{g}/\text{m}^3$  of  $\text{SO}_2$ , than those required by the new AQS.

*Soil Environmental Quality Standards (“SQS”)*: In 2013, the Peruvian government enacted SQS applicable to any existing facility or project that generates or could generate the risk of soil contamination in its area of operation or

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

influence. In March 2014, MINAM issued a supreme decree, which established additional provisions for the gradual implementation of SQS.

In accordance with the regulatory requirements, the Company has been working on the characterization phase and a Soil Decontamination Plan (“SDP”) for environmentally impacted sites in each of its operating units (Toquepala, Cuajone, and Ilo) with the assistance of consulting companies. The Toquepala and Cuajone SDP were presented to the authorities for review and approval during the third quarter of 2019, and the Ilo SDP was submitted in January 2020.

While the Company believes that there is a reasonable possibility that a potential loss contingency may exist, it cannot currently reasonably 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 reviewed and approved by the Peruvian government, which is expected for 2020. At that time the Company will be in a position to estimate the remediation cost. Furthermore, 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 able to disclose a range of costs that is meaningful.

*Climate Change:* On April 17, 2018, the Peruvian government enacted Law N. 30754, establishing a Climate Change Framework. Through this law, promoting public and private investment in climate change management is declared to be of national interest. The law proposes to create an institutional framework to address climate change in Peru, outlining new measures, particularly with respect to climate change mitigation. It includes, for example, provisions dealing with: increasing carbon capture and use of carbon sinks; afforestation and reforestation practices; land use changes; and sustainable systems of transportation, solid waste management, and energy systems. It was the first Latin American climate change framework law to incorporate responsibilities from the Paris Agreement. Regulations to this law were enacted by Supreme Decree 013-2019 published on December 31, 2019 and are applicable to all Peruvian institutions and agencies. It is expected that further Peruvian regulations would be applicable to non-governmental entities. The Company anticipates initiating a multi-year process to adopt applicable reporting recommendations of the Task-Force on Climate Related Financial Disclosures (TCFD) once new Peruvian climate change regulations applicable to non-governmental entities are implemented. The Company is committed to the environment and to manage climate-related impacts. The Company’s focus is to seek continuous improvement in the responsible use of natural resources while complying with strict applicable legal standards for prevention, mitigation, control and remediation of environmental impacts. Implementing continuous improvement in the Company’s processes allows greater efficiency in the use and consumption of energy, water, and other natural resources.

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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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 imposed under this law.

On February 2019, the Mexican Supreme Court confirmed the constitutionality of an ecological tax to extractive activities developed in the state of Zacatecas, which taxes the environmental remediation actions, emissions of certain gases to the atmosphere, emissions of pollutant substances to the soil or water, and waste storage within the state territory. The Company has determined that this new environmental regulation will have no impact on its financial position.

Guaymas sulfuric acid spill:

On July 9, 2019, there was an incident at the Company's Marine Terminal in Guaymas, Sonora, that caused the discharge of approximately three cubic meters of sulfuric acid into the sea in the industrial port area.

The Guaymas bay has an estimated water volume of 340 million cubic meters. The discharge of sulfuric acid was quickly diluted upon entering in contact with the sea's alkaline conditions and was naturally and immediately neutralized. As a result the discharge was considered harmless, and it was found that neither the flora nor fauna of the port area were affected, according to the report from the Ministry of Navy.

On July 10, 2019, the Mexican Environmental Protection Agency ("PROFEPA") made a first inspection of the area, concluding that the Company executed all the correct procedures in order to contain the discharge, and no reference was made to the existence of negative impacts on the environment resulting from the incident.

On Friday, July 19, 2019, PROFEPA revisited the facilities to carry out a second inspection, declaring a partial temporary shutdown related only to the storage process and transportation of sulfuric acid at the terminal, arguing the absence of an authorization of environmental impact. It is important to note that these facilities have been in operation since 1979, prior to the 1988 Mexican General Law of Ecological Balance and the Protection of the Environment. Therefore, these licenses are not a requirement for companies that have been operating before the aforementioned law. In addition, in 2009 the facility was awarded by PROFEPA a certification of "Clean Industry and Environmental Quality", which was subsequently renewed four times (for a two-year periods each time).

The Company does not know the reasons or causes for this partial and temporary closure, but it will continue cooperating with the environmental authorities in order to provide certainty that the operation is in strict compliance with the environmental regulations. The Company expects the environmental authorities to suspend the partial temporary shutdown, once they resolve their concerns. Currently, the Company does not expect any impact on its operations. As of December 31, 2019, the matter is pending resolution.

Climate Change:

Grupo Mexico, the indirect parent of SCC, has for more than 10 years issued sustainability reports under the Global Reporting Initiative (GRI). Grupo Mexico also participates in different Mexican and international reporting programs such as the Greenhouse Gases (GHG) Mexico Program and the Carbon Disclosure Program (CDP). Since 2013, GHG and CDP have signed a memorandum of understanding to work on aligning their reporting frameworks. Grupo Mexico's 2018 CDP questionnaire included responses to the Task Force on Climate-Related Disclosure or TCFD concerns. In compliance with the 2012 Mexican Climate Change Law Grupo Mexico's GHG emissions are reported and verified

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

independently. Grupo Mexico's Sustainability Reports disclosing inventories of GHG emissions can be located at [http://www.gmexico.com/site/en/sustainable/sustainability\\_reports.html](http://www.gmexico.com/site/en/sustainable/sustainability_reports.html). On October 18, 2017, Grupo Mexico was selected to join the S&P Sustainability Indices MILA Pacific Alliance (DJSI MILA). This regional sustainability index included for 2017, 42 leading companies in sustainability from the countries that form part of the Pacific Alliance: Mexico, Chile, Colombia and Peru.

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:**

Peruvian operations

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 mining concession application of the Tia Maria project. The lawsuits were filed by Messrs. Jorge Isaac del Carpio Lazio (filed May 22, 2015), Ernesto Mendoza Padilla (filed May 26, 2015), Juan Alberto Guillen Lopez (filed June 18, 2015) and Junta de Usuarios del Valle del Tambo (filed April 30, 2015).

The del Carpio Lazio case was rejected by the court of first instance on November 14, 2016. The plaintiff filed an appeal before the Superior Court on January 3, 2017. On January 9, 2018, the lawyers of both parties presented their respective arguments before the Appellate Court. On March 8, 2018, the Appellate Court issued its final decision, which upholds the ruling of the Court of first instance. On April 27, 2018, the plaintiff filed an extraordinary appeal before the Supreme Court. As of December 31, 2019, the case remains pending resolution.

The Mendoza Padilla case was initially rejected by the lower court on July 8, 2015. This ruling was confirmed by the Superior Court on June 14, 2016. On July 12, 2016, the case was appealed before the Constitutional Court. On November 20, 2018, the Constitutional Court reversed the previous decisions and remanded the case to the lower court for further action. As of December 31, 2019, the Company has not received notice of the lawsuit from the lower court.

The Guillen Lopez case is currently before the lower court. On July 19, 2019, the oral arguments took place. On January 7, 2020, the Judge decided to suspend the proceeding until the del Carpio Lazio case is concluded. Therefore, as of December 31, 2019, the case remains pending resolution.

The Junta de Usuarios del Valle del Tambo case is currently before the lower court. On May 2016, the Company was included in the process, after the Ministry of Energy and Mines filed a civil complaint. On March 6, 2019, the Company was formally notified of the lawsuit and

answered the complaint on March 20, 2019. As of December 31, 2019, the case remains pending resolution.

The Company asserts that these lawsuits are without merit and is vigorously defending against them. The potential contingency amount for these cases cannot be reasonably estimated by management at this time.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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 tailings dams with proper governmental authorization, since 1995. 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 December 31, 2019, the case remains pending resolution. SCC’s Peruvian Branch asserts that the lawsuit is without merit and is vigorously defending against it. The amount of this contingency cannot be reasonably estimated by management at this time.

Mexican operations

The 2014 Accidental Spill at Buenavista Mine

In relation to the 2014 accidental spill of copper sulfate solution that occurred at a leaching pond of the Buenavista mine, the following legal procedures are pending against the Company:

On August 19, 2014, PROFEPA, as part of the administrative proceeding initiated after the spill, announced the filing of a criminal complaint against Buenavista del Cobre S.A. de C.V. (“BVC”), a subsidiary of the Company, in order to determine those responsible for the environmental damages. During the second quarter of 2018, the criminal complaint was dismissed. This decision was appealed and remains pending resolution as of December 31, 2019.

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. Two of the collective action lawsuits have been dismissed by the court. As of December 31, 2019, three lawsuits continue in process: two were filed by Acciones Colectivas de Sinaloa, A.C. and one was filed by Defensa Colectiva, A.C.; who have requested precautionary measures about construction of facilities for monitoring public health services and prohibiting the closure of the Rio Sonora Trust.

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 2016, three additional civil action lawsuits, claiming similar damages, were filed by Juan Melquicedec Lebaron; Blanca Lidia Valenzuela Rivera et al and Ramona Franco Quijada et al. In 2017, BVC was served with thirty-three additional civil action lawsuits, claiming similar damages. The lawsuits were filed by Francisco Javier Molina Peralta et al; Anacleto Cohen Machini et al; Francisco Rafael Alvarez Ruiz et al; Jose Alberto Martinez Bracamonte et al; Gloria del Carmen Ramirez Duarte et al; Flor Margarita Sabori et al; Blanca Esthela Ruiz Toledo et al;

Julio Alfonso Corral Dominguez et al; Maria Eduwiges Bracamonte Villa et al; Francisca Marquez Dominguez et al; Jose Juan Romo Bravo et al; Jose Alfredo Garcia Leyva et al; Gloria Irma Dominguez Perez et al; Maria del Refugio Romero et al; Miguel Rivas Medina et al; Yolanda Valenzuela Garrobo et al; Maria Elena Garcia Leyva et al; Manuel Alfonso Ortiz Valenzuela et al; Francisco Alberto Arvayo Romero et al; Maria del Carmen Villanueva Lopez et al; Manuel Martin Garcia Salazar; Miguel Garcia Arguelles et al; Dora Elena Rodriguez Ochoa et al; Honora Eduwiges Ortiz Rodriguez et al; Francisco Jose Martinez Lopez et al; Maria Eduwiges Lopez Bustamante; Rodolfo Barron Villa et al, Jose Carlos Martinez Fernandez et al, Maria de los Angeles Fabela et al; Rafaela Edith Haro et al; Luz Mercedes Cruz et al; Juan Pedro Montañó et al; and Juana Irma Alday Villa. During the first quarter of 2018, BVC was served with another civil action lawsuit, claiming similar damages. The lawsuit was filed by Alma Angelina

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Del Cid Rivera et al. During the last quarter of 2018, BVC was served with other three civil action lawsuits, claiming similar damages, such lawsuits were filed by Los Corrales de la Estancia, S.C. de R.L.; Jose Antonio Navarro; Jesus Maria Peña Molina, et al; those actions were dismissed by the court, because of their expiration. As of December 31, 2019, forty-five cases remain pending resolution.

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 these lawsuits are: Francisca Garcia Enriquez, et al which established two lawsuits, Francisco Ramon Miranda, et al and Jesus David Lopez Peralta et al. During the third quarter of 2016, four additional constitutional lawsuits, claiming similar damages were filed by Mario Alberto Salcido et al; Maria Elena Heredia Bustamante et al; Martin Eligio Ortiz Gamez et al; and Maria de los Angeles Enriquez Bacame et al. During the third quarter of 2017, BVC was served with another constitutional lawsuit filed by Francisca García Enriquez et al. In 2018, BVC was served with two additional constitutional lawsuits that were filed against SEMARNAT by Norberto Bustamante et al. Regarding the constitutional lawsuit filed by Maria Elena Heredia Bustamante et al; in which it was claimed the lack of community approval regarding the authorization granted by SEMARNAT to build the new BVC tailings dam, on September 5, 2018, the Supreme Court of Justice issued a resolution which established that such authorization was granted to BVC in compliance with the applicable legislation. However, SEMARNAT must carry out a public meeting to inform the community of the technical aspects required to build the dam, potential impacts and prevention measures, with no material effects to BVC's operations. SEMARNAT has carried out the consultation ordered by the Supreme Court and as a result, has informed the corresponding Judge about its compliance with the resolution, in which BVC was imposed additional measures of environmental impact prevention, such as: (i) the building of at least three monitoring wells downstream from the curtain of the contingency dam in a period six months period; (ii) monitoring of the groundwater level and water quality every six months; (iii) carrying out rain collection work in order to restore water to the Sonora River basin, for which six months are granted to present the execution program; (iv) determine the location of wildlife conservation and protection areas and define the need to establish biological corridors; (v) obtain photographic or videographic evidence every six months; (vi) submitting to SEMARNAT two years before the closure and abandonment of the site, or earlier if necessary, the closure program that includes the cleaning and restoration of the soil including Mexican regulation NOM-141; (vii) include the measures in the Environmental Monitoring Program according to the environmental components impacted; and (viii) hiring an external environmental consultant to validate compliance with the current and new conditions that are imposed. The foregoing does not impact BVC's operations. Likewise, it is noted that the lawsuits promoted by Maria de los Angeles Enriquez Bacame and Norberto Bustamante have been dismissed and closed without prejudice to the Company. As of December 31, 2019, the remaining cases are pending resolution.

It is not currently 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 them. 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.

Corporate operations

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

In April 2019, a derivative lawsuit was filed against the Company, certain of its current and former Directors, and Grupo Mexico in the Delaware Court of Chancery relating to certain construction contracts, contracts for the purchase and sale

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**SOUTHERN COPPER CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

of minerals, and transportation contracts entered into between the Company's subsidiaries and subsidiaries of Grupo Mexico.

In October 2019, the plaintiff amended the complaint to include claims related to certain administrative services contracts between the Company's subsidiaries and Grupo Mexico. The amended complaint alleges, among other things, that the construction contracts, the mineral contracts, the transportation contracts, and the administrative services contracts were unfair as a result of breaches of fiduciary duties and the Company's charter. The amended complaint seeks, among other things, unspecified monetary damages. In January 2020, the Company, the current and former Directors, and Grupo Mexico responded to the complaint by filing motions to dismiss. The plaintiff must respond on or before March 13, 2020 to the motions. Because the Company has not formed a conclusion as to whether an unfavorable outcome is either probable or remote, the Company expresses no opinion as to the likelihood of an unfavorable outcome or the amount or range of any possible loss to the Company.

**Labor matters:**

Peruvian operations: 65% of the Company's 4,890 Peruvian employees were unionized at December 31, 2019. Currently, there are six separate unions, one large union and five smaller unions. In June 2018, the Company signed a three-year collective bargaining agreement with one of the smaller unions. This agreement includes, among other things, annual salary increases of 5% for each year starting September 2018, and a signing bonus of S/ 45,000 (approximately \$13,600) which was recorded as labor expense. In August 2018, the Company signed a three-year collective bargaining agreement with three additional unions. This agreement includes, among other things, annual salary increases of 5% for each year starting December 2018, and a signing bonus of S/ 45,000 (approximately \$13,600) which was recorded as labor expense. In March 2019, the Company signed an agreement with one additional union. The agreement also included annual salary increases of 5% for each year starting September 2018, and a signing bonus of S/45,000 (approximately \$13,600) which was recorded as labor expense in the first quarter of 2019.

In November 2019, the Company signed two agreements with the remaining union, one of them for one year and the other one consisting of a three-year collective bargaining agreement. The agreements also included annual salary increases of 5% for each year starting September 2018, and a signing bonus of S/15,000 (approximately \$4,500) for the one-year agreement and S/45,000 for the three-year agreement (approximately \$13,600) which were recorded as labor expense in the fourth quarter of 2019.

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.

The workers of the San Martin mine were on strike since July 2007. On February 28, 2018, the striking workers of the San Martín mine of IMMSA held an election to vote on the union that will hold the collective bargaining agreement at the San Martín mine. The Federacion Nacional de Sindicatos Independientes (the National Federation of Independent Unions) won the vote by a majority. Nevertheless, the vote was challenged by the National Mining Union. On June 26, 2018, the Federal Mediation and Arbitration Board issued a ruling recognizing the election results. Due to the agreement between workers and the Company to end the protracted strike, on August 22, 2018, the Federal Mediation and Arbitration Board

authorized the restart of operations of the San Martín mine. Such authorization was challenged by the National Mining Union. On April 4, 2019, the Federal Mediation and Arbitration Board recognized again the election results from February 28, 2018; in which the National Federation of Independent Unions won by a majority. During the last quarter of 2019, a Federal Court issued a resolution that established that the Labor Court should analyze the list of workers with the right to vote in the union election. The Company and the National Federation of Independent Unions challenged such determination before the Supreme Court of Justice and it is still pending resolution. The Company undertook a major restoration plan at the San Martin mine with a budget of \$97.7 million. At December 31, 2019, the plan is in progress with a total expense of \$73.6 million.

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## **SOUTHERN COPPER CORPORATION AND SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In the case of the Taxco mine, its workers have been on strike since July 2007. After several legal procedures, in August 2015, the Supreme Court decided to assert jurisdiction over the case and to rule on it directly. As of December 31, 2019, the case remains pending resolution without further developments.

It is expected that operations at the Taxco mine will remain suspended until the labor issues are resolved. In view of the lengthy strike, the Company has reviewed the carrying value of the Taxco mine to ascertain whether impairment exists. The Company concluded that there is a non-material impairment of the assets located at this mine.

#### **Other legal matters:**

The Company is involved in various other legal proceedings incidental to its operations, but 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"). On July 8, 2019, the Company received the construction permit for this 120,000 ton annual SX-EW copper greenfield project with a total capital budget of \$1,400 million. This permit was obtained after completing an exhaustive review process of environmental and social matters, complying with all established regulatory requirements and addressing all observations raised.

On July 15, 2019, anti-mining groups staged a violent demonstration affecting economic as well as other activities in the Islay province. These actions were followed by the filing of three complaints, sponsored by groups opposing the Tia Maria project, with the Mining Council, which is the Peruvian administrative authority responsible to resolve on these complaints. The Mining Council temporarily suspended the construction permit on August 8, 2019 until a decision was reached on the merits of the complaints. On October 7, 2019, as part of the process, the Mining Council conducted a hearing on the complaints and the Company's position. On October 30, 2019, the Mining Council of the Peruvian Ministry of Energy and Mines ratified the construction permit for the Tia Maria project.

In coordination with the Peruvian Government, Southern Copper continues to work on common grounds for dialogue with the neighboring communities to address any concerns they may have on the project and is awaiting the proper economic and political conditions to move ahead with the project. Meanwhile, the Company reiterates its commitment to delay the construction of the project.

The Company's commitment is to guarantee the population of Islay that the Tia Maria project will not adversely affect other local economic activities. The project will use only desalinated seawater for its operations and, for the transportation of its supplies and copper production, the Company will build a 32 kilometer industrial railway and an access road at a safe distance from the Tambo Valley.

The Company's social programs in education, healthcare and productive development will continue to improve the quality of life and the agricultural and livestock activities in the Tambo Valley, as well as develop fishing and tourism in Islay. During the construction and operation phase, hiring local labor will be a priority. The Company has launched in June the free technical training program "Forging the Future", which will benefit 700 persons in this province in 2019-20. After training, the participants will be eligible to apply for one of the estimated 9,000 jobs (3,600 direct and 5,400 indirect) required during the Tia Maria construction phase.

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**SOUTHERN COPPER CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

When in operation, the Company expects Tia Maria will generate a significant contribution through mining royalties and taxes from day-one and will directly employ 600 workers and indirectly provide jobs to another 4,200.

Tia Maria's project budget is approximately \$1.4 billion, of which \$338.7 million has been invested through December 31, 2019. 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.

*Michiquillay:*

In June 2018, the Company signed a contract for the acquisition of the Michiquillay copper project in Cajamarca, Peru, at a purchase price of \$400 million. Michiquillay is a world class mining project with estimated mineralized material of 1,150 million tons and a copper grade of 0.63%. It is expected to produce 225,000 tons of copper per year (along with by-products of molybdenum, gold and silver) for an initial mine life of more than 25 years.

The Company paid \$12.5 million at the signing of the contract. The balance of \$387.5 million will be paid if the Company decides to develop the project and it is not a present obligation.

*Toquepala Concentrator Expansion:*

The project budget is \$1.3 billion, of which \$1,280.1 million has been invested through December 31, 2019. This project has increased Toquepala's annual copper production to 258,000 tons in 2019, a 51.5% production increase, when compared to 2018. The construction of the project was completed and the project began production in the fourth quarter of 2018. Full production was reached in the second quarter of 2019.

*Corporate Social Responsibility:*

The Company has a corporate social responsibility policy to maintain and promote continuity of its mining operations and obtain the best results. The main objective of this policy is to integrate its operations with the local communities in the areas of influence of its operations by creating a permanent positive relationship with them, in order to develop the optimum social conditions and to promote sustainable development in the area. Accordingly, the Company has made the following commitments:

Tacna Region: In connection with the Toquepala concentrator expansion, the Company has committed to fund various social and infrastructure improvement projects in Toquepala's neighboring communities. The total amount committed for these purposes is S/ 445.0 million (approximately \$134.2 million).

As the Toquepala expansion project has been completed, the Company considers that these commitments constitute present obligations of the Company and consequently has recorded a liability of \$59.1 million in its consolidated financial statements as of December 31, 2019.

In addition, the Company has committed S/ 0.7 million (approximately \$0.2 million) for the construction of three infrastructure projects in the Tacna region under the "social investment

for taxes” (obras por impuestos) program which allows the Company to use these amounts as an advance payment of taxes.

Moquegua Region: In the Moquegua region, the Company is part of a “development roundtable” in which the local municipal authorities, the community representatives and the Company discuss the social needs and the way the Company could contribute to sustainable development in the region. As part of this, the roundtable is discussing the creation of a Moquegua Region Development Fund for which the Company has offered a contribution of S/ 700 million (approximately \$211.0 million). While final funding is not yet settled, the Company has committed to contribute S/

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**SOUTHERN COPPER CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

108.5 million (approximately \$32.7 million) in advance, which is being utilized in an educational project and S/ 48.4 million (approximately \$14.6 million) for a residual water treatment plant in Ilo, a sea-wall embankment and a fresh water facility at El Algarrobal.

In addition, the Company has committed S/ 59.5 million (approximately \$17.9 million) for the construction of two infrastructure projects in the Moquegua region under the “social investment for taxes” (obras por impuestos) program which allows the Company to use these amounts as an advance payment of taxes.

*Power purchase agreements:*

- *Electroperu S.A.:* In June 2014, the Company entered into a power purchase agreement for 120 megawatt (“MW”) with the state power company Electroperu S.A., under which Electroperu S.A. began supplying energy for the Peruvian operations for twenty years starting on April 17, 2017.
- *Kallpa Generacion S.A. (“Kallpa”):* In July 2014, the Company entered into 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 began supplying 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 occurs first.

Mexican operations

*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 17 “Related party transactions”.
- *Eolica el Retiro, S.A.P.I. de C.V.:* In 2013, the Company signed a power purchase agreement with Eolica el Retiro, S.A.P.I de C.V. a windfarm energy producer that is an indirect subsidiary of Grupo Mexico, to supply power to some of the Company’s Mexican operations. For further information, please see Note 17 “Related party transactions”.

Corporate operations

*Commitment for Capital projects:*

As of December 31, 2019, the Company has committed approximately \$198.2 million for the development of its capital investment projects.

**Tax contingency matters:**

Tax contingencies are provided for under ASC 740-10-50-15 Uncertain tax position (see Note 7 "Income taxes").

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**SOUTHERN COPPER CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 14—STOCKHOLDERS' EQUITY**

*Treasury Stock:*

Activity in treasury stock in the years 2019 and 2018 was as follows (in millions):

|  | <u>2019</u>      | <u>2018</u>      |
|--|------------------|------------------|
| Southern Copper common shares  |                  |                  |
| Balance as of January 1,   | \$2,768.3        | \$2,768.7        |
| Used for corporate purposes  | <u>(0.4)</u>     | <u>(0.4)</u>     |
| Balance as of December 31,   | <u>2,767.9</u>   | <u>2,768.3</u>   |
| Parent Company (Grupo Mexico) common shares  |                  |                  |
| Balance as of January 1,   | 251.3            | 232.4            |
| Other activity, including dividend, interest and foreign currency transaction effect | <u>29.7</u>      | <u>18.9</u>      |
| Balance as of December 31,   | <u>281.0</u>     | <u>251.3</u>     |
| Treasury stock balance as of December 31,  | <u>\$3,048.9</u> | <u>\$3,019.6</u> |

*SCC shares of common stock in treasury:*

At December 31, 2019 and 2018, treasury stock holds 111,537,217 shares and 111,551,617 shares of SCC's common stock with a cost of \$2,767.9 million and \$2,768.3 million, respectively. The shares of SCC's common stock held in treasury are used for Director's stock award plans and available for general corporate purposes.

*SCC share repurchase program:*

In 2008, the Company's Board of Directors ("BOD") authorized a \$500 million share repurchase program that has since been increased by the BOD and is currently authorized to \$3 billion. Pursuant to this program, the Company has purchased 119.5 million shares of common stock at a cost of \$2.9 billion. These shares are available for general corporate purposes. The Company may purchase additional shares of its common stock from time to time, based on market conditions and other factors. This repurchase program has no expiration date and may be modified or discontinued at any time.

There has not been activity in the SCC share repurchase program since the third quarter of 2016. The NYSE closing price of SCC common shares at December 31, 2019 was \$42.48 and the maximum number of shares that the Company could purchase at that price is 1.9 million shares.

Grupo Mexico's direct and indirect ownership remains at 88.9% as of December 31, 2019.

*Directors' Stock Award Plan:*

The Company established a stock award compensation plan for certain directors who are not compensated as employees of the Company. Under this plan, participants received 1,200 shares of common stock upon election and 1,200 additional shares following each annual meeting of stockholders thereafter. 600,000 shares of Southern Copper common stock have been reserved for this plan. On April 26, 2018, the Company's stockholders approved a five-year extension of the Plan until January 28, 2023 and an increase of the shares award from

1,200 to 1,600. The fair value of the award is measured each year at the date of the grant. In 2019 and 2018 the stock based compensation expense under this plan equaled \$0.4 million for each of these years.

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**SOUTHERN COPPER CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The activity of this plan for the years ended December 31, 2019 and 2018 was as follows:

|  | <u>2019</u>    | <u>2018</u>    |
|--|----------------|----------------|
| Total SCC shares reserved for the plan | 600,000        | 600,000        |
| Total shares granted at January 1,     | (362,800)      | (346,800)      |
| Granted in the period                  | (14,400)       | (16,000)       |
| Total shares granted at December 31,   | (377,200)      | (362,800)      |
| Remaining shares reserved              | <u>222,800</u> | <u>237,200</u> |

*Parent Company common shares:*

At December 31, 2019 and 2018, there were in treasury 93,082,532 and 100,188,809 of Grupo Mexico's common shares, respectively.

*Employee Stock Purchase Plan:*

2015 Plan: In January 2015, the Company offered to eligible employees a new stock purchase plan through a trust that acquires series B shares of Grupo Mexico stock for sale to its employees, and employees of subsidiaries, and certain affiliated companies. The purchase price was established at 38.44 Mexican pesos (approximately \$1.86) for the initial subscription, which expires in January 2023. Every two years employees will be able to acquire title to 50% of the shares paid in the previous two years. The employees will pay for shares purchased through monthly payroll deductions over the eight year period of the plan. At the end of the eight year period, the Company will grant the participant a bonus of 1 share for every 10 shares purchased by the employee. Any future subscription will be at the average market price at the date of acquisition or the grant date.

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

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

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

The stock based compensation expense for the years ended December 31, 2019, 2018 and 2017 and the unrecognized compensation expense under this plan were as follows (in millions):

|                                   | <u>2019</u> | <u>2018</u> | <u>2017</u> |
|-----------------------------------|-------------|-------------|-------------|
| Stock based compensation expense  | \$ 0.6      | \$ 0.6      | \$ 0.6      |
| Unrecognized compensation expense | \$ 2.0      | \$ 2.6      | \$ 3.2      |

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**SOUTHERN COPPER CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table presents the stock award activity of this plan for the years ended December 31, 2019 and 2018:

|  | Shares           | Unit Weighted Average<br>Grant Date Fair Value |
|--|------------------|--|
| Outstanding shares at January 1, 2019      | 1,840,336        | \$ 2.63  |
| Granted                                    | —                | —  |
| Exercised                                  | (460,602)        | \$ 2.63  |
| Forfeited                                  | —                | —  |
| Outstanding shares at<br>December 31, 2019 | <u>1,379,734</u> | \$ 2.63  |
| Outstanding shares at January 1, 2018      | 2,293,120        | \$ 2.63  |
| Granted                                    | —                | —  |
| Exercised                                  | (452,784)        | \$ 2.63  |
| Forfeited                                  | —                | —  |
| Outstanding shares at<br>December 31, 2018 | <u>1,840,336</u> | \$ 2.63  |

**2018 Plan:** In November 2018, the Company offered to eligible employees a new stock purchase plan (the "New Employee Stock Purchase Plan") through a trust that acquires series B shares of Grupo Mexico stock for sale to its employees, and employees of subsidiaries, and certain affiliated companies. The purchase price was established at 37.89 Mexican pesos (approximately \$1.86) for the initial subscription, which expires in October 2026. Every two years employees will be able to acquire title to 50% of the shares paid in the previous two years. The employees will pay for shares purchased through monthly payroll deductions over the eight year period of the plan. At the end of the eight year period, the Company will grant the participant a bonus of 1 share for every 10 shares purchased by the employee. Any future subscription will be at the average market price at the date of acquisition or the grant date.

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

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

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

The stock based compensation expense for the year ended December 31, 2019 and the unrecognized compensation expense under this plan were as follows (in millions):

|                                  | 2019   |
|----------------------------------|--------|
| Stock based compensation expense | \$ 0.7 |

Unrecognized compensation expense

\$ 4.5

140

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**SOUTHERN COPPER CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table presents the stock award activity of this plan for the years ended December 31, 2019 and 2018:

|  | <u>Shares</u>    | <u>Unit Weighted Average<br/>Grant Date Fair Value</u> |
|--|------------------|--|
| Outstanding shares at January 1, 2019      | 2,782,424        | 1.86   |
| Granted                                    | 1,238,169        | 1.86   |
| Exercised                                  | (17,695)         | 1.86   |
| Forfeited                                  | —                | —  |
| Outstanding shares at<br>December 31, 2019 | <u>4,002,898</u> | 1.86   |
| Outstanding shares at January 1, 2018      | —                | —  |
| Granted                                    | 2,782,424        | 1.86   |
| Exercised                                  | —                | —  |
| Forfeited                                  | —                | —  |
| Outstanding shares at<br>December 31, 2018 | <u>2,782,424</u> | 1.86   |

*Executive Stock Purchase Plan:*

Grupo Mexico also offers a stock purchase plan for certain members of its executive management and the executive management of its subsidiaries and certain affiliated companies. Under this plan, participants will receive incentive cash bonuses which are used to purchase shares of Grupo Mexico which are deposited in a trust.

*Retained earnings:*

As part of the settlement of claims brought on behalf of the Company and its shareholders against Grupo Mexico, AMC and certain current and former directors (together with Grupo Mexico and AMC, the “Defendants”) a dividend of \$0.44428 per share was paid on February 21, 2019 to shareholders of record at the close of business on February 11, 2019, other than the Defendants. The settlement dividend, totaling \$36.5 million was an obligation of Grupo Mexico and AMC and therefore, have been funded by them. In addition, Grupo Mexico and AMC paid \$13.5 million of legal fees.

*Non-controlling interest:*

For all the years presented, in the consolidated statement of earnings the income attributable to non-controlling interest is based on the earnings of the Company's Peruvian Branch.

The non-controlling interest of the Company's Peruvian Branch is for investment shares. These shares were generated by legislation in place in Peru from the 1970s through 1991; such legislation provided for the participation of mining workers in the profits of the enterprises for which they worked. This participation was divided between equity and cash. The investment shares included in the non-controlling interest on the consolidated balance sheets are the still outstanding equity distributions made to the Peruvian Branch's employees.

In prior years, the Company acquired some Peruvian investment shares in exchange for newly issued common shares of the Company and through purchases at market value. These

acquisitions were accounted for as purchases of non-controlling interests. The excess paid over the carrying value was assigned to intangible assets and is being amortized based on production. As a result of these acquisitions, the remaining investment shareholders hold a 0.71% interest in the Peruvian Branch and are entitled to a pro rata participation in the cash distributions made by the Peruvian Branch. The shares are recorded as a non-controlling interest in the Company's financial statements.

**SOUTHERN COPPER CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 15—FAIR VALUE MEASUREMENT:**

Subtopic 820-10 of ASC “Fair value measurement and disclosures -Overall” establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under Subtopic 820-10 are described below:

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

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

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

The carrying amounts of certain financial instruments, including cash and cash equivalents, accounts receivable (other than accounts receivable associated with provisionally priced sales) and accounts payable approximate fair value due to their short maturities. Consequently, such financial instruments are not included in the following table that provides information about the carrying amounts and estimated fair values of other financial instruments that are not measured at fair value in the consolidated balance sheet as of December 31, 2019 and December 31, 2018 (in millions):

|                        | <u>At December 31, 2019</u> |                   | <u>At December 31, 2018</u> |                   |
|------------------------|-----------------------------|-------------------|-----------------------------|-------------------|
|                        | <u>Carrying Value</u>       | <u>Fair Value</u> | <u>Carrying Value</u>       | <u>Fair Value</u> |
| <b>Liabilities:</b>    |                             |                   |                             |                   |
| Long-term debt level 1 | \$ 6,190.6                  | \$7,675.3         | \$ 5,210.7                  | \$5,540.0         |
| Long-term debt level 2 | 750.2                       | 776.1             | 749.4                       | 761.7             |
| Total long-term debt   | \$ 6,940.8                  | \$8,451.4         | \$ 5,960.1                  | \$6,301.7         |

Long-term debt is carried at amortized cost and its estimated fair value is based on quoted market prices classified as Level 1 in the fair value hierarchy except for the cases of the Yankee bonds, the notes due 2020 and the notes due 2022, which qualify as Level 2 in the fair value hierarchy as they are based on quoted priced in market that are not active.

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**SOUTHERN COPPER CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Fair values of assets and liabilities measured at fair value on a recurring basis were calculated as of December 31, 2019 and 2018, as follows (in millions):

| Description                                     | Fair Value at Measurement Date Using: |  |   |   |
|---|---------------------------------------|--|---|---|
|   | Fair Value as of December 31, 2019    | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| <b>Assets:</b>                                  |                                       |  |   |   |
| <i>Short term investment:</i>                   |                                       |  |   |   |
| —Trading securities                             | \$ 80.0                               | \$ 80.0  | \$ —  | \$ —                                      |
| —Available-for-sale debt securities:            |                                       |  |   |   |
| Corporate bonds                                 | —                                     | —  | —   | —   |
| Asset backed securities                         | 0.4                                   | —  | 0.4   | —   |
| Mortgage backed securities                      | 0.3                                   | —  | 0.3   | —   |
| <i>Accounts receivable:</i>                     |                                       |  |   |   |
| —Embedded derivatives—Not classified as hedges: |                                       |  |   |   |
| Provisionally priced sales:                     |                                       |  |   |   |
| Copper  | 326.5                                 | 326.5  | —   | —   |
| Molybdenum                                      | 126.8                                 | 126.8  | —   | —   |
| <b>Total</b>                                    | <b>\$ 534.0</b>                       | <b>\$ 533.3</b>  | <b>\$ 0.7</b>                                 | <b>\$ —</b>                               |

| Description                                     | Fair Value at Measurement Date Using: |  |   |   |
|---|---------------------------------------|--|---|---|
|   | Fair Value as of December 31, 2018    | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| <b>Assets:</b>                                  |                                       |  |   |   |
| <i>Short term investment:</i>                   |                                       |  |   |   |
| —Trading securities                             | \$ 213.1                              | \$ 213.1   | \$ —  | \$ —                                      |
| —Available-for-sale debt securities:            |                                       |  |   |   |
| Corporate bonds                                 | —                                     | —  | —   | —   |
| Asset backed securities                         | 0.4                                   | —  | 0.4   | —   |
| Mortgage backed securities                      | 0.3                                   | —  | 0.3   | —   |
| <i>Accounts receivable:</i>                     |                                       |  |   |   |
| —Embedded derivatives-Not classified as hedges: |                                       |  |   |   |
| Provisionally priced sales:                     |                                       |  |   |   |
| Copper  | 274.3                                 | 274.3  | —   | —   |
| Molybdenum                                      | 107.4                                 | 107.4  | —   | —   |
| <b>Total</b>                                    | <b>\$ 595.5</b>                       | <b>\$ 594.8</b>  | <b>\$ 0.7</b>                                 | <b>\$ —</b>                               |

The Company's short-term trading securities investments are classified as Level 1 because they are valued using quoted prices of the same securities as they consist of bonds issued by public companies and publicly traded. The Company's short-term available-for-sale

investments are classified as Level 2 because they are valued using quoted prices for similar investments.

The Company's accounts receivables associated with provisionally priced copper sales are valued using quoted market prices based on the forward price on the LME or on the COMEX. Such value is classified within Level 1 of the fair value hierarchy. Molybdenum prices are established by reference to the publication Platt's Metals Week and are considered Level 1 in the fair value hierarchy.

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**SOUTHERN COPPER CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 16—CONCENTRATION OF RISK:**

The Company operates four open-pit copper mines, five underground poly-metallic mines, two smelters and ten refineries in Peru and Mexico and substantially all of its assets are located in these countries. There can be no assurances that the Company's operations and assets that are subject to the jurisdiction of the governments of Peru and Mexico will not be adversely affected by future actions of such governments. Much of the Company's products are exported from Peru and Mexico to customers principally in the United States, Europe, Asia and South America.

Financial instruments, which potentially subject the Company to a concentration of credit risk, consist primarily of cash and cash equivalents, short-term investments and trade accounts receivable. The Company invests or maintains available cash with various banks, principally in the United States, Mexico, Europe and Peru, or in commercial papers of highly-rated companies. As part of its cash management process, the Company regularly monitors the relative credit standing of these institutions. At December 31, 2019, SCC had invested its cash and cash equivalents and short-term investments as follows:

| Country                              | \$ in million    | % of total cash (1) | % in one institution |               |
|--------------------------------------|------------------|---------------------|----------------------|---------------|
|                                      |                  |                     | of country           | of total cash |
| United States                        | \$1,726.7        | 86.1 %              | 14.2 %               | 12.2 %        |
| Switzerland                          | 126.3            | 6.3 %               | 100.0 %              | 6.3 %         |
| Peru                                 | 24.6             | 1.2 %               | 72.5 %               | 0.9 %         |
| Mexico                               | 128.2            | 6.4 %               | 87.0 %               | 5.6 %         |
| Total cash and short-term investment | <u>\$2,005.8</u> | <u>100.0 %</u>      |                      |               |

(1) 97.4% of the Company's cash is in U.S. dollars.

During the normal course of business, the Company provides credit to its customers. Although the receivables resulting from these transactions are not collateralized, the Company has not experienced significant problems with the collection of receivables.

The Company is exposed to credit loss in cases where the financial institutions with which it has entered into derivative transactions (commodity, foreign exchange and currency/interest rate swaps) are unable to pay when they owe funds as a result of protection agreements with them. To minimize the risk of such losses, the Company only uses highly-rated financial institutions that meet certain requirements. The Company also periodically reviews the creditworthiness of these institutions to ensure that they are maintaining their ratings. The Company does not anticipate that any of the financial institutions will default on their obligations.

The Company's largest customers as percentage of accounts receivable and total sales were as follows:

|   | 2019   | 2018   | 2017   |
|---|--------|--------|--------|
| <b>Accounts receivable trade as of December 31,</b> |        |        |        |
| Five largest customers                              | 37.6 % | 34.2 % | 28.4 % |

|                            |        |        |        |
|----------------------------|--------|--------|--------|
| Largest customer           | 13.0 % | 10.9 % | 8.2 %  |
| <b>Total sales in year</b> |        |        |        |
| Five largest customers     | 28.0 % | 28.4 % | 25.1 % |
| Largest customer           | 10.4 % | 9.3 %  | 8.8 %  |

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**SOUTHERN COPPER CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 17—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 and railroad transportation, construction services, energy supply, and other 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):

|   | <u>At December 31,</u> |                 |
|---|------------------------|-----------------|
|   | <u>2019</u>            | <u>2018</u>     |
| <b><i>Related parties receivable current:</i></b>           |                        |                 |
| <b>Grupo Mexico and affiliates:</b>                         |                        |                 |
| Asarco LLC  | \$ 10.8                | \$ 74.4         |
| Americas Mining Corporation ("AMC")                         | —                      | 11.0            |
| AMMINCO Apoyo Administrativo, S.A. de C.V. ("AMMINCO")      | 0.1                    | 0.2             |
| Compania Perforadora Mexico S.A.P.I. de C.V. and affiliates | 0.3                    | 1.4             |
| Ferrocarril Mexicano, S.A. de C.V.                          | —                      | 0.1             |
| Grupo Mexico  | 2.7                    | 2.7             |
| Mexico Generadora de Energia S. de R.L. ("MGE")             | 15.3                   | 10.3            |
| Mexico Proyectos y Desarrollos, S.A. de C.V. and affiliates | 0.2                    | 0.6             |
| <b>Related to the controlling group:</b>                    |                        |                 |
| Boutique Bowling de Mexico S.A. de C.V.                     | 0.1                    | 0.3             |
| Mexico Transportes Aereos, S.A. de C.V. ("Mextransport")    | 0.4                    | 0.1             |
| Operadora de Cinemas S.A. de C.V.                           | 0.1                    | 0.4             |
|   | <u>\$ 30.0</u>         | <u>\$ 101.5</u> |
| <b><i>Related parties receivable non-current:</i></b>       |                        |                 |
| <b>Grupo Mexico and affiliates:</b>                         |                        |                 |
| Asarco LLC  | \$ 59.5                | —               |
| <b><i>Related parties payable:</i></b>                      |                        |                 |
| <b>Grupo Mexico and affiliates:</b>                         |                        |                 |
| Asarco LLC  | \$ 4.3                 | \$ 4.1          |
| AMMINCO   | 16.9                   | 8.0             |
| Eolica El Retiro, S.A.P.I. de C.V.                          | —                      | 1.0             |
| Ferrocarril Mexicano S.A. de C.V.                           | 6.4                    | 6.4             |
| Grupo Mexico  | 1.1                    | 0.6             |
| MGE   | 40.2                   | 40.6            |
| Mexico Proyectos y Desarrollos S.A. de C.V. and affiliates  | 16.0                   | 14.4            |

**Related to the controlling group:**

|  |                |                |
|--|----------------|----------------|
| Boutique Bowling de Mexico S.A. de C.V.                    | 0.2            | 0.1            |
| Mexico Transportes Aereos S.A. de C.V.<br>("Mextransport") | 1.2            | —              |
| Operadora de Cinemas S.A. de C.V.                          | 0.1            | 0.1            |
|  | <u>\$ 86.4</u> | <u>\$ 75.3</u> |

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**SOUTHERN COPPER CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Purchase and sale activity:**

**Grupo Mexico and affiliates:**

The following table summarizes the purchase and sale activities with Grupo Mexico and its affiliates in 2019, 2018 and 2017 (in millions):

|  | <u>2019</u>            | <u>2018</u>            | <u>2017</u>           |
|--|------------------------|------------------------|-----------------------|
| <b><i>Purchase activity</i></b>                              |                        |                        |                       |
| Asarco LLC   | \$ 37.6                | \$ 37.2                | \$ 37.2               |
| AMMINCO  | 17.8                   | 8.0                    | —                     |
| Eolica El Retiro, S.A.P.I. de C.V.                           | 2.9                    | 3.6                    | 3.3                   |
| Ferrocarril Mexicano, S.A. de C.V.                           | 44.1                   | 41.7                   | 43.5                  |
| Grupo Mexico   | 10.0                   | 10.1                   | 14.0                  |
| MGE  | 202.2                  | 200.1                  | 223.7                 |
| Mexico Proyectos y Desarrollos S.A. de C.V. and affiliates   | 71.0                   | 79.8                   | 152.9                 |
| <b>Total purchases</b>                                       | <b><u>\$ 385.6</u></b> | <b><u>\$ 380.5</u></b> | <b><u>\$474.6</u></b> |
| <b><i>Sales activity</i></b>                                 |                        |                        |                       |
| Asarco LLC   | \$ 11.3                | \$ 81.8                | \$ 96.2               |
| AMMINCO  | 0.1                    | 0.3                    | —                     |
| Compania Perforadora Mexico, S.A.P.I. de C.V. and affiliates | —                      | —                      | 0.2                   |
| Ferrocarril Mexicano, S.A. de C.V.                           | 0.1                    | —                      | —                     |
| Grupo Mexico   | —                      | —                      | 0.2                   |
| MGE  | 47.4                   | 68.2                   | 101.0                 |
| <b>Total sales</b>   | <b><u>\$ 58.9</u></b>  | <b><u>\$ 150.3</u></b> | <b><u>\$197.6</u></b> |

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. In 2018, AMMINCO, a subsidiary of Grupo Mexico, began providing these services for the Company's Peruvian operations. The Company pays Grupo Mexico and AMMINCO for these services and expects to continue requiring these services in the future. In 2018, the Company sold vehicles to AMMINCO.

In 2019 and 2018, the Company donated \$9.6 million and \$6.2 million, respectively, to Fundacion Grupo Mexico, A.C., an organization dedicated to promoting the social and economic development of the communities close to the Company's Mexican operations.

In addition, in December 2018, in accordance with the Company's tax sharing agreement with its parent, the Company's Peruvian operations advanced \$11 million to AMC for the payment of the Company's GILTI tax that later was determined not to be necessary. This amount was reimbursed to the Company in the first quarter of 2019.

The Company's Mexican operations paid fees for freight services provided by Ferrocarril Mexicano, S.A. de C.V., for construction services provided by Mexico Proyectos y Desarrollos, S.A. de C.V. and its affiliates, and for drilling services provided by Compañia 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 LLC, and power from MGE. Both companies are subsidiaries of Grupo Mexico.

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**SOUTHERN COPPER CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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 has two natural gas-fired combined cycle power generating units, with a net total capacity of 516.2 megawatts and has been supplying power to the Company since December 2013. Currently, MGE is supplying 5.2% of its power output to third-party energy users; compared to 17.1% at December 31, 2018.

In 2014, Mexico Generadora de Energia Eolica, S. de R.L. de C.V, an indirect subsidiary of Grupo Mexico, located in Oaxaca, Mexico, acquired Eolica el Retiro, a windfarm with 37 wind turbines. This company started operations in January 2014 and started to sell power to Industrial Minera Mexico and subsidiaries (IMMSA) and other subsidiaries of Grupo Mexico in the third quarter of 2014. Currently, Eolica el Retiro is supplying approximately 18.2% of its power output to IMMSA; compared to 18% at December 31, 2018.

The Company sold copper cathodes and rod, as well as sulfuric acid, silver and gold to Asarco LLC.

In September 2019, Asarco LLC signed a promissory agreement to pay to the Company's Mexican operations \$62.0 million plus interest no later than October 31, 2021, with quarterly payments of \$0.5 million. The annual interest rate of the note is Libor plus 200 basis points, 4.08513%, which will be reviewed annually. As of December 31, 2019, \$59.5 million is recorded in a separate line as a long-term related party receivable in the consolidated balance sheet. Related to this agreement, the Company recorded interest income of \$2.3 million in 2019.

In addition, the Company received fees for building rental and maintenance services provided to Perforadora Mexico S.A.P.I de C.V., and for natural gas and services provided by MGE, all subsidiaries of Grupo Mexico.

**Companies with relationships with the controlling group:**

The following table summarizes the purchase and sales activities with other Larrea family companies in 2019, 2018 and 2017 (in millions):

|  | 2019          | 2018           | 2017          |
|--|---------------|----------------|---------------|
| <b>Purchase activity</b>                         |               |                |               |
| Boutique Bowling de Mexico S.A. de C.V.          | \$ 0.4        | \$ 0.3         | \$ 0.3        |
| Mextranport                                      | 2.3           | 12.4           | 1.3           |
| Operadora de Cinemas S.A. de C.V.                | 0.2           | 0.2            | 0.1           |
| Total purchases                                  | <u>\$ 2.9</u> | <u>\$ 12.9</u> | <u>\$ 1.7</u> |
| <b>Sales activity</b>                            |               |                |               |
| Boutique Bowling de Mexico S.A. de C.V.          | \$ 0.1        | \$ 0.2         | \$ 0.2        |
| Empresarios Industriales de Mexico, S.A. de C.V. | 0.2           | —              | —             |
| Mextranport                                      | 1.8           | 1.2            | 0.3           |
| Operadora de Cinemas S.A. de C.V.                | 0.1           | 0.1            | 0.2           |
| Total sales                                      | <u>\$ 2.2</u> | <u>\$ 1.5</u>  | <u>\$ 0.7</u> |

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.

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## SOUTHERN COPPER CORPORATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

In addition, the Company received fees for building rental and maintenance services provided to Boutique Bowling de Mexico S.A de C.V. and Operadora de Cinemas S.A. de C.V. The Company also received fees for building rental as well as aircraft operation services provided to Mextransport. The Company's Mexican operations received fees for security services provided to Empresarios Industriales de Mexico, S.A. de C.V. This is also a company controlled by the Larrea family.

**Equity Investment in Affiliate:** The Company has a 44.2% participation in Compañía Minera Coimolache S.A. ("Coimolache"), which it accounts for on the equity method. Coimolache owns Tantahuatay, a gold mine located in northern Peru.

In addition, the Company has a 30.0% participation in Apu Coropuna S.R.L. ("Apu Coropuna"), which it accounts for on the equity method. Apu Coropuna is a company, which undertakes exploration activities in the Pucaý prospect, located in Arequipa, Peru.

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

#### **Companies with relationships with SCC executive officers:**

In 2019 and 2018, the Company did not have purchase activities with companies having relationships with SCC executive officers. In 2017 the Company purchased industrial material from these companies amounting to \$0.2 million. It is anticipated that in the future the Company will not enter into similar transactions with these same parties.

**Tax Agreement:** On February 28, 2017, AMC and the Company entered into a tax agreement, effective as of February 20, 2017, pursuant to which AMC, as the parent of the consolidated group of which the Company is a member and joins in the filing of a U.S. federal income tax return, (a) will be responsible for and discharge, any and all liabilities and payments due to the IRS on account of any incremental tax liabilities of the Company in connection with the potential adjustments being considered by the IRS in connection with the interest of the 2012 Judgment, (b) will not seek reimbursement, contribution or collection of any amounts of money or any other asset in connection therewith from the Company, and (c) will indemnify, defend and hold harmless the Company from any such liability, including the cost of such defense.

#### **NOTE 18—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.

Intersegment sales are based on arm's length prices at the time of sale. These may not be reflective of actual prices realized by the Company due to various factors, including additional processing, timing of sales to outside customers and

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**SOUTHERN COPPER CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

transportation cost. Added to the segment data is information regarding the Company's sales. The segments identified by the Company are:

1. Peruvian operations, which include the Toquepala and Cuajone mine complexes and the smelting and refining plants, including a precious metals plant, industrial railroad and port facilities that service both mines. The Peruvian operations produce copper, with production of by-products of molybdenum, silver and other material.
2. Mexican open-pit operations, which include La Caridad and Buenavista mine complexes and the smelting and refining plants, including a precious metals plant and a copper rod plant and support facilities that service both mines. The Mexican open-pit operations produce copper, with production of by-products of molybdenum, silver and other material.
3. Mexican underground mining operations, which include five underground mines that produce zinc, copper, silver and gold, a coal mine which produces coal and coke, and a zinc refinery. This group is identified as the IMMSA unit.

The Peruvian operations include two open-pit copper mines whose mineral output is transported by rail to Ilo, Peru where it is processed at the Company's Ilo smelter and refinery, without distinguishing between the products of the two mines. The resulting product, anodes and refined copper, are then shipped to customers throughout the world. These shipments are recorded as revenue of the Company's Peruvian mines.

The Mexican open-pit segment includes two copper mines whose mineral output is processed in the same smelter and refinery without distinguishing between the products of the two mines. The resultant product, anodes and refined copper, are then shipped to customers throughout the world. These shipments are recorded as revenues of the Company's Mexican open-pit mines.

The Company has determined that it is necessary to classify the Peruvian open-pit operations as a separate operating segment from the Mexican open-pit operations due to the very distinct regulatory and political environments in which they operate. The Company's senior management must consider the operations in each country separately when analyzing results of the Company and making key decisions. The open-pit mines in Peru must comply with stricter environmental rules and must continually deal with a political climate that has a very distinct vision of the mining industry as compared to Mexico. In addition, the collective bargaining agreement contracts are negotiated differently in each of the countries. These key differences result in the Company taking varying decisions with regards to open-pit operations in the two countries.

The IMMSA segment includes five mines whose minerals are processed in the same refinery. This segment also includes an underground coal mine. Sales of product from this segment are recorded as revenues of the Company's IMMSA unit. While the Mexican underground mines are subject to a very similar regulatory environment of the Mexican open-pit mines, the nature of the products and processes of two Mexican operations vary distinctly. These differences cause the Company's senior management to take a very different approach when analyzing results and making decisions regarding the two Mexican operations.

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.

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**SOUTHERN COPPER CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Financial information relating to Company's segments is as follows:

|   | Year Ended December 31, 2019 |                          |                        |   |                   |
|---|------------------------------|--------------------------|------------------------|---|-------------------|
|   | (in millions)                |                          |                        |   |                   |
|   | Mexican<br>Open-pit          | Mexican<br>IMMSA<br>Unit | Peruvian<br>Operations | Corporate, other<br>and<br>eliminations | Consolidated      |
| Net sales outside of segments   | \$3,963.9                    | \$ 381.6                 | \$2,940.1              | \$ —                                    | \$ 7,285.6        |
| Intersegment sales  | —                            | 83.2                     | —                      | (83.2)                                  | —                 |
| Cost of sales (exclusive of depreciation, amortization and depletion) | 1,613.1                      | 380.3                    | 1,702.1                | (89.1)                                  | 3,606.4           |
| Selling, general and administrative                                   | 78.6                         | 7.9                      | 38.5                   | 6.8                                     | 131.8             |
| Depreciation, amortization and depletion                              | 351.9                        | 52.3                     | 328.1                  | 32.1                                    | 764.4             |
| Exploration   | 1.8                          | 9.0                      | 16.5                   | 2.7                                     | 30.0              |
| Operating income  | <u>\$1,918.5</u>             | <u>\$ 15.3</u>           | <u>\$ 854.9</u>        | <u>\$ (35.7)</u>                        | <u>2,753.0</u>    |
| Less:   |                              |                          |                        |   |                   |
| Interest, net   |                              |                          |                        |   | (319.5)           |
| Other income (expense)  |                              |                          |                        |   | (7.0)             |
| Income taxes  |                              |                          |                        |   | (945.3)           |
| Equity earnings of affiliate  |                              |                          |                        |   | 10.7              |
| Non-controlling interest  |                              |                          |                        |   | (6.1)             |
| Net income attributable to SCC  |                              |                          |                        |   | <u>\$ 1,485.8</u> |
| Capital investment  | \$ 244.3                     | \$ 106.3                 | \$ 350.1               | \$ 6.8                                  | \$ 707.5          |
| Property and mine development, net                                    | \$4,648.5                    | \$ 497.1                 | \$3,879.2              | \$ 346.2                                | \$ 9,371.0        |
| Total assets  | \$8,081.9                    | \$ 837.6                 | \$5,017.9              | \$ 2,470.0                              | \$ 16,407.4       |

|   | Year Ended December 31, 2018 |                          |                        |   |                |
|---|------------------------------|--------------------------|------------------------|---|----------------|
|   | (in millions)                |                          |                        |   |                |
|   | Mexican<br>Open-pit          | Mexican<br>IMMSA<br>Unit | Peruvian<br>Operations | Corporate, other<br>and<br>eliminations | Consolidated   |
| Net sales outside of segments   | \$4,075.9                    | \$ 448.6                 | \$2,572.2              | \$ —                                    | \$ 7,096.7     |
| Intersegment sales  | —                            | 79.3                     | —                      | (79.3)                                  | —              |
| Cost of sales (exclusive of depreciation, amortization and depletion) | 1,611.0                      | 377.2                    | 1,509.4                | (88.6)                                  | 3,409.0        |
| Selling, general and administrative                                   | 55.3                         | 8.5                      | 36.7                   | 2.1                                     | 102.6          |
| Depreciation, amortization and depletion                              | 360.4                        | 47.6                     | 237.4                  | 28.9                                    | 674.3          |
| Exploration   | 2.0                          | 5.3                      | 18.5                   | 3.8                                     | 29.6           |
| Operating income  | <u>\$2,047.2</u>             | <u>\$ 89.3</u>           | <u>\$ 770.2</u>        | <u>\$ (25.5)</u>                        | <u>2,881.2</u> |
| Less:   |                              |                          |                        |   |                |
| Interest, net   |                              |                          |                        |   | (261.1)        |
| Other income (expense)  |                              |                          |                        |   | (30.7)         |

|                                       |           |          |           |    |       |                   |
|---------------------------------------|-----------|----------|-----------|----|-------|-------------------|
| Income taxes                          |           |          |           |    |       | (1,053.5)         |
| Equity earnings of affiliate          |           |          |           |    |       | 12.3              |
| Non-controlling interest              |           |          |           |    |       | (5.2)             |
| Net income attributable to<br>SCC     |           |          |           |    |       | <u>\$ 1,543.0</u> |
| Capital investment                    | \$ 266.8  | \$ 60.0  | \$ 774.0  | \$ | 20.6  | \$ 1,121.4        |
| Property and mine<br>development, net | \$4,783.8 | \$ 448.3 | \$3,797.2 | \$ | 374.5 | \$ 9,403.8        |
| Total assets                          | \$8,165.2 | \$ 930.2 | \$4,813.1 | \$ | 379.1 | \$ 14,287.6       |

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**SOUTHERN COPPER CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

|   | Year Ended December 31, 2017 |                          |                        |   |                 |
|---|------------------------------|--------------------------|------------------------|---|-----------------|
|   | (in millions)                |                          |                        |   |                 |
|   | Mexican<br>Open-pit          | Mexican<br>IMMSA<br>Unit | Peruvian<br>Operations | Corporate, other<br>and<br>eliminations | Consolidated    |
| Net sales outside of segments   | \$3,972.7                    | \$ 437.7                 | \$2,244.1              | \$ —                                    | \$ 6,654.5      |
| Intersegment sales  | —                            | 71.0                     | —                      | (71.0)                                  | —               |
| Cost of sales (exclusive of depreciation, amortization and depletion) | 1,594.3                      | 365.3                    | 1,362.8                | (69.6)                                  | 3,252.8         |
| Selling, general and administrative                                   | 47.9                         | 7.9                      | 36.2                   | 1.1                                     | 93.1            |
| Depreciation, amortization and depletion                              | 401.0                        | 56.2                     | 203.6                  | 10.3                                    | 671.1           |
| Exploration   | 2.7                          | 5.5                      | 14.4                   | 6.2                                     | 28.8            |
| Environmental remediation   | (10.2)                       | —                        | —                      | —                                       | (10.2)          |
| Operating income  | <u>\$1,937.0</u>             | <u>\$ 73.8</u>           | <u>\$ 627.1</u>        | <u>\$ (19.0)</u>                        | <u>2,618.9</u>  |
| Less:   |                              |                          |                        |   |                 |
| Interest, net   |                              |                          |                        |   | (300.5)         |
| Other income (expense)  |                              |                          |                        |   | (15.7)          |
| Income taxes  |                              |                          |                        |   | (1,593.4)       |
| Equity earnings of affiliate  |                              |                          |                        |   | 23.1            |
| Non-controlling interest  |                              |                          |                        |   | (3.9)           |
| Net income attributable to SCC  |                              |                          |                        |   | <u>\$ 728.5</u> |
| Capital investment  | \$ 297.6                     | \$ 36.5                  | \$ 685.4               | \$ 4.0                                  | \$ 1,023.5      |
| Property and mine development, net                                    | \$5,004.5                    | \$ 366.9                 | \$3,389.8              | \$ 338.4                                | \$ 9,099.6      |
| Total assets  | \$8,323.1                    | \$ 889.1                 | \$4,314.5              | \$ 253.4                                | \$ 13,780.1     |

The following table presents information regarding the opening and closing balances of receivables by reporting segment of the Company for the three years ended December 31, 2019 (in millions):

|                                 | Mexican             |               |                        |                            | Consolidated |
|---------------------------------|---------------------|---------------|------------------------|----------------------------|--------------|
|                                 | Mexican<br>Open-Pit | IMMSA<br>Unit | Peruvian<br>Operations | Corporate &<br>Elimination |              |
| <u>As of December 31, 2019:</u> |                     |               |                        |                            |              |
| Trade receivables               | \$ 477.8            | \$ 38.0       | \$ 317.1               | \$ —                       | \$ 832.9     |
| Related parties, current        | 22.1                | —             | —                      | 7.9                        | 30.0         |
| Related parties, non-current    | 59.5                | —             | —                      | —                          | 59.5         |
| <u>As of December 31, 2018:</u> |                     |               |                        |                            |              |
| Trade receivables               | \$ 505.9            | \$ 50.5       | \$ 266.0               | \$ —                       | \$ 822.4     |
| Related parties                 | 81.6                | —             | —                      | 19.9                       | 101.5        |
| <u>As of December 31, 2017:</u> |                     |               |                        |                            |              |
| Trade receivables               | \$ 556.2            | \$ 79.7       | \$ 254.7               | \$ —                       | \$ 890.6     |
| Related parties                 | 18.0                | —             | —                      | 8.1                        | 26.1         |



**SOUTHERN COPPER CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**SALES VALUE PER SEGMENT:**

The following table presents information regarding the sales value by reporting segment of the Company's significant products for the three years ended December 31, 2019 (in millions):

|              | <b>Year Ended December 31, 2019</b> |                 |                   |                               |                     |
|--------------|-------------------------------------|-----------------|-------------------|-------------------------------|---------------------|
|              | <b>Mexican</b>                      |                 |                   |                               | <b>Total</b>        |
|              | <b>Mexican</b>                      | <b>IMMSA</b>    | <b>Peruvian</b>   | <b>Corporate, Other &amp;</b> |                     |
|              | <b>Open-pit</b>                     | <b>Unit</b>     | <b>Operations</b> | <b>Eliminations</b>           | <b>Consolidated</b> |
| Copper       | \$3,314.9                           | \$ 42.0         | \$2,535.3         | \$ (46.9)                     | \$ 5,845.3          |
| Molybdenum   | 341.0                               | —               | 208.4             | —                             | 549.4               |
| Zinc         | —                                   | 280.1           | —                 | (2.3)                         | 277.8               |
| Silver       | 185.9                               | 82.7            | 85.6              | (29.9)                        | 324.3               |
| Other        | 122.1                               | 60.0            | 110.8             | (4.1)                         | 288.8               |
| <b>Total</b> | <b>\$3,963.9</b>                    | <b>\$ 464.8</b> | <b>\$2,940.1</b>  | <b>\$ (83.2)</b>              | <b>\$ 7,285.6</b>   |

|              | <b>Year Ended December 31, 2018</b> |                 |                   |                               |                     |
|--------------|-------------------------------------|-----------------|-------------------|-------------------------------|---------------------|
|              | <b>Mexican</b>                      |                 |                   |                               | <b>Total</b>        |
|              | <b>Mexican</b>                      | <b>IMMSA</b>    | <b>Peruvian</b>   | <b>Corporate, Other &amp;</b> |                     |
|              | <b>Open-pit</b>                     | <b>Unit</b>     | <b>Operations</b> | <b>Eliminations</b>           | <b>Consolidated</b> |
| Copper       | \$3,459.1                           | \$ 45.6         | \$2,251.2         | \$ (48.1)                     | \$ 5,707.8          |
| Molybdenum   | 342.5                               | —               | 167.4             | —                             | 509.9               |
| Zinc         | —                                   | 328.7           | —                 | (0.1)                         | 328.6               |
| Silver       | 175.3                               | 83.5            | 69.5              | (28.1)                        | 300.2               |
| Other        | 99.0                                | 70.1            | 84.1              | (3.0)                         | 250.2               |
| <b>Total</b> | <b>\$4,075.9</b>                    | <b>\$ 527.9</b> | <b>\$2,572.2</b>  | <b>\$ (79.3)</b>              | <b>\$ 7,096.7</b>   |

|                      | <b>Year Ended December 31, 2017</b> |                 |                   |                               |                     |
|----------------------|-------------------------------------|-----------------|-------------------|-------------------------------|---------------------|
|                      | <b>Mexican</b>                      |                 |                   |                               | <b>Total</b>        |
|                      | <b>Mexican</b>                      | <b>IMMSA</b>    | <b>Peruvian</b>   | <b>Corporate, Other &amp;</b> |                     |
| <b>(in millions)</b> | <b>Open-pit</b>                     | <b>Unit</b>     | <b>Operations</b> | <b>Eliminations</b>           | <b>Consolidated</b> |
| Copper               | \$3,480.2                           | \$ 37.2         | \$1,996.4         | \$ (37.3)                     | \$ 5,476.5          |
| Molybdenum           | 224.0                               | —               | 129.4             | —                             | 353.4               |
| Silver               | 170.7                               | 71.9            | 70.6              | (26.9)                        | 286.3               |
| Zinc                 | —                                   | 327.2           | —                 | (0.6)                         | 326.6               |
| Other                | 97.8                                | 73.2            | 47.7              | (7.0)                         | 211.7               |
| <b>Total</b>         | <b>\$3,972.7</b>                    | <b>\$ 509.5</b> | <b>\$2,244.1</b>  | <b>\$ (71.8)</b>              | <b>\$ 6,654.5</b>   |

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**SOUTHERN COPPER CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NET SALES AND GEOGRAPHICAL INFORMATION:**

The geographic breakdown of the Company's sales for the three years ended December 31, 2019 was as follows (in millions):

|                          | Year Ended December 31, 2019 |                          |                        |                            |                   |
|--------------------------|------------------------------|--------------------------|------------------------|----------------------------|-------------------|
|                          | Mexican<br>Open-Pit          | Mexican<br>IMMSA<br>Unit | Peruvian<br>Operations | Corporate &<br>Elimination | Consolidated      |
| <b>The Americas:</b>     |                              |                          |                        |                            |                   |
| Mexico                   | \$1,262.2                    | \$ 352.9                 | \$ —                   | \$ (83.2)                  | \$ 1,531.9        |
| United States            | 1,054.9                      | 6.2                      | 134.5                  | —                          | 1,195.6           |
| Peru                     | 1.6                          | —                        | 338.4                  | —                          | 340.0             |
| Brazil                   | —                            | 17.3                     | 194.4                  | —                          | 211.7             |
| Chile                    | 1.2                          | —                        | 190.1                  | —                          | 191.3             |
| Other American countries | 37.6                         | 2.2                      | 3.3                    | —                          | 43.1              |
| <b>Europe:</b>           |                              |                          |                        |                            |                   |
| Switzerland              | 780.9                        | 36.7                     | 355.8                  | —                          | 1,173.4           |
| Italy                    | 45.1                         | 13.3                     | 238.6                  | —                          | 297.0             |
| Spain                    | 186.1                        | —                        | —                      | —                          | 186.1             |
| Other European countries | 92.8                         | 24.9                     | 256.9                  | —                          | 374.6             |
| <b>Asia:</b>             |                              |                          |                        |                            |                   |
| Singapore                | 345.4                        | 10.4                     | 611.1                  | —                          | 966.9             |
| Japan                    | 59.9                         | —                        | 440.9                  | —                          | 500.8             |
| Other Asian countries    | 96.2                         | 0.9                      | 176.1                  | —                          | 273.2             |
| <b>Total</b>             | <b>\$3,963.9</b>             | <b>\$ 464.8</b>          | <b>\$2,940.1</b>       | <b>\$ (83.2)</b>           | <b>\$ 7,285.6</b> |

|                          | Year Ended December 31, 2018 |                          |                        |                            |                   |
|--------------------------|------------------------------|--------------------------|------------------------|----------------------------|-------------------|
|                          | Mexican<br>Open-Pit          | Mexican<br>IMMSA<br>Unit | Peruvian<br>Operations | Corporate &<br>Elimination | Consolidated      |
| <b>The Americas:</b>     |                              |                          |                        |                            |                   |
| Mexico                   | \$1,343.0                    | \$ 385.6                 | \$ —                   | \$ (79.3)                  | \$ 1,649.3        |
| United States            | 1,008.0                      | 6.6                      | 244.0                  | —                          | 1,258.6           |
| Peru                     | —                            | —                        | 390.4                  | —                          | 390.4             |
| Brazil                   | —                            | 43.8                     | 228.1                  | —                          | 271.9             |
| Chile                    | —                            | —                        | 136.3                  | —                          | 136.3             |
| Other American countries | 60.6                         | 3.8                      | 1.4                    | —                          | 65.8              |
| <b>Europe:</b>           |                              |                          |                        |                            |                   |
| Switzerland              | 453.3                        | 43.4                     | 156.7                  | —                          | 653.4             |
| Italy                    | 20.6                         | 21.7                     | 305.0                  | —                          | 347.3             |
| Spain                    | 169.4                        | —                        | —                      | —                          | 169.4             |
| Other European countries | 234.8                        | 19.9                     | 124.9                  | —                          | 379.6             |
| <b>Asia:</b>             |                              |                          |                        |                            |                   |
| Singapore                | 528.8                        | 2.2                      | 538.2                  | —                          | 1,069.2           |
| Japan                    | 71.8                         | —                        | 411.6                  | —                          | 483.4             |
| Other Asian countries    | 185.6                        | 0.9                      | 35.6                   | —                          | 222.1             |
| <b>Total</b>             | <b>\$4,075.9</b>             | <b>\$ 527.9</b>          | <b>\$2,572.2</b>       | <b>\$ (79.3)</b>           | <b>\$ 7,096.7</b> |

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**SOUTHERN COPPER CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

|                             | Year Ended December 31, 2017 |                          |                         |                            |                          |
|-----------------------------|------------------------------|--------------------------|-------------------------|----------------------------|--------------------------|
|                             | Mexican<br>Open-Pit          | Mexican<br>IMMSA<br>Unit | Peruvian<br>Operations  | Corporate &<br>Elimination | Consolidated             |
| <b><i>The Americas:</i></b> |                              |                          |                         |                            |                          |
| Mexico                      | \$1,240.0                    | \$ 349.1                 | \$ 6.6                  | \$ (71.8)                  | \$ 1,523.9               |
| United States               | 1,001.2                      | 41.7                     | 147.4                   | —                          | 1,190.3                  |
| Peru                        | —                            | 0.8                      | 373.4                   | —                          | 374.2                    |
| Brazil                      | —                            | 48.7                     | 191.4                   | —                          | 240.1                    |
| Chile                       | —                            | —                        | 103.4                   | —                          | 103.4                    |
| Other American countries    | 68.1                         | 4.1                      | 19.3                    | —                          | 91.5                     |
| <b><i>Europe:</i></b>       |                              |                          |                         |                            |                          |
| Switzerland                 | 473.1                        | 14.3                     | 114.9                   | —                          | 602.3                    |
| Italy                       | 27.7                         | 18.6                     | 286.1                   | —                          | 332.4                    |
| Spain                       | 142.8                        | —                        | —                       | —                          | 142.8                    |
| Other European countries    | 230.3                        | 30.3                     | 76.6                    | —                          | 337.2                    |
| <b><i>Asia:</i></b>         |                              |                          |                         |                            |                          |
| Singapore                   | 547.9                        | 1.4                      | 502.0                   | —                          | 1,051.3                  |
| Japan                       | 93.0                         | —                        | 386.6                   | —                          | 479.6                    |
| Other Asian countries       | 148.6                        | 0.5                      | 36.4                    | —                          | 185.5                    |
| <b>Total</b>                | <b><u>\$3,972.7</u></b>      | <b><u>\$ 509.5</u></b>   | <b><u>\$2,244.1</u></b> | <b><u>\$ (71.8)</u></b>    | <b><u>\$ 6,654.5</u></b> |

**PROVISIONAL SALES PRICE:**

At December 31, 2019, the Company has recorded provisionally priced sales of copper at average forward prices per pound, and molybdenum at the year-end 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 December 31, 2019:

|            | Sales volume<br>(million lbs.) | Priced at<br>(per pound) | Month of settlement        |
|------------|--------------------------------|--------------------------|----------------------------|
| Copper     | 116.8                          | 2.80                     | January through March 2020 |
| Molybdenum | 13.7                           | 9.20                     | January through March 2020 |

Provisional sales price adjustments included in accounts receivable and net sales were as follows at December, 31 (in millions):

|              | At December 31,        |                         |
|--------------|------------------------|-------------------------|
|              | 2019                   | 2018                    |
| Copper       | \$ 4.0                 | \$ (7.6)                |
| Molybdenum   | (8.2)                  | (2.4)                   |
| <b>Total</b> | <b><u>\$ (4.2)</u></b> | <b><u>\$ (10.0)</u></b> |

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



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**SOUTHERN COPPER CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**LONG-TERM SALES CONTRACTS:**

The following are the significant outstanding long-term contracts:

In 2019, a three year copper cathodes sales agreement was signed with Mitsui, with shipments beginning in 2020. Mitsui and the Company will negotiate market terms and conditions for annual contracts no later than November 30 of the year prior to shipment. The contract considers the following annual volumes of copper cathodes; 48,000 tons for each of the years from 2020 through 2022. Failure to reach an agreement on market terms would cancel the annual contract but not the long-term agreement. Under the terms of the agreement all shipments would be to Asia and there are no exclusivity rights for Mitsui or commissions included. This contract may be renewed for additional years, upon the agreement of both parties.

Under the terms of a sales contract with Molymet Group (Molibdenos y Metales, S.A. and Sadaci N.V.), SPCC Peru Branch is required to supply approximately 70% of the molybdenum concentrates production from 2019 through 2022. The sale price of the molybdenum concentrate is based on the average of the High and Low “Daily Dealer Oxide” as published in “Platt’s Metals Daily”. The roasting charge deduction is agreed based on international market terms.

Under the terms of a sales contract with Molymex, S.A. de C.V., Operadora de Minas de Nacozari, S.A. de C.V. and Operadora de Minas e Instalaciones Mineras, S.A. de C. V. are required to supply at least the 80% of their molybdenum concentrates production from 2020 through 2023. The sale price of the molybdenum concentrate is based on the average of the High and Low “Daily Dealer Oxide” as published in “Platt’s Metals Daily”. The roasting charge deduction is negotiated based on international market terms.

**NOTE 19—QUARTERLY DATA (unaudited)**

| (in millions, except per share data)   | 2019            |                 |                 |                 |           |
|--|-----------------|-----------------|-----------------|-----------------|-----------|
|  | 1 <sup>st</sup> | 2 <sup>nd</sup> | 3 <sup>rd</sup> | 4 <sup>th</sup> | Year      |
| Net sales                              | \$1,753.4       | \$1,818.0       | \$1,859.5       | \$1,854.7       | \$7,285.6 |
| Gross profit (1)                       | \$ 727.7        | \$ 751.9        | \$ 752.7        | \$ 682.5        | \$2,914.8 |
| Operating income                       | \$ 693.7        | \$ 713.6        | \$ 713.8        | \$ 631.9        | \$2,753.0 |
| Net income                             | \$ 389.2        | \$ 404.4        | \$ 391.3        | \$ 307.0        | \$1,491.9 |
| Net income attributable to SCC         | \$ 388.2        | \$ 402.4        | \$ 389.6        | \$ 305.6        | \$1,485.8 |
| Per share amounts attributable to SCC: |                 |                 |                 |                 |           |
| Net earnings basic and diluted         | \$ 0.50         | \$ 0.52         | \$ 0.50         | \$ 0.40         | \$ 1.92   |
| Dividend per share                     | \$ 0.40         | \$ 0.40         | \$ 0.40         | \$ 0.40         | \$ 1.60   |
|  | 2018            |                 |                 |                 |           |
|  | 1 <sup>st</sup> | 2 <sup>nd</sup> | 3 <sup>rd</sup> | 4 <sup>th</sup> | Year      |
| Net sales                              | \$1,841.1       | \$1,837.2       | \$1,723.7       | \$1,694.7       | \$7,096.7 |
| Gross profit (1)                       | \$ 802.6        | \$ 822.9        | \$ 729.1        | \$ 658.8        | \$3,013.4 |
| Operating income                       | \$ 773.3        | \$ 787.6        | \$ 696.7        | \$ 623.6        | \$2,881.2 |
| Net income (loss)                      | \$ 471.9        | \$ 411.1        | \$ 370.7        | \$ 294.5        | \$1,548.2 |
| Net income (loss) attributable to SCC  | \$ 470.7        | \$ 409.6        | \$ 369.4        | \$ 293.3        | \$1,543.0 |

Per share amounts attributable to

SCC:

|                                |         |         |         |         |         |
|--------------------------------|---------|---------|---------|---------|---------|
| Net earnings basic and diluted | \$ 0.61 | \$ 0.53 | \$ 0.48 | \$ 0.38 | \$ 2.00 |
| Dividend per share             | \$ 0.30 | \$ 0.30 | \$ 0.40 | \$ 0.40 | \$ 1.40 |

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- (1) Gross profit is the result of net sales less cost of sales (excluding depreciation, amortization and depletion) and less depreciation, amortization and depletion.

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**SOUTHERN COPPER CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 20—SUBSEQUENT EVENTS:**

**DIVIDENDS:**

On February 20, 2020, the Board of Directors authorized a dividend of \$0.40 per share to be paid on March 24, 2020, to shareholders of record at the close of business on March 10, 2020.

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## **OTHER COMPANY INFORMATION:**

### **ANNUAL MEETING**

The annual stockholders meeting of Southern Copper Corporation will be held on Thursday, April 30, 2020, at 9:00 am, Mexico City time, at Edificio Parque Reforma, Campos Eliseos 400, 9th Floor, Colonia Lomas de Chapultepec, Delegacion Miguel Hidalgo, C.P. 11000, Mexico City, Mexico.

### **TRANSFER AGENT, REGISTRAR AND STOCKHOLDERS' SERVICES**

Computershare  
480 Washington Boulevard  
Jersey City, NJ 07310-1900  
Phone: (866) 230-0172

### **DIVIDEND REINVESTMENT PROGRAM**

SCC stockholders can have their dividends automatically reinvested in SCC common shares. SCC pays all administrative and brokerage fees. This plan is administered by Computershare. For more information, contact Computershare at (866) 230-0172.

### **STOCK EXCHANGE LISTING**

The principal markets for SCC's common stock are the NYSE and the Lima Stock Exchange (BVL). SCC's common stock symbol is SCCO on both the NYSE and the Lima Stock Exchange.

### **OTHER SECURITIES**

The Branch in Peru has issued, in accordance with Peruvian Law, "investment shares" (formerly named labor shares) that are quoted on the Lima Stock Exchange under symbols SPCCPI1 and SPCCPI2. Transfer Agent, registrar and stockholders services are provided by Credicorp Capital, Avenida EI Derby 055, Torre 4, Piso 10, Santiago de Surco, Cod postal 15039, Peru.

Telephone (51-1)416-3333, Extensions 32478 and 32441.

### **OTHER CORPORATE INFORMATION**

For other information on the Company or to obtain, free of charge, additional copies of the Annual Report on Form 10-K, contact the Investor Relations Department at:

1440 East Missouri Avenue, Suite 160 Phoenix, AZ 85014, USA  
Telephone: (602) 264-1375

### **SOUTHERN COPPER CORPORATION**

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**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNT ON ACCOUNTING AND FINANCIAL DISCLOSURE**

Not applicable.

**ITEM 9A. CONTROLS AND PROCEDURES**

As of December 31, 2019, the Company conducted an evaluation under the supervision and with the participation of the Company's disclosure committee and the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness and the design and operation of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)). Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective as of December 31, 2019, to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is:

1. Recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and
2. Accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

**CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING**

There were no changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) that occurred during the fourth quarter ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting,

**MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness for future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

Under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, the Company conducted an evaluation of the effectiveness of its internal control over financial reporting based on the framework in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organization of the Treadway Commission. Based on the evaluation made under this framework, management concluded that as of December 31, 2019 such internal control over financial reporting is effective.

Our internal control over financial reporting as of December 31, 2019 has been audited by Galaz, Yamazaki, Ruiz Urquiza, S.C. member of Deloitte Touche Tohmatsu Limited, an

independent registered public accounting firm, as stated in their report which is provided below.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of Southern Copper Corporation

**Opinion on Internal Control over Financial Reporting**

We have audited the internal control over financial reporting of Southern Copper Corporation and subsidiaries (the “Company”) as of December 31, 2019, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on the criteria established in Internal Control—Integrated Framework (2013) issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2019 of the Company and our report dated February 28, 2020, expressed an unqualified opinion on those financial statements and financial statement schedule.

**Basis for Opinion**

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying “Management’s Report on Internal Control over Financial Reporting” appearing in Item 9A. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

**Definition and Limitations of Internal Control over Financial Reporting**

A Company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A Company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with

authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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Galaz, Yamazaki, Ruiz Urquiza, S.C.  
Member of Deloitte Touche Tohmatsu Limited

/s/ DANIEL TOLEDO ANTONIO

C.P.C. Daniel Toledo Antonio  
Mexico City, Mexico  
February 28, 2020

**ITEM 9B. OTHER INFORMATION**

None.

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**PART III**

**ITEM 10, 11, 12, 13 AND 14**

**INFORMATION ABOUT OUR EXECUTIVE OFFICERS**

Set forth below are the executive officers of the Company, their ages as of January 31, 2020 and their positions.

| <b>Name</b>                     | <b>Age</b> | <b>Position</b>  |
|---------------------------------|------------|--|
| German Larrea Mota/Velasco      | 66         | Chairman of the Board and Director                             |
| Oscar Gonzalez Rocha            | 81         | President, Chief Executive Officer and Director                |
| Raul Jacob Ruisanchez           | 61         | Vice President, Finance, Treasurer and Chief Financial Officer |
| Julian Jorge Lazalde Psihas     | 51         | Secretary  |
| Andres Carlos Ferrero Ghislieri | 51         | General Counsel  |
| Lina Vingerhoets Vilca          | 58         | Comptroller  |
| Edgard Corrales Aguilar         | 64         | Vice President, Exploration                                    |
| Raul Vaca Castro                | 60         | General Auditor  |

**German Larrea Mota-Velasco** has served as our Chairman of the Board since December 1999, Chief Executive Officer from December 1999 to October 2004 and as a member of our Board of Directors since November 1999. He has been Chairman of the board of directors, President and Chief Executive Officer of Grupo Mexico (holding) since 1994. Mr. Larrea has been Chairman of the board of directors and Chief Executive Officer of Grupo Ferroviario Mexicano S.A. de C.V (railroad company) since 1997. Mr. Larrea was previously Executive Vice Chairman of Grupo Mexico and has been a member of the board of directors since 1981. He is also Chairman of the board of directors and Chief Executive Officer of Empresarios Industriales de Mexico, S.A. de C.V. (holding) and Fondo Inmobiliario (real estate company), since 1992. He founded Grupo Impresa, a printing and publishing company in 1978, remaining as the Chairman and Chief Executive Officer until 1989 when the company was sold. He is a director of the Consejo Mexicano de Negocios since 1999, was a director of Banco Nacional de Mexico, S.A. (Citigroup) from 1992 to 2015 and Grupo Televisa, S.A.B. from 1999 to 2014.

**Oscar Gonzalez Rocha** has served as our President since December 1999 and our President and Chief Executive Officer since October 21, 2004. He has been our Director since November 1999. Mr. Gonzalez Rocha has been the President and Chief Executive Officer of Americas Mining Corporation since November 1, 2014 and the Chief Executive Officer and a director of Asarco LLC (integrated U.S. copper producer), an affiliate of the Company, since August 2010. Previously, he was our President and General Director and Chief Operating Officer from December 1999 to October 20, 2004. He has been a director of Grupo Mexico since 2002. He was General Director of Mexicana de Cobre, S.A. de C.V. from 1986 to 1999 and of Buenavista del Cobre S.A. de C.V. (formerly Mexicana de Cananea, S.A. de C.V.) from 1990 to 1999. He was an alternate director of Grupo Mexico from 1988 to April 2002. Mr. Gonzalez Rocha is a civil engineer with a degree from the Autonomous National University of Mexico (“UNAM”) in Mexico City, Mexico.

Mr. Gonzalez Rocha has been recognized as Copper man of the year 2015 and was inducted into the American Mining Hall of Fame in December 2016 in Tucson, Arizona and into the Mexican Mining Hall of Fame in October 2017 in Guadalajara, Mexico.

**Raul Jacob Ruisanchez** has served as our Vice President, Finance and Chief Financial Officer since April 18, 2013. He was appointed Treasurer of the Company on April 28, 2016. He was our Comptroller from October 27, 2011 until April 18, 2013. He has held various positions focused primarily in financial planning, treasury, corporate finance, investor relations and project evaluation with the Company since 1992. In September 2011, he was appointed Director of Controller and Finance of the Company's Peruvian Branch and Vice President and Chief Financial Officer of Southern Peru Limited, one of our subsidiaries. During the last four years (2016 – 2019), Mr. Jacob was considered by Institutional Investor among the top three Chief Financial Officers of the mining industry of Latin America. In 2010, he was ranked among the top three Investor Relations executives of the mining industry of Latin America by the same publication. From 2015 to through January 2017, he was Vice President of the Peruvian National Mining, Oil and Energy Association and President of its mining chapter. He is currently a member of its Executive Committee and Board. Mr. Jacob is currently a member of the consulting board of the MBA program (Finance) of the Universidad del Pacifico in Lima, Peru. Until March of 2010, he was President of the Strategic Studies Center of IPAE, an entrepreneurial association. Between 2004 and 2006, he was the President of the Finance Affairs Committee of the

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American Chamber of Commerce of Peru. Mr. Jacob holds an economics degree from Universidad del Pacifico, a Master's Degree from the University of Texas (Austin), a Degree in International Business Management from the Stockholm School of Economics and a Senior Manager Degree by the Instituto de Empresa Business School (IE) in Madrid.

**Julian Jorge Lazalde Psihas**, our Secretary, has been a Director, Executive Vice President and General Counsel of Asarco LLC since December 2009. Since October 2015 he is also General Counsel of Americas Mining Corporation, both subsidiaries of Grupo Mexico, S.A.B. de C.V., the parent company of the Company. Mr. Lazalde was General Counsel of Asarco Inc., the predecessor of Asarco LLC, from September 2006 until December 2009. Mr. Lazalde holds a law degree from the Autonomous Institute of Mexico, known as ITAM, and has degrees from the Panamerican University in two special areas, tax law and commercial law.

**Andres Carlos Ferrero Ghislieri**, our General Counsel, has been a member of the Legal Department of our Peruvian Branch since December 1995. Prior to this, he served as a Technical Advisor to the World Bank's Energy and Mines Technical Assistance Loan (EMTAL) Project assigned to the National Society of Mining, Energy and Petroleum. He has also worked as a mining law consultant for the South African Government from May to October 2001. He was elected Superintendent of the Legal Affairs and Legal Manager of the Peruvian Branch in March 2008 and July 2016 respectively. He is a member of the Board of Compañía Minera Los Tolmos, S.A. which is a subsidiary of the Company. He holds a law degree from the University of Lima, Peru and a Master of Law or LLM degree in Resources Law and Policy from Dundee University, United Kingdom.

**Lina Vingerhoets Vilca**, our Comptroller, has been the Assistant Comptroller of the Company since April 2015 and Controller of the Peruvian Branch of the Company since July 2015. Ms. Vingerhoets has worked for the Company's Peruvian Branch in various capacities since 1991. From 2013 to 2015, she was in charge of Internal Control. From 2006 to 2015, she was in charge of Accounting Quality and SEC reporting. In addition, she has held other positions in Financial Planning, Finance and Accounting with the Company's Peruvian Branch. Ms. Vingerhoets is a Peruvian certified public accountant and holds Accounting and MBA degrees from the Universidad del Pacifico, in Lima, Peru.

**Edgard Corrales Aguilar** has served as Vice President, Exploration since July 18, 2013. Mr. Corrales has been working with the Peruvian Branch of SCC since 1983 in various positions, including as senior geologist of the Toquepala mine, head of the geology department of the Cuajone mine and manager of the exploration department of the Peruvian Branch of SCC. Currently he is Exploration Director of the Peruvian Branch of SCC and general manager of SCC's Branch in Chile. Mr. Corrales has a degree in geology and engineering from the Universidad Nacional San Agustin, Arequipa, Peru and has followed specialized studies at the Catholic University of Caracas, Venezuela and the MacKay School of Mines at the University of Reno, Nevada. He has also completed extensive studies in management at various universities in Peru.

**Raul Vaca Castro** was elected as General Auditor, effective July 18, 2019. He has 32 years of experience with Grupo Mexico. Mr. Vaca Castro has been Director of Internal Audit of Minera México, a subsidiary of SCC since 2018. Previously, he was Director of Internal Audit of the infrastructure division of Grupo Mexico, as well as Deputy Director of Internal Control for the mining division of Grupo México. He was also comptroller of Minera Mexico Internacional and before this, he held several positions in different companies of Grupo Mexico. Mr. Vaca holds a bachelor's degree in Accounting from the Universidad Nacional Autonoma de Mexico (UNAM). He holds an MBA from the Universidad del Valle

de México, with a specialization in finance, having earned an honorable mention award, when receiving his diplomas in finance and taxes. Mr. Vaca is also an active member of the Colegio de Contadores Publicos de Mexico and the Institute of Internal Auditors of Mexico. He is also member of the Technical Commission of Internal Audit of the Colegio de Contadores Publicos de Mexico. He was a professor at the Facultad de Contaduria y Administracion of Universidad Nacional Autonoma de Mexico (UNAM).

Information in response to the additional disclosure requirements specified by Part III, Items 10, 11, 12, 13 and 14 will be included in a definitive proxy statement, which will be filed pursuant to Regulation 14A of the 1934 Securities Exchange Act, as amended, prior to April 30, 2020, or will be provided by amendment to this Form 10-K, also to be filed no later than April 30, 2020.

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The information contained in such definitive proxy statement is incorporated herein by reference, excluding the information under the caption “Compensation Committee Report,” which shall not be deemed filed.

**PART IV.**

**ITEM 15. EXHIBITS, FINANCIAL STATEMENTS, SCHEDULE.**

The following documents are filed as part of this report:

1. Financial Statements

The following financial statements of Southern Copper Corporation and its subsidiaries are included at the indicated pages of the document as stated below:

|  | <b>Form 10-<br/>K<br/>Pages</b> |
|--|---------------------------------|
| <a href="#">Report of Independent Registered Public Accounting Firm</a>  | 160                             |
| <a href="#">Consolidated statements of earnings for the years ended December 31, 2019, 2018 and 2017</a>             | 97                              |
| <a href="#">Consolidated statements of comprehensive income for the years ended December 31, 2019, 2018 and 2017</a> | 98                              |
| <a href="#">Consolidated balance sheets at December 31, 2019 and 2018</a>  | 99                              |
| <a href="#">Consolidated statements of cash flows for the years ended December 31, 2019, 2018 and 2017</a>           | 100                             |
| <a href="#">Consolidated statements of changes in equity for the years ended December 31, 2019, 2018 and 2017</a>    | 101                             |
| <a href="#">Notes to the consolidated financial statements</a>   | 102 -<br>156                    |

2. Exhibits:

- 3.1 (a) Amended and Restated Certificate of Incorporation, filed on October 11, 2005.
- (b) Certificate of Amendment of Amended and Restated Certificate of Incorporation dated May 2, 2006.
- (c) Certificate of Amendment of Amended and Restated Certificate of Incorporation dated May 28, 2008.
- 3.2 By-Laws, as last amended on January 27, 2011.
- 4.1 (a) Indenture governing \$600 million 7.500% Notes due 2035, by and among Southern Copper Corporation, The Bank of New York and The Bank of New York (Luxembourg) S.A.
- (b) Indenture governing \$400 million 7.500% Notes due 2035, by and among Southern Copper Corporation, The Bank of New York, and The Bank of New York (Luxembourg) S.A.
- 4.2 Form of 6.375% Note (included in Exhibit 4.1).
- 4.3 Form of New 7.500% Note (included in Exhibit 4.2(a)).
- 4.4 Form of New 7.500% Note (included in Exhibit 4.2(b)).
- 4.5 Indenture, dated as of April 16, 2010, between Southern Copper Corporation and Wells Fargo Bank, National Association, as trustee, pursuant to which \$400 million of 5.375% Notes due 2020 and \$1.1 billion of 6.750% Notes due 2040 were issued.

- 4.6 First Supplemental Indenture, dated as of April 16, 2010, between Southern Copper Corporation and Wells Fargo Bank, National Association, as trustee, pursuant to which the 5.375% Notes due 2020 were issued.
- 4.7 Second Supplemental Indenture, dated as of April 16, 2010, between Southern Copper Corporation and Wells Fargo Bank, National Association, as trustee, pursuant to which the 6.750% Notes due 2040 were issued.
- 4.8 Form of 5.375% Notes due 2020.
- 4.9 Form of 6.750% Notes due 2040.
- 4.10 Third Supplemental Indenture, dated as of November 8, 2012, between Southern Copper Corporation and Wells Fargo Bank, National Association, as trustee, pursuant to which the 3.500% Notes due 2022 were issued.
- 4.11 Fourth Supplemental Indenture, dated as of November 8, 2012, between Southern Copper Corporation and Wells Fargo Bank, National Association, as trustee, pursuant to which the 5.250% Notes due 2042 were issued.
- 4.12 Form of 3.500% Notes due 2022.

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- 4.13 Form of 5.250% Notes due 2042.
- 4.14 Fifth Supplemental Indenture dated as of April 23, 2015, between Southern Copper Corporation and Wells Fargo Bank, National Association, as trustee, pursuant to which the 3.875% Notes due 2025 were issued.
- 4.15 Sixth Supplemental Indenture, dated as of April 23, 2015, between Southern Copper Corporation and Wells Fargo Bank, National Association, as trustee, pursuant to which the 5.875% Notes due 2045 were issued.
- 4.16 Form of 3.875% Notes due 2025.
- 4.17 Form of 5.875% Notes due 2045.
- 4.18 Description of the Company's securities registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended.
- 10.1 Directors' Stock Award Plan of the Company, as amended through January 28, 2023.
- 10.2 Agreement and Plan of Merger, dated as of October 21, 2004, by and among Southern Copper Corporation, SCC Merger Sub, Inc., Americas Sales Company, Inc., Americas Mining Corporation and Minera Mexico S.A. de C.V.
- 10.3 Tax Agreement entered into by the Company and Americas Mining Corporation, effective as of February 20, 2017.
- 12.1 Computation of financial ratios.
- 14.0 Code of Business Conduct and Ethics adopted by the Board of Directors on May 8, 2003 and amended on April 23, 2015.
- 21.1 Subsidiaries of the Company.
- 23.1 Consent of Registered Public Accounting Firm (Galaz, Yamazaki, Ruiz Urquiza, S.C., Member of Deloitte Touche Tohmatsu, Limited).
- 31.1 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C., Section 1350. This document is being furnished in accordance with SEC Release No. 33-8328.
- 32.2 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C., Section 1350. This document is being furnished in accordance with SEC Release No. 33-8328.
- 101.INS XBRL Instance Document (submitted electronically with this report). The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
- 101.SCH XBRL Taxonomy Extension Schema Document (submitted electronically with this report).
- 101.CAL XBRL Taxonomy Calculation Linkbase Document (submitted electronically with this report).
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document (submitted electronically with this report).
- 101.LAB XBRL Taxonomy Label Linkbase Document (submitted electronically with this report).
- 101.PRE XBRL Taxonomy Presentation Linkbase Document (submitted electronically with this report).
- 104 Cover page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101.1)

The exhibit listed as 10.1 is the management contract or compensatory plan or arrangement required to be filed pursuant to Item 15(b) of Form 10-K.

Attached as Exhibit 101 to this report are the following documents formatted in Inline XBRL (Inline Extensible Business Reporting Language): (i) the Consolidated Statements of

Earnings for the years ended December 31, 2019, 2018 and 2017; (ii) the Consolidated Statements of Comprehensive Income for the years ended December 31, 2019, 2018 and 2017; (iii) the Consolidated Balance Sheets at December 31, 2019 and 2018; (iv) the Consolidated Statements of Cash Flows for the years ended December 31, 2019, 2018 and 2017; (v) the Consolidated Statements of changes in equity for the years ended December 31, 2019, 2018 and 2017, and (vi) the Notes to Consolidated Financial Statements tagged in detail. Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

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3. Schedule II

Valuation and Qualifying Accounts and Reserves (in millions):

|   | Balance at<br>beginning of<br>period | Charged to<br>costs and<br>expenses | Additions |                           | Balance at<br>end of period |
|---|--------------------------------------|-------------------------------------|-----------|---------------------------|-----------------------------|
|   |                                      |                                     | Additions | Deduction/<br>Application |                             |
| <b>Reserve deducted in balance sheet to which applicable:</b> |                                      |                                     |           |                           |                             |
| <i>Accounts Receivable:</i>                                   |                                      |                                     |           |                           |                             |
| 2019  | \$ 0.5                               | —                                   | —         | —                         | \$ 0.5                      |
| 2018  | \$ 1.1                               | —                                   | —         | (0.6)                     | \$ 0.5                      |
| 2017  | \$ 0.7                               | 0.6                                 | —         | 0.2                       | \$ 1.1                      |
| <i>Notes issued under par:</i>                                |                                      |                                     |           |                           |                             |
| 2019  | \$ 58.8                              | 1.9                                 | 12.7      | —                         | \$ 69.6                     |
| 2018  | \$ 60.5                              | 1.7                                 | —         | —                         | \$ 58.8                     |
| 2017  | \$ 62.2                              | 1.7                                 | —         | —                         | \$ 60.5                     |
| <i>Valuation allowance:</i>                                   |                                      |                                     |           |                           |                             |
| 2019  | \$ 819.1                             | 277.9                               | —         | —                         | \$ 1,097.0                  |
| 2018  | \$ 619.6                             | 199.5                               | —         | —                         | \$ 819.1                    |
| 2017  | \$ —                                 | 619.6                               | —         | —                         | \$ 619.6                    |

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**Supplemental information  
Southern Copper Corporation  
Exhibit Index**

| <b>Sequential<br/>Exhibit<br/>Number</b> | <b>Document Description</b>  | <b>Page<br/>Number</b> |
|--|--|------------------------|
| 3.1                                      | <p><a href="#">(a) Amended and Restated Certificate of Incorporation, filed on October 11, 2005. (Filed as Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the third quarter of 2005 and incorporated herein by reference).</a></p> <p><a href="#">(b) Certificate of Amendment of Amended and Restated Certificate of Incorporation dated May 2, 2006. (Filed as Exhibit 3.1 to Registration Statement on Form S-4, File No. 333-135170, filed on June 20, 2006 and incorporated herein by reference).</a></p> <p><a href="#">(c) Certificate of Amendment of Amended and Restated Certificate of Incorporation dated May 28, 2008. (Filed as Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the second quarter of 2008 and incorporated herein by reference).</a></p> |                        |
| 3.2                                      | <p><a href="#">By-Laws, as last amended on January 27, 2011. (Filed as Exhibit 3.2 to the Company's 2010 Annual Report on Form 10-K and incorporated herein by reference).</a></p>   |                        |
| 4.1                                      | <p><a href="#">(a) Indenture governing \$600 million 7.500% Notes due 2035, by and among Southern Copper Corporation, The Bank of New York and The Bank of New York (Luxembourg) S.A. (Filed as Exhibit 4.2 to the Company's Current Report on Form 8-K filed on August 1, 2005 and incorporated herein by reference).</a></p> <p><a href="#">(b) Indenture governing \$400 million 7.500% Notes due 2035, by and among Southern Copper Corporation, The Bank of New York, and The Bank of New York (Luxembourg) S.A. (Filed as Exhibit 4.2 to the Company's Current Report on Form 8-K filed on August 1, 2005 and incorporated herein by reference).</a></p>   |                        |
| 4.2                                      | <p><a href="#">Form of 6.375% Note (included in exhibit 4.1).</a></p>  |                        |
| 4.3                                      | <p><a href="#">Form of New 7.500% Note (included in Exhibit 4.2(a)).</a></p>   |                        |
| 4.4                                      | <p><a href="#">Form of New 7.500% Note (included in Exhibit 4.2(b)).</a></p>   |                        |
| 4.5                                      | <p><a href="#">Indenture, dated as of April 16, 2010, between Southern Copper Corporation and Wells Fargo Bank, National Association, as trustee, pursuant to which \$400 million of 5.375% Notes due 2020 and \$1.1 billion of 6.750% Notes due 2040 were issued. (Filed as Exhibit 4.1 to the Company's Current Report on Form 8-K filed on April 19, 2010 and incorporated herein by reference).</a></p>  |                        |
| 4.6                                      | <p><a href="#">First Supplemental Indenture dated as of April 16, 2010, between Southern Copper Corporation and Wells Fargo Bank, National Association, as trustee, pursuant to which the 5.375% Notes due 2020 were issued (Filed as an Exhibit to the Company's Current Report on Form 8-K filed on April 19, 2010 and incorporated herein by reference).</a></p>  |                        |
| 4.7                                      | <p><a href="#">Second Supplemental Indenture, dated as of April 16, 2010, between Southern Copper Corporation and Wells Fargo Bank, National Association, as trustee, pursuant to which the 6.750% Notes due 2040 were issued. (Filed as an Exhibit to the Company's Current Report on</a></p>   |                        |

- [Form 8-K filed on April 19, 2010 and incorporated herein by reference\).](#)
- 4.8 [Form of 5.375% Notes due 2020. \(Filed as an Exhibit to the Company's Current Report on Form 8-K filed on April 19, 2010 and incorporated herein by reference\).](#)
- 4.9 [Form of 6.750% Notes due 2040. \(Filed as an Exhibit to the Company's Current Report on Form 8-K filed on April 19, 2010 and incorporated herein by reference\).](#)
- 4.10 [Third Supplemental Indenture, dated as of November 8, 2012, between Southern Copper Corporation and Wells Fargo Bank, National Association, as trustee, pursuant to which the 3.500% Notes due 2022 were issued \(Filed as an Exhibit to the Company's Current Report on Form 8-K filed on November 9, 2012 and incorporated herein by reference\).](#)
- 4.11 [Fourth Supplemental Indenture, dated as of November 8, 2012, between Southern Copper Corporation and Wells Fargo Bank, National Association, as trustee, pursuant to which the 5.250% Notes due 2042 were issued. \(Filed as an Exhibit to the Company's Current Report on Form 8-K filed on November 9, 2012 and incorporated herein by reference\).](#)

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- 4.12 [Form of 3.500% Notes due 2022. \(Filed as an Exhibit to the Company's Current Report on Form 8-K filed on November 9, 2012 and incorporated herein by reference\).](#)
- 4.13 [Form of 5.250% Notes due 2042. \(Filed as an Exhibit to the Company's Current Report on Form 8-K filed on November 9, 2012 and incorporated herein by reference\).](#)
- 4.14 [Fifth Supplemental Indenture dated as of April 23, 2015, between Southern Copper Corporation and Wells Fargo Bank, National Association, as trustee, pursuant to which the 3.875% Notes due 2025 were issued. \(Filed as an Exhibit to the Company's Current Report on Form 8-K filed on April 24, 2015 and incorporated herein by reference\).](#)
- 4.15 [Sixth Supplemental Indenture, dated as of April 23, 2015, between Southern Copper Corporation and Wells Fargo Bank, National Association, as trustee, pursuant to which the 5.875% Notes due 2045 were issued. \(Filed as an Exhibit to the Company's Current Report on Form 8-K filed on April 24, 2015 and incorporated herein by reference\).](#)
- 4.16 [Form of 3.875% Notes due 2025. \(Filed as Exhibit A to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on April 24, 2015 and incorporated herein by reference\).](#)
- 4.17 [Form of 5.875% Notes due 2045. \(Filed as Exhibit A to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on April 24, 2015 and incorporated herein by reference\).](#)
- 4.18 [Description of the Company's securities registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended \(Filed herewith\).](#)
- 10.1 [Directors' Stock Award Plan of the Company, as amended through January 28, 2023. \(Filed as an exhibit to the Company's 2018 Proxy Statement and incorporated herein by reference\). The plan expired by its terms on January 30, 2017. A 5-year extension of the plan was approved by the Company's stockholders at the 2018 Annual Meeting of Stockholders.](#)
- 10.2 [Agreement and Plan of Merger, dated as of October 21, 2004, by and among Southern Copper Corporation, SCC Merger Sub, Inc., Americas Sales Company, Inc., Americas Mining Corporation and Minera Mexico S.A. de C.V. \(Filed as an Exhibit to Current Report on Form 8-K filed on October 22, 2004 and incorporated herein by reference\).](#)
- 10.3 [Tax Agreement entered into by the Company and Americas Mining Corporation, effective as of February 20, 2017. \(Filed as Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the first quarter of 2017 and incorporated herein by reference\).](#)
- 12.1 [Computation of financial ratios \(Filed herewith\).](#)
- 14.0 [Code of Business Conduct and Ethics adopted by the Board of Directors on May 8, 2003 and amended on April 23, 2015. \(Filed as Exhibit 14 to the Company's Current Report on Form 8-K filed April 29, 2015 and incorporated herein by reference\).](#)
- 21.1 [Subsidiaries of the Company \(Filed herewith\).](#)
- 23.1 [Consent of Registered Public Accounting Firm \(Galaz, Yamazaki, Ruiz Urquiza, S.C.—Member of Deloitte Touche Tohmatsu, Limited\) \(Filed herewith\).](#)
- 31.1 [Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 \(Filed herewith\).](#)

- 31.2 [Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 \(Filed herewith\).](#)
- 32.1 [Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C., section 1350. This document is being furnished in accordance with SEC Release No. 33-8238.](#)
- 32.2 [Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C., section 1350. This document is being furnished in accordance with SEC Release No. 33-8238.](#)
- 101.INS XBRL Instance Document (submitted electronically with this report).  
The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
- 101.SCH XBRL Taxonomy Extension Schema Document (submitted electronically with this report).
- 101.CAL XBRL Taxonomy Calculation Linkbase Document (submitted electronically with this report).
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document (submitted electronically with this report).
- 101.LAB XBRL Taxonomy Label Linkbase Document (submitted electronically with this report).
- 101.PRE XBRL Taxonomy Presentation Linkbase Document (submitted electronically with this report).

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The exhibit listed as 10.1 is the management contract or compensatory plan or arrangement required to be filed pursuant to Item 15(b) of Form 10-K.

Attached as Exhibit 101 to this report are the following documents formatted in Inline XBRL (Inline Extensible Business Reporting Language): (i) the Consolidated Statements of Earnings for the years ended December 31, 2019, 2018 and 2017; (ii) the Consolidated Statements of Comprehensive Income for the years ended December 31, 2019, 2018 and 2017; (iii) the Consolidated Balance Sheets at December 31, 2019 and 2018; (iv) the Consolidated Statements of Cash Flows for the years ended December 31, 2019, 2018 and 2017; (v) the Consolidated Statements of changes in equity for the years ended December 31, 2019, 2018 and 2017, and (vi) the Notes to Consolidated Financial Statements tagged in detail. Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

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**Signatures**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

SOUTHERN COPPER CORPORATION  
(Registrant)

By: /s/ OSCAR GONZALEZ ROCHA

Oscar Gonzalez Rocha  
President and Chief Executive Officer

Date: February 27, 2020

Pursuant to requirements of the Securities Exchange Act of 1934, this Report on Form 10-K has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ GERMAN LARREA MOTA-VELASCO  
German Larrea Mota-Velasco

Chairman of the Board, and Director

/s/ OSCAR GONZALEZ ROCHA  
Oscar Gonzalez Rocha

President, Chief Executive Officer and  
Director

/s/ RAUL JACOB RUISANCHEZ  
Raul Jacob Ruisanchez

Vice President, Finance, Treasurer and Chief  
Financial Officer (Principal Financial  
Officer)

/s/ LINA A. VINGERHOETS VILCA  
Lina A. Vingerhoets Vilca

Comptroller (Principal Accounting Officer)

**DIRECTORS**

s/ GERMAN LARREA MOTA-VELASCO  
German Larrea Mota-Velasco

/s/ OSCAR GONZALEZ ROCHA  
Oscar Gonzalez Rocha

/s/ RAFAEL MAC GREGOR ANCIOLA  
Rafael Mac Gregor Anciola

/s/ VICENTE ARIZTEGUI ANDREVE  
Vicente Ariztegui Andreve

/s/ ALFREDO CASAR PEREZ  
Alfredo Casar Perez

/s/ L. MIGUEL PALOMINO BONILLA  
L. Miguel Palomino Bonilla

/s/ GILBERTO PEREZALONSO  
CIFUENTES  
Gilberto Perezalonso Cifuentes

/s/ ENRIQUE CASTILLO SANCHEZ  
MEJORADA  
Enrique Castillo Sanchez Mejorada

/s/ CARLOS RUIZ SACRISTAN  
Carlos Ruiz Sacristan

/s/ XAVIER GARCIA DE QUEVEDO  
Xavier Garcia de Quevedo

Date: February 27, 2020

