

SOUTHERN PERU COPPER CORP/  
Form 10-Q/A  
February 25, 2005

## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

2004

First Quarter

### FORM 10-Q/A

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

For Quarter Ended March 31, 2004

Commission file number 1-14066

## SOUTHERN PERU 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.)

**2575 East Camelback Rd. Phoenix, AZ**

(Address of principal executive offices)

**85016**

(Zip Code)

Registrant's telephone number, including area code

**(602) 977-6500**

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 is an accelerated filer (as defined in Rule 12b-2 of the Securities Act of 1934)

Yes  No

As of April 30, 2004, there were outstanding 14,116,152 shares of Southern Peru Copper Corporation common stock, par value \$0.01 per share. There were also outstanding 65,900,833 shares of Southern Peru Copper Corporation Class A common stock, par value \$0.01 per share.

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Southern Peru Copper Corporation

FORM 10-Q/A

For the Quarter Ended March 31, 2004

Explanatory Note

This amendment on Form 10-Q/A is being filed to amend the Quarterly Report on Form 10-Q of Southern Peru Copper Corporation for the fiscal quarter ended March 31, 2004, filed with the Securities and Exchange Commission on May 7, 2004. The purpose of this amendment is to amend portions of Item 1, Item 2, and Item 3 of Part I of our Form 10-Q. While we are amending only certain portions of our Form 10-Q, for convenience and ease of reference, we are filing the entire Form 10-Q, except for the exhibits, in an amended and restated format. Unless stated otherwise, all information contained in this amendment is as of March 31, 2004. We have not updated the disclosure contained in our Form 10-Q to reflect any events that have occurred since that date.

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this amendment to be signed on its behalf by the undersigned thereunto duly authorized.

Southern Peru Copper Corporation  
By: /s/ Oscar González Rocha  
Oscar González Rocha

President and Chief Executive Officer

Dated: February 25, 2005

Southern Peru Copper Corporation  
and Subsidiaries

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## Part I FINANCIAL INFORMATION

## Item 1. Financial Statement

Southern Peru Copper Corporation  
and SubsidiariesCONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

	<b>Three Months Ended March 31,</b>	
	<b>2004</b>	<b>2003</b>
	<b>(In thousands, except for per share amounts)</b>	
Net sales:		
Stockholders and affiliates	\$ 11,291	\$ 134
Others	262,775	174,704
Total net sales	274,066	174,838
Operating costs and expenses:		
Cost of sales (exclusive of depreciation, amortization and depletion, shown separately below)	108,796	114,685
Administrative	7,080	6,683
Depreciation, amortization and depletion	18,994	17,872
Exploration	2,175	875
Total operating costs and expenses	137,045	140,115
Operating income	137,021	34,723
Interest income	1,079	713
Other income (expense)	(178)	337
Interest expense	(3,154)	(2,969)
Earnings before taxes on income, minority interest and cumulative effect of the change in accounting principle	134,768	32,804
Taxes on income	47,168	12,731
Minority interest of investment shares	790	212
Earnings before cumulative effect of the change in accounting principle	86,810	19,861
Cumulative effect of the change in accounting principle, net of income tax benefit of \$0.6 million		1,541

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Net earnings	\$	86,810	\$	18,320
Per common share amounts:				
Earnings before cumulative effect of the change in accounting principle	\$	1.09	\$	0.25
Cumulative effect of the change in accounting principle				(0.02)
Net earnings - basic and diluted	\$	1.09	\$	0.23
Dividends paid	\$	0.27	\$	0.09
Weighted average common shares outstanding				
(Basic)		80,014		80,009
Weighted average common shares outstanding				
(Diluted)		80,023		80,014

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

## Southern Peru Copper Corporation

and Subsidiaries

CONDENSED CONSOLIDATED BALANCE SHEET

(Unaudited)

	March 31, 2004	December 31, 2003
	(in thousands)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 276,034	\$ 295,472
Accounts receivable, net	146,124	89,238
Inventories	102,197	76,692
Other current assets	14,374	14,549
Total current assets	538,729	475,951
Net property	1,134,412	1,118,202
Capitalized mine stripping, net	219,909	215,207
Intangible assets	108,303	109,007
Other assets	17,676	12,385
Total Assets	\$ 2,019,029	\$ 1,930,752
<b>LIABILITIES</b>		
Current liabilities:		
Current portion of long-term debt	\$ 64,884	\$ 60,000
Accounts payable	58,219	48,322
Accrued liabilities	88,756	78,875
Total current liabilities	211,859	187,197
Long-term debt	284,159	289,043
Deferred income taxes	112,284	110,075
Other liabilities	16,221	15,854
Asset retirement obligation	5,361	5,267
Total non-current liabilities	418,025	420,239
MINORITY INTEREST	8,523	7,913
<b>STOCKHOLDERS EQUITY</b>		
Common stock	261,889	261,875
Retained earnings	1,118,733	1,053,528
Total Stockholders Equity	1,380,622	1,315,403
Total Liabilities, Minority Interest and Stockholders Equity	\$ 2,019,029	\$ 1,930,752

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





Southern Peru Copper Corporation  
and SubsidiariesCONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	<b>Three Months Ended March 31,</b>	
	<b>2004</b>	<b>2003</b>
	<b>(in thousands)</b>	
<b>OPERATING ACTIVITIES</b>		
Net earnings	\$ 86,810	\$ 18,320
Cumulative effect of the change in accounting principle, net of income tax		1,541
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation, amortization and depletion	18,994	17,872
Remeasurement (gain) loss	9	(2,045)
Capitalized mine stripping	(6,583)	(8,904)
Provision for deferred income tax	2,209	3,444
Minority interest of investment shares	790	212
Cash provided from (used in) operating assets and liabilities:		
Accounts receivable	(56,863)	(16,034)
Inventories	(25,505)	7,206
Accounts payable and accrued liabilities	19,736	(4,927)
Other operating assets and liabilities	1,034	(573)
Net cash provided by operating activities	40,631	16,112
<b>INVESTING ACTIVITIES</b>		
Capital expenditures	(33,628)	(9,189)
Sales of property		2
Net cash used in investing activities	(33,628)	(9,187)
<b>FINANCING ACTIVITIES</b>		
Escrow deposits on long-term loans	(5,000)	
Dividends paid to common stockholders	(21,605)	(7,361)
Distributions to minority interest	(168)	(111)
Treasury stock transaction	14	11
Purchase of investment shares	(19)	(146)
Net cash used for financing activities	(26,778)	(7,607)
Effect of exchange rate changes on cash	337	2,473
Increase (decrease) in cash and cash equivalents	(19,438)	1,791
Cash and cash equivalents, at beginning of period	295,472	147,537
Cash and cash equivalents, at end of period	\$ 276,034	\$ 149,328
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the period for:		
Interest	\$ 3,698	\$ 3,410
Income taxes	\$ 22,281	\$ 9,470

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

Southern Peru Copper Corporation  
and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

A. In the opinion of Southern Peru Copper Corporation (the Company, Southern Peru or SPCC), the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the Company's financial position as of March 31, 2004 and the results of operations and cash flows for the three months ended March 31, 2004 and 2003. Certain reclassifications have been made in the financial statements from amounts previously reported. The condensed financial statements for the three months period ended March 31, 2004 and 2003 have been subjected to a review by PricewaterhouseCoopers, the Company's independent public auditors, whose report dated April 16, 2004, is presented on page 19. The results of operations for the three months ended March 31, 2004 and 2003 are not necessarily indicative of the results to be expected for the full year. The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2003 annual report on Form 10-K.

B. Inventories were as follows:

(In millions)

	March 31, 2004	December 31, 2003
Metals at lower of average cost or market:		
Finished goods	\$ 3.7	\$ 2.3
Work-in-process	59.3	34.7
Supplies at average cost	39.2	39.7
Total inventories	\$ 102.2	\$ 76.7

C. At March 31, 2004, the Company has recorded provisionally priced sales of 77.7 million pounds of copper, at an average provisional price of \$1.38 per pound. Also the Company has recorded provisionally priced sales of 4.7 million pounds of molybdenum at an average provisional price of \$10.95 per pound. These sales are subject to final pricing based on the average monthly LME or COMEX copper prices and Dealer Oxide molybdenum prices in the month of settlement, which will occur in the second quarter of 2004. At March 31, 2004 the Company has recorded \$11.9 million in revenue resulting from the increase in the market price of copper from the date of signing the provisionally priced copper sales contracts and the month-end quoted price. Additionally, the Company has recorded \$11.2 million in revenue resulting from the increase in the market price of molybdenum from the date of signing the provisionally priced price of molybdenum sales contracts and the month-end quoted price.

D. Ore Reserves:

Effective January 1, 2004, the Company recalculated its ore reserve estimates using a 75 cents per pound copper price assumption, the three-year average copper price according to COMEX, and current cost assumptions. Ore reserve calculations for 2003 were calculated based on 76 cents per pound copper price assumption. Southern Peru uses its ore reserve estimates in determining the amount of mine stripping capitalized, units of production amortization of capitalized mine stripping and amortization of the intangible asset mining concessions.

E. Taxes on Income:

As a large corporation, the Company is regularly audited by federal, state and foreign tax authorities. We have historically filed, and continue to file, all required income tax returns in the United States and in Peru and to pay the taxes determined to be due. The tax rules in the United States and in Peru are highly complex and subject to interpretation. From time to time we are subject to a review of past income tax filings and in connection with such reviews, disputes can arise with the taxing authorities over the interpretation and application of certain rules to our business activities in the United States and in Peru. All of these audits can result in proposed assessments. In 2003, the Company settled these differences with the IRS and made a payment of \$4.4 million, including interest. Generally, the years 1994 through 1996 are now closed to further adjustment. The IRS is now completing their field audit of the tax years 1997 through 1999 as well as beginning their field audit work of tax years 2000 through 2002. During the audit of the tax years 1997 through 1999, the IRS has questioned the Company's accounting policy for determination of useful lives, the calculation of deductible and creditable Peruvian taxes, the methodology of capitalizing interest and the capitalizing of certain costs (drilling, blasting and hauling) into inventory value as items for possible adjustment. The Company and the IRS have jointly requested technical advice from the IRS National Office to help resolve the inventory value dispute. A response from the National Office is expected sometime during 2004. The years 1997 through 1999 will remain open until the inventory value issue is resolved. The Company believes that in all material respects the positions that it is reporting to the IRS are correct and appropriate. We believe that we have substantial defenses to the IRS assessments and that we have made adequate provisions so that resolution of any issues raised by the IRS will not have an adverse effect on our consolidated financial condition or results of operations. Significant management judgment is required in determining the provision for tax contingencies. The estimate of the probable cost for resolution of the tax contingencies has been developed in consultation with legal and tax counsel. We do not believe that there is a reasonable likelihood that there is an exposure to loss in excess of the amounts accrued therefore.

In prior years, the Company received assessments from SUNAT (the Peruvian tax department) for years 1996 to 1999, in which several deductions taken were disallowed. SUNAT has challenged the Company's depreciation method, deduction of other expenses related to charges incurred outside of Peru, and the deduction of certain interest expense for each of the above mentioned years. The Company appealed these assessments. In February 2003, the Peruvian tax court affirmed SUNAT's assessments with regard to depreciation and deductions of other expenses incurred outside of Peru for the years 1996 and 1997. In view of this decision, the Company withdrew its challenge of similar assessments for depreciation and other expenses made by SUNAT for the years 1998 and 1999. Accordingly, in 2003 the Company recorded a charge to workers' participation, (included in cost of sales on the statement of earnings) and income tax expense of \$0.5 million and \$4.4 million, respectively, to recognize the cost of these assessments for the years 1996 through 1999. The Peruvian tax court indicated that it will not assess penalties related to the 1997 tax year with regard to this assessment. However, penalties related to the tax years 1996, 1998 and 1999 may be assessed depending on the outcome of the Company's appeal.

The Company continues to appeal SUNAT's assessment related to the disallowance of certain interest expense and the related penalties for the years 1996 through 1999. With regard to this appeal, the Company was required to issue a letter of credit of \$3.4 million for the tax year 1996, which was deposited by SUNAT in August 2003. This deposit is recorded in other assets on the balance sheet. The Company's appeal was denied by the Peruvian tax court in March 2004. In April 2004, the Company filed a lawsuit against the Peruvian tax court and SUNAT in the civil court of Peru. Company management believes that it will prevail in this action. We believe that the assessments received from SUNAT are without merit or basis and that our position will prevail. We do not believe that a reasonable possibility exists that a loss will arise from this contingency.

F. Related Party Transaction:

In the first quarter of 2004, SPCC collected an overdue receivable of \$2.6 million from American Sales Corporation, a subsidiary of Grupo Mexico, the majority (54.2%) indirect stockholder of the Company.

On January 15, 2004, the Company entered into a tolling agreement with ASARCO, Incorporated ( ASARCO ), a former shareholder of the Company and a subsidiary of Grupo Mexico. Under terms of the agreement, in the first quarter of 2004 the Company, through its wholly-owned US subsidiary, Southern Peru Limited ( SPL ), commenced delivering to ASARCO, at its Amarillo, Texas refinery, copper cathodes for conversion into copper rods, which the Company is selling to customers in the United States. The Company is obligated to deliver 77,000 tons of copper to the ASARCO refinery in 2004 under the agreement. Deliveries

to the ASARCO refinery, which are made on a monthly basis, amounted to approximately 20,000 tons in the first quarter of 2004. This resulted in \$10.5 million of sales recorded as sales to Stockholders and affiliates. At March 31, 2004 there was a total of \$10.9 million in related party accounts receivable of which \$10.5 million related to SPL's sales to an affiliate and \$0.4 million related to sales by the Company to other related entities. The Company pays ASARCO a tolling charge upon its receipt of copper rods. These charges are based on competitive market terms.

G. Commitments and Contingencies:

In March 2003, the Company agreed to amend an existing power purchase agreement with Enersur S.A., resolving certain issues that arose between the parties and reducing power costs for the remaining life of the agreement. A new contract, documenting this agreement, was executed in June 2003. The Company made a one-time contractual payment of \$4.0 million to Enersur S.A. under terms of the new agreement. The new agreement released Enersur S.A. from the obligation to construct additional capacity to meet the Company's increased electricity requirements due to the expansion and modernization programs. SPCC believes it can satisfy the need for increased electricity requirements from other sources, including local power providers.

Environmental:

The Company's activities are subject to Peruvian laws and regulations. The Peruvian Government, through its Ministry of Energy and Mines (MEM), conducts seven annual audits of SPCC's mining and metallurgical operations. Through these environmental audits, all matters relating to environmental commitments, compliance with legal requirements, as well as atmospheric emissions and effluent monitoring are reviewed. The Ilo operations (smelter and refinery) are audited three times a year and the operations at the Toquepala and Cuajone mines, are audited twice a year. The Company has not incurred any material non-compliances under any environmental laws or regulations.

Pursuant to Peruvian law, in 1996, SPCC submitted the Environmental Compliance and Management Program (known by its Spanish acronym, PAMA) to the Peruvian Government. A thorough third party environmental audit was conducted in order to elaborate the PAMA. The PAMA applied to all current operations that did not have an approved environmental impact study at the time. SPCC's PAMA was approved in January 1997 and it contains 34 mitigation measures and projects necessary to: (1) bring the existing operations to the environmental standards established by the government, and (2) identify areas impacted by the operations that were no longer active and needed to be reclaimed or remediated.

By the end of 2003, thirty-one of such projects were completed, including all PAMA commitments relating to the Company's operations in Cuajone and Toquepala. The three pending PAMA projects all belong to the Ilo smelter operations. The primary areas of environmental concern are: (1) Smelter reverberatory slag eroded from the slag deposits up until 1994, and (2) atmospheric emissions from the Ilo smelter.

The slag remediation program is progressing as scheduled and is expected to be completed by 2007. Once the program is completed, we do not foresee any further environmental risks.

With respect to the smelter emissions, the third phase of the Ilo smelter modernization has started and is scheduled to be completed by 2007. In July 2003, the Company awarded the contract to provide the technology and basic engineering for the modernization of the Ilo smelter to

Fluor/Xstrata. The selected proposal meets with SPCC's requirements, which are to use of proven technology (the ISASMELT from Australia) and comply with the current environmental regulations. It is estimated that the construction of the project will be completed before January 2007, the deadline established in the PAMA. This represents the biggest outstanding capital investment project for SPCC. The cost of the project was previously estimated to exceed US \$600 million. The new estimated cost to complete this project is US \$320 million. Beginning in 1995, and continuing while the smelter project is under construction, SPCC established an emissions curtailment program that has allowed SPCC to comply with the annual SO<sub>2</sub> air quality standards (established by the MEM in 1996) in the populated areas of the city of Ilo, and has reduced violations to the 24-hr air quality standard for the year 2004 to four episodes. Once the modernized smelter starts operating, we do not foresee any environmental risks.

Two major remediation projects were identified in the PAMA. One related to the old tailings conveyance and disposal sites, and the other, to the Smelter reverberatory slag mentioned above. Environmental commitments regarding the tailings remediation have been fulfilled, and the slag program is 88% complete, as reported by the government auditors. In the foreseeable future, the only reclamation/remediation plans concurrent with operations are the ones already included in the PAMA.

On October 14, 2003 the Peruvian Congress published a new law announcing future closure and remediation obligations for the mining industry. The MEM is required to issue further guidance regarding the details of the new law. MEM was required to publish within 60 business days, or by January 9, 2004, a draft of regulations necessary to implement this law, and within three months, or by April 9, 2004, final regulations. Further guidance has not yet been issued by MEM. The new law, as published, announced a requirement for existing mining operations to present to the MEM a Mine Closure Plan, within six months, or before April 15, 2004. It is expected that the regulations, once published, will provide a new deadline. The law will require companies to provide financial guarantees to insure that remediation programs are completed. The Company anticipates that this law will increase its asset retirement obligation and require future expenditures to satisfy its requirements. The liability for these asset retirement obligations cannot currently be measured, or reasonably estimated, based on the generalities of the law. The Company is studying the impact this law will have on its results, but does not expect to be able to estimate the effect until regulations are published.

The Company has on hand sufficient funds to commence the project but significant additional funds will be necessary for its completion. The Company has an approved Peruvian bond program of \$750 million, of which \$199 million has been issued. There can be no assurance that the entire Ilo smelter project can be financed with Peruvian resources. The Company plans to finance the portion of the cost that is not financed in Peru with funds from operations or by placing additional financing in the international market.

Environmental capital expenditures for the period 1999-2003 exceeded \$59 million. The Company foresees significant environmental capital expenditures in 2004. Approximately \$84 million has been budgeted for the smelter project in 2004.



Litigation:

Peruvian Legal Action. We conduct our operations in Peru through a registered Branch. Although the Branch has neither capital nor liability separate from that of the Company, under Peruvian law it is deemed to have an equity capital for purposes of determining the economic interest of the holders of investment shares. The investment share litigation is based on claims of former employees for ownership of labor shares issued during the 1970s until 1989 under a former Peruvian mandated profit sharing system. We assert that the claims are meritless and that the investment shares were distributed to the former employees in accordance with the then in effect Peruvian profit sharing system. We do not believe that an unfavorable outcome is reasonably possible. In 1971, the Peruvian Government enacted legislation providing that workers in the mining industry would participate in the pre-tax profits of the enterprises for which they worked at a rate of 10%. This participation was distributed to the workers with 40% in cash and 60% as an equity interest in the enterprise. What remains of the equity participation is now included in the balance sheet caption "Minority interest." Under the law, the equity participation was delivered to the "Mining Community", an organization representing all workers in the mining industry. The cash portion was distributed to the workers after the close of the year. The accrual for this participation was (and continues to be) a current liability of the Company, until paid. In 1978, the law was amended and the equity distribution was calculated at 5.5% of pre-tax profits and was made to individual workers of the enterprise in the form of labor shares. These labor shares represented an equity interest in the enterprise. In addition, equity participations previously distributed to the "Mining Community" were returned to the Company and redistributed in the form of labor shares to individual employees or former employees. The cash participation was adjusted to 4.5% of pre-tax earnings and continued to be distributed to employees following the close of the year. Effective in 1992, the law was amended to its present status. The workers participation in pre-tax profits was set at 8%, with 100% payable in cash. The equity participation component was eliminated from the law. In 1995, the Company offered to exchange new common shares of the Company for the labor shares issued under the prior Peruvian law. Approximately 80.8% of the labor shares issued, were exchanged for SPCC common shares, greatly reducing the Minority interest on the Company's balance sheet. Since 1995, the Company has periodically purchased labor/investment shares on the open market. In 1998, labor shares were renamed "investment shares." At December 31, 2003, the investment share interest in the Company's Peruvian Branch amounted to 0.72%

In April 1996, the Company was served with a complaint filed in Peru by approximately 800 former employees seeking the delivery of a substantial number of investment shares (formerly called labor shares ) of its Peruvian Branch plus dividends. In December 1999, a civil court of the first instance of Lima decided against the Company, ordering the delivery of the investment shares and dividends to the plaintiffs. The Company appealed this decision in January 2000. On October 10, 2000, the Superior Court of Lima affirmed the lower court's decision, which had been adverse to the Company. On appeal by the Company, the Peruvian Supreme Court annulled the proceeding noting that the civil courts lacked jurisdiction and that the matter had to be decided by a labor court. The case is now pending before a labor court of first instance in Lima. The labor court dismissed this lawsuit in January 2005.

It is the opinion of management that the outcome of the aforementioned legal proceeding and tax contingencies mentioned in Note E, as well as other miscellaneous litigation and proceedings now pending, will not have a material adverse effect on the financial position or results of operations of the Company and its consolidated subsidiaries.

H. Proposed Purchase of Grupo Mexico Mining Shares:

On February 3, 2004, Grupo Mexico, the largest stockholder of the Company, presented a proposal regarding the possible sale to the Company of all shares of Grupo Mexico's subsidiary, Minera Mexico, S.A. de C.V. ( MM ), representing 99% of MM's outstanding shares, in exchange for shares of the Company. MM holds substantially all of Grupo Mexico's Mexican mining assets.

The Company has formed a Special Committee of Disinterested Directors, comprised of members of its Board, to evaluate whether the proposal is in the best interest of the stockholders of the Company. The special committee hired third party advisors and consultants to assist the committee in carrying out its duties. There can be no assurance as to whether an agreement can be reached with regard to this transaction.

If consummated, the transaction would result in the Company having a single class of common stock, listed on the New York and Lima stock exchanges.

I. Impact of New Accounting Standards:

In December 2003, the Financial Accounting Standards Board ( FASB ) issued a revision to SFAS No. 132, Employers Disclosures about Pensions and Other Postretirement Benefits . SFAS No. 132 requires additional disclosures relating to the description of the types of plan assets, investment strategy, measurement date(s), plan obligations, cash flows, and components of net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans recognized during interim periods. These disclosure requirements are effective for the first quarter and all future quarterly and annual reports. The additional disclosures required on a quarterly basis are not presented, as they did not have a significant effect on the Company s consolidated financial position, results of operations or cash flows.

Part I Items 2 and 3

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
AND QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

EXECUTIVE OVERVIEW

The business of the Company is the production and sale of copper in a socially conscious manner. In the process of producing copper a number of valuable metallurgical by-products are recovered, these also are sold by SPCC. The sales prices for Company products are largely determined by market forces outside of the Company's control. Company management, therefore, focuses on cost control and production enhancement to improve profitability. The Company achieves these goals through capital spending programs, exploration efforts and cost reduction programs. This focus enables SPCC to remain profitable during periods of low copper prices and to maximize results in periods of high copper prices.

Company earnings increased to \$86.8 million in the first quarter of 2004 from \$18.3 million in the first quarter of 2003. The increase was principally driven by significant improvement in copper and molybdenum prices. Economic improvement in the industrial world has fueled the price improvements. Increased production (10.2%) and sale (9.3%) of molybdenum also contributed to the 2004 first quarter results. SPCC's mined copper production increased 8.7% in the first quarter of 2004, compared to 2003. This increase in production did not, however, result in an increase in copper sales. The Company's new program of tolling and selling copper rod was initiated in January 2004. The initiation of this process required the build-up of an inventory in transit and in process. This build-up is a one-time requirement and is not expected to be required in future periods.

Mine copper production increased 8.7% to 209.0 million pounds in the first quarter of 2004 compared with the first quarter of last year. This increase of 16.7 million pounds included 5.7 million pounds from the Toquepala mine, 14.5 million pounds from the Cuajone mine and a decrease of 3.5 million pounds in solvent extraction/electrowinning (SX/EW) production. The increase in Toquepala production was a result of 6.4% of higher material milled and a 2.4% of higher ore grade in the 2004 period. The increase in Cuajone production was principally the result of higher ore grade in the first quarter of 2004. The main reason for the 3.5 million pound decrease in SX/EW production was lower grade of PLS (pregnant leaching solution).

An overall benchmark used by the Company and a common industry metric to measure performance is its 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. A reconciliation of SPCC's cash cost per pound to the Cost of sales (including depreciation, amortization and depletion) as presented in the statement of earnings is also presented. Operating cash cost per pound has been defined by the Company as the total production cost, including the cost of purchased copper, freight and sales expenses, administrative expenses, revenues for the sale of by-products such as molybdenum and silver, and premiums on copper sales divided by total pounds of copper produced by SPCC. SPCC includes in its calculation of operating cash cost per pound of copper produced, revenues from the sale of by-products, principal of which are molybdenum and silver. The Company includes these credits because it considers its principal business the production and sale of copper. The Company believes that it 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 SPCC's ability to produce copper at a reasonable cost. The recent surge in price of molybdenum, however, has had a significant effect on the Company's traditional calculation of cash cost and its comparability between periods. Accordingly, the Company is presenting cash costs with and without the inclusion of all by-products revenues. SPCC excludes from its calculation of operating cash cost depreciation, amortization and depletion, exploration, workers' participation provisions and items of a non-recurring nature. Depreciation, amortization and depletion 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.

	2004	For the quarter ended March 31, (in cents per pound)	2003
Cash cost of copper produced		30.4	45.0
Cash cost of copper produced (without by-products revenue)		62.5	59.3

A reconciliation of the Company's operating cash cost per pound to GAAP cost of sale is presented on page 17.

The reduction in the Company's operating cost is due to increases in metal prices and production as well as the Company's continuing program to reduce production costs. The largest factor in the cost reduction noted above is due to the molybdenum sales credit which amounted to 33.6 cents per pound in the first quarter of 2004 and 8.7 cents per pound in the first quarter of 2003. The operating cash cost, for the first quarter 2004 was one of the lowest experienced by SPCC.

The Company's Ilo smelter project is moving ahead on schedule with detailed engineering work in process in order to finish by the end of 2006. Additionally, the Company's leaching project at the Toquepala mine is also progressing on schedule. An \$8.0 million contract for construction work was awarded to Cosapi, a Peruvian construction firm, in March 2004. The contract is part of the \$70 million project, which is scheduled for completion in mid-2005 and projected to save the Company \$25.0 million in annual operating costs.

On February 3, 2004, Grupo Mexico, the largest stockholder of the Company, presented a proposal regarding the possible sale to the Company of all shares of Grupo Mexico's subsidiary, Minera Mexico, S.A. de C.V. (MM), representing 99% of MM's outstanding shares, in return for the issuance of additional shares of the Company. MM holds substantially all of Grupo Mexico's Mexican mining assets.

The Company has formed a Special Committee of Disinterested Directors, comprised of members of its Board, to evaluate whether the proposal is in the best interest of the stockholders of the Company. The special committee hired financial and legal advisors, in order to assist the committee in carrying out its duties. Southern Peru notes that there can be no assurance as to whether agreement can be reached with regard to this transaction. If consummated, the transaction would result in the Company having a single class of common stock, listed on the New York and Lima stock exchanges.

Inflation of Peruvian New Sol: The functional currency of the Company is the U.S. dollar. Portions of the Company's operating costs are denominated in Peruvian new soles. Since the revenues of the Company are primarily denominated in U.S. dollars, when inflation/deflation in Peru is not offset by a change in the exchange rate of the new sol to the dollar, the financial position, results of operations and cash flows of the Company could be adversely affected. The value of the net assets of the Company denominated in new soles can be affected by inflation of the new sol.

For the three months ended March 31, 2004 and 2003, the inflation rates were as follows:

Quarters ended March 31	2004	2003
Peruvian Inflation Rate	2.1%	1.8%
New Sol/Dollar (change in quarters exchange rate)	(0.1)%	(1.1)%

Results of Operations:

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	Three Months Ended				
	2004		March 31,		2003
Net earnings (\$in millions)	\$	86.8	\$	18.3	
Earnings per share	\$	1.09	\$	0.23	
% increase from prior years comparable quarter		374%			

The Company reported net earnings of \$86.8 million or diluted earnings per share of 1.09 cents, for the first quarter of 2004 compared with net earnings before cumulative effect of the change in accounting principle of \$19.9 million or diluted earnings per share of 25 cents and net earnings of \$18.3 million or diluted earnings per share of 23 cents, for the first quarter of 2003. Sales of products were \$274.1 million in the first quarter of 2004, compared with \$174.8 million in the first quarter of 2003, an increase of 56.8% over the 2003 period. The increase in net earnings in 2004 is due principally to higher copper and

molybdenum prices and to higher sales volume of molybdenum.

In addition, first quarter 2003 results were reduced by the adoption of Statement of Financial Accounting Standard No. 143 Accounting for Asset Retirement Obligation (SFAS 143) and expenses related to the Company's acceptance of a Peruvian tax assessment. Effective January 1, 2003 the Company adopted SFAS 143, which requires the Company to accrue for the cost of future obligations associated with retirement of long-lived assets. The Company accrued for the cumulative effect, since 1995, of this obligation as of January 1, 2003 with an after-tax charge to earnings of \$1.5 million. Additionally, the charge to earnings for the tax assessment amounted to \$2.1 million for which \$1.6 million was charged to taxes and \$0.5 million was charged to workers participation.

Net Sales: Net sales in the first quarter of 2004 increased \$99.2 million to \$274.1 million from the comparable period in 2003. The increase in net sales was principally the result of higher copper and molybdenum prices in 2004.

SPCC sold 43.4 million less pounds of copper in the 2004 first quarter than in the comparable 2003 quarter. The decrease of 22% in sales volume in the first quarter of 2004 compared with the same period of the previous year was mainly due to adverse weather conditions in Ilo, which, in line with the voluntary emission supplementary control program, limited the smelter blister production. Also the initiation in the first quarter of the Company's new program of tolling and selling copper rod required a build-up of an inventory of cathodes in transit and in process. This build-up is a one-time requirement and is not expected to be required in future periods.

At March 31, 2004, the Company has recorded provisionally priced sales of 77.7 million pounds of copper, at an average provisional price of \$1.38 per pound. Also the Company has recorded provisionally priced sales of 4.7 million pounds of molybdenum at an average provisional price of \$10.95 per pound. These sales are subject to final pricing based on the average monthly LME or COMEX copper prices and Dealer Oxide molybdenum prices in the month of settlement, which will occur in the second quarter of 2004.

At March 31, 2004 the Company has recorded \$11.9 million in revenue resulting from the increase in the market price of copper from the date of signing the provisionally priced copper sales contracts and the month-end quoted price. Additionally, the Company has recorded \$11.2 million in revenue resulting from the increase in the market price of molybdenum from the date of signing the provisionally priced molybdenum sales contract and the month-end quoted price.

Prices: Sales prices for the Company's metals are established principally by reference to prices quoted on the LME, the COMEX or published in Platt's Metals Week for dealer oxide mean prices for molybdenum products.

	Three Months Ended March 31,			
	2004		2003	
<b>Price/Volume Data:</b>				
<b>Average Metal Prices:</b>				
Copper (per pound-LME)	\$	1.24	\$	0.75
Copper (per pound-COMEX)	\$	1.23	\$	0.76
Silver (per ounce-COMEX)	\$	6.71	\$	4.66



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Molybdenum (per pound)	\$	8.27	\$	4.06
Sales Volume (in thousands):				
Copper (pounds)		155,300		198,700
Molybdenum (pounds) (1)		4,862		4,448
Silver (ounces)		940		979

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(1) The Company's molybdenum production is sold in concentrate form. Volume represents pounds of molybdenum contained in concentrates.

Metal Price Sensitivity: There is market risk arising from the volatility of copper prices. Assuming that expected metal production and sales are achieved, that tax rates are unchanged, that the number of shares outstanding is unchanged, giving no effect to potential hedging programs or changes in past production, metal price sensitivity factors would indicate the following estimated change in earnings per share resulting from metal price changes in 2004. Estimates are based on 80.0 million shares outstanding.

	Copper	Silver	Molybdenum
Change in Metal Prices	\$ 0.01/lb.	\$ 1.00/oz.	\$ 1.00/lb.
Annual Change in Earnings per share	\$ 0.06	\$ 0.03	\$ 0.13

Operating Costs and Expenses: Operating costs and expenses were \$137.0 million in the first quarter of 2004 compared with \$140.1 million in the first quarter of 2003. Cost of sales (exclusive of depreciation, amortization and depletion) for the three months ended March 31, 2004 was \$108.8 million compared with \$114.7 million in the comparable 2003 period which includes the sale of 15.4 million pounds of copper concentrates purchased from third parties. The decrease of \$5.9 million in 2004 was principally the result of lower sales volume \$13.3 million and no sales of purchased concentrates \$12.1 million offset by higher energy and fuel costs \$4.0 million, higher freight and selling costs \$1.4 million, lower capitalization of stripping costs \$4.7 million and an increase in workers participation cost \$8.9 million.

Depreciation, amortization and depletion expense for the three months ended March 31, 2004 was \$19.0 million compared with \$17.9 million in the comparable 2003 period. The increase in 2004 is principally due to new capitalization of fixed asset.

Taxes on Income: Taxes on income for the three months ended March 31, 2004, were \$47.2 million, compared with \$12.7 million for the same period in 2003. The increase was principally due to higher earnings in 2004. In addition, in the first quarter of 2003 the Company recorded a tax charge of \$1.6 million related to the acceptance of a Peruvian tax assessment for prior years.

Cash Flows:

Net cash provided by operating activities was \$40.6 million in the first quarter of 2004, compared with \$16.1 million in the comparable 2003 period.

The increase in the 2004 quarter versus the 2003 quarter was principally the result of higher net earning of \$68.5 million, reduced by an increased build-up in operating assets and liabilities of \$47.3 million. Higher metal prices, particularly copper and molybdenum were the key factors increasing net earnings. The principal changes in operating assets and liabilities were the increase of account receivable (\$40.8) million, inventories (\$32.7) million and accounts payable and accrued liabilities \$24.6 million. The receivable increase was caused by the higher copper and molybdenum prices in the first quarter of 2004 as well as by the build-up of the receivable for copper rod sales of \$18.2 million (the tolling and selling of copper rod began in the first quarter of 2004). The inventory increase in the 2004 quarter was caused by a build-up of

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metal-in-process including 28 million pounds being tolled at the ASARCO Amarillo refinery.

The increases in account payable and accrued liabilities of \$24.6 million includes an increase in income tax liability of \$14 million and other increases in accounts payable and accrued liabilities.

Net cash used in investing activities was \$33.6 million and \$9.2 million for capital expenditures in the first quarter of 2004 and 2003, respectively. Included in the first quarter of 2004 are capital expenditures of \$12 million for the smelter modernization project, \$5.5 million for the Toquepala mine leaching project, \$5.9 million for an electric shovel and casks at the Cuajone mine and \$2.1 million for a fire protection system. The Company anticipates that capital expenditures will significantly increase after the first quarter as the smelter and leaching projects move from the bidding and proposal stage to construction.

Net cash used in financing activities in the first quarter of 2004 was \$26.8 million, compared with \$7.6 million in the first quarter of 2003. The Company

paid dividends of \$21.6 million in the first quarter of 2004 and \$7.4 million in the first quarter of 2003. In the 2004 period, the Company made an escrow deposit of \$5.0 million, required for the Mitsui loan.

Liquidity and Capital Resources:

On March 9, 2004, the Company paid a quarterly dividend of \$0.27 per share, totaling \$21.6 million.

Certain financing agreements contain covenants that limit the payment of dividends to stockholders. Under the most restrictive covenant, the Company may pay dividends to stockholders up to 50% of the net income of the Company, on an annual basis.

On March 31, 2003, Southern Peru Holdings Corporation, the 54.2% direct stockholder of the Company, and a subsidiary of ASARCO, sold all its stock in the Company to Americas Mining Corporation ( AMC ), the parent of ASARCO. Immediately after the transaction, the shares were transferred to SPHC II Incorporated, a subsidiary of AMC, and were pledged to a group of financial institutions. Pursuant to a financing agreement, AMC has agreed to comply with financial covenants, involving SPCC, including covenants requiring the maintenance of minimum stockholders' equity of \$900.0 million, adjusted to include 50% of earnings after 2002, cash proceeds from equity offerings and stockholder contributions, specific debt to equity ratios and interest coverage ratios. At March 31, 2004 the Company was in compliance with these covenants.

The Company's biggest outstanding capital investment project is the Ilo smelter modernization. This project will modernize the smelter and is targeted to capture no less than 92 percent of sulfur dioxide emissions, in compliance with PAMA requirements. In July 2003, the Company awarded the contract to provide the technology and basic engineering for the modernization of the Ilo smelter to Fluor/Xstrata. The selected proposal meets with SPCC's requirements, which are the use of proven technology (the ISASMELT from Australia), and also comply with current environmental regulations. It is estimated that the construction of the project will take no more than 36 months and it will be completed before January 2007, the deadline established in the PAMA. The cost of the project was previously estimated to exceed \$600.0 million, but has not been finalized pending the completion of the basic engineering by Fluor/Xstrata. The new estimated cost to complete this project is \$320.0 million.

The Company has on hand sufficient funds to commence this project but significant additional funds will be necessary for its completion. The Company has an approved Peruvian bond program of \$750.0 million, of which \$199.0 million have been issued. There can be no assurance that the Company's capital expenditure and liquidity requirements can be financed with Peruvian resources. The Company plans to finance the portion of its liquidity needs that are not financed in Peru with cash on hand, funds from operation or by placing additional financing in the international market.

At March 31, 2004 the Company's debt as a percentage of total capitalization (the total of debt, minority interest and stockholders' equity) was 20.1% as compared with 20.9% at December 31, 2003. At March 31, 2004, the Company's cash and marketable securities amounted to \$276.0 million compared to \$295.5 million at December 31, 2003.

Critical Accounting Policies and Estimates:

Southern Peru Copper Corporation's discussion and analysis of its financial condition and results of operations, as well as quantitative and qualitative disclosures about market risks, are based upon its consolidated financial statements, which have been prepared in accordance with US GAAP. Preparation of these financial statements requires Southern Peru's 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. Management makes its 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: revenue recognition; ore reserves; capitalized mine stripping and related estimated mine stripping ratios; the estimated useful lives of fixed assets, asset retirement obligations; litigation and contingencies. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

#### NON-GAAP INFORMATION RECONCILIATION

Reconciliation of operating cash cost to GAAP cost of sales in millions of dollars and cents per pound.

	2004		2003	
	\$ million	¢ per unit	\$ million	¢ per unit
Cost of Sales (including depreciation, amortization and depletion) - GAAP	\$ 127.8	62.6	\$ 132.6	69.9
<b>Add:</b>				
Administrative and other	7.1	3.5	6.7	3.5
Treatment and refining charges	0.3	0.1	0.6	0.3
<b>Less:</b>				
By-products revenue	(65.7)	(32.2)	(27.1)	(14.3)
Depreciation, amortization and depletion	(19.0)	(9.3)	(17.9)	(9.4)
Worker's participation and other	(14.5)	(7.1)	(4.1)	(2.2)
Inventory change	26.0	12.7	(5.4)	(2.8)
<b>Operating Cash Cost</b>	<b>\$ 62.0</b>	<b>30.4</b>	<b>\$ 85.4</b>	<b>45.0</b>
Deduct by-products revenue	65.7	32.2	27.1	14.3
<b>Operating Cash Cost, without by-product revenue</b>	<b>\$ 127.7</b>	<b>62.5</b>	<b>\$ 112.5</b>	<b>59.3</b>
Total pounds of copper produced and purchased, in millions		<b>204.3</b>		<b>189.7</b>

#### Cautionary statement:

Forward-looking statements in this report and in other Company statements include statements regarding expected commencement dates of mining or metal production operations, projected quantities of future metal production, anticipated production rates, operating efficiencies, costs and expenditures as well as projected demand or supply for the Company's products. Actual results could differ materially depending upon 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, 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 that can be volatile.



Item 4. Controls and Procedures

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

As of March 31, 2004, the Company carried out 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 the Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended). Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic SEC filings.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

There was no change in the Company's internal controls 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 quarter ended March 31, 2004 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.



Mexico, D.F., April 16, 2004

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of  
Southern Peru Copper Corporation:

We have reviewed the accompanying condensed consolidated balance sheet of Southern Peru Copper Corporation and subsidiaries (a Delaware Corporation) as of March 31, 2004 and the related condensed consolidated statements of earnings and cash flows for each of the three-month periods ended March 31, 2004 and 2003. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with generally accepted accounting principles.

We previously audited in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet as of December 31, 2003, and the related consolidated statement of earnings, changes in stockholders' equity and of cash flows for the year then ended (not presented herein), and in our report dated January 28, 2004 (except for Note 20, which is as of February 3, 2004) we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2003, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

PRICEWATERHOUSECOOPERS

Part II - OTHER INFORMATION

**Item 1 - Legal Proceedings**

The information provided in Note G to the financial statements contained in Part I of this Form 10-Q, is incorporated herein by reference.

Item 6. Exhibits and Reports on Form 8-K

On March 22, 2004, the Company filed a Form 8-K reporting that effective March 19, 2004, the Board of Directors appointed Mr. Luis Miguel Palomino Bonilla as an independent director of the Company and elected him as member of both the Audit Committee and the Special Committee of Disinterested Directors.

On April 21, 2004, the Company filed a Form 8-K reporting earnings of the first quarter ended March 31, 2004.

On April 30, 2004, the Company filed a Form 8-K reporting that the stockholders at the April 29, 2004 annual meeting had elected directors and had ratified the selection of PricewaterhouseCoopers. The Form 8-K also reports the resignation of Mr. Héctor García de Quevedo Topete, as Director, Vice President, Finance, Chief Financial Officer, and Named Fiduciary of the Company and the election of Mr. Jaime Fernando Collazo González to fill the vacancy resulting from the resignation of Mr. García de Quevedo.

<b>Exhibit No.</b>	<b>Description of Exhibit</b>
Exhibit 15	Independent Accountants Awareness Letter
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. 33-8238.
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.

SIGNATURES

Pursuant to the requirement of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SOUTHERN PERU COPPER CORPORATION  
(Registrant)

Date: May 7, 2004

/s/Oscar González  
Rocha  
Oscar González  
Rocha  
President and General Director

Date: May 7, 2004

/s/Jaime Fernando Collazo González  
Jaime Fernando Collazo González  
Vice President of Finance and  
Chief Financial Officer