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

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

2004

Third Quarter

FORM 10-Q/A

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended September 30, 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 ý No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Act of 1934).

Yes ý No o

As of October 31, 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, per value $0.01 per share.

Southern Peru Copper Corporation

FORM 10 Q/A

For the Quarter Ended September 30, 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 September 30, 2004, filed with the Securities and Exchange Commission on November 9, 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 September 30, 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 Statements

Southern Peru Copper Corporation
and Subsidiaries

CONDENSED CONSOLIDATED STATEMENT OF EARNINGS

(Unaudited)

	3 Months Ended September 30, 2004	3 Months Ended September 30, 2003	9 Months Ended September 30, 2004	9 Months Ended September 30, 2003
	(in thousands, except for per share amounts)			
Net sales:				
Stockholders and affiliates	$ 20,733	$ 347	$ 53,141	$ 1,100
Others	407,352	209,139	1,038,023	551,612
Total net sales	428,085	209,486	1,091,164	552,712
Operating costs and expenses:				
Cost of sales (exclusive of depreciation, amortization and depletion, shown separately below)	188,193	119,522	465,726	336,859
Administrative	6,717	6,565	21,439	20,290
Depreciation, amortization and depletion	19,880	18,315	57,557	54,684
Exploration	1,578	5,914	6,167	9,070
Total operating costs and expenses	216,368	150,316	550,889	420,903
Operating income	211,717	59,170	540,275	131,809
Interest income	1,417	846	3,618	2,372
Other income (expense)	(787)	(315)	(2,829)	541
Interest expense	(2,170)	(3,441)	(8,355)	(9,654)
Earnings before taxes on income, minority interest and cumulative effect of the change in accounting principle	210,177	56,260	532,709	125,068
Taxes on income	77,087	19,815	190,213	46,726
Minority interest of investment shares	1,144	354	2,828	744
Earnings before cumulative effect of the change in accounting principle	131,946	36,091	339,668	77,598
Cumulative effect of the change in accounting principle, net of income tax benefit of $0.6 million				1,541
Net earnings	$ 131,946	$ 36,091	$ 339,668	$ 76,057
Per common share amounts:				
	$ 1.65	$ 0.45	$ 4.25	$ 0.97

Earnings before cumulative effect of the change in accounting principle								
Cumulative effect of the change in accounting principle								(0.02)
Net earnings - basic and diluted	$	1.65	$	0.45	$	4.25	$	0.95
Dividends paid	$	0.76	$	0.14	$	1.57	$	0.36
Weighted average common shares outstanding (Basic)		80,017		80,013		80,016		80,013
Weighted average common shares outstanding (Diluted)		80,017		80,029		80,016		80,020

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

Southern Peru Copper Corporation
and Subsidiaries

CONDENSED CONSOLIDATED BALANCE SHEET

(unaudited)

	September 30, 2004	December 31, 2003
	(in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 418,617	$ 295,472
Accounts receivable, net	183,986	89,238
Inventories	106,998	76,692
Other current assets	15,411	14,549
Total current assets	725,012	475,951
Net property	1,175,026	1,118,202
Capitalized mine stripping, net	234,164	215,207
Intangible assets	106,941	109,007
Other assets	15,673	12,385
Total Assets	$ 2,256,816	$ 1,930,752
LIABILITIES		
Current liabilities:		
Current portion of long-term debt	$ 26,504	$ 60,000
Accounts payable	75,560	48,322
Accrued liabilities	204,665	78,875
Total current liabilities	306,729	187,197
Long-term debt	267,539	289,043
Deferred income taxes	116,890	110,075
Other liabilities	20,545	15,854
Asset retirement obligation	5,549	5,267
Total non-current liabilities	410,523	420,239
MINORITY INTEREST	9,808	7,913
STOCKHOLDERS EQUITY		
Common stock	261,946	261,875
Retained earnings	1,267,810	1,053,528
Total Stockholders Equity	1,529,756	1,315,403
Total Liabilities, Minority Interest and Stockholders Equity	$ 2,256,816	$ 1,930,752

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

Southern Peru Copper Corporation

and Subsidiaries

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(unaudited)

	3 Months Ended September 30, 2004	3 Months Ended September 30, 2003	9 Months Ended September 30, 2004	9 Months Ended September 30, 2003
	(in thousands)		(in thousands)	
OPERATING ACTIVITIES				
Net earnings	$ 131,946	$ 36,091	$ 339,668	$ 76,057
Cumulative effect of the change in accounting principle, net of income tax				1,541
Adjustments to reconcile net earnings to net cash provided from operating activities:				
Depreciation, amortization and depletion	19,880	18,315	57,557	54,684
Capitalized mine stripping	(7,403)	(9,981)	(25,111)	(29,223)
Remeasurement gain	4,633	(191)	4,351	(2,265)
Provision for deferred income taxes	2,737	2,456	6,815	9,895
Minority interest of investment shares	1,144	354	2,828	744
Cash provided from (used for) operating assets and liabilities:				
Accounts receivable	(22,208)	(7,969)	(94,538)	(7,050)
Inventories	(10,949)	301	(30,306)	3,276
Accounts payable and accrued liabilities	72,753	9,969	145,089	12,451
Other operating assets and liabilities	349	4,359	9,945	(3,115)
Net cash provided by operating activities	192,882	53,704	416,298	116,995
INVESTING ACTIVITIES				
Capital expenditures	(48,330)	(18,362)	(109,972)	(34,366)
Sales of property		52		55
Net cash used in investing activities	(48,330)	(18,310)	(109,972)	(34,311)
FINANCING ACTIVITIES				
Debt incurred				50,000
Debt repaid			(55,000)	
Escrow (deposits) withdrawals on long-term loans			(5,241)	183
Dividends paid to common stockholders	(60,413)	(10,826)	(125,386)	(27,308)
Distributions to minority interest	(471)	(84)	(978)	(267)
Treasury stock transaction		34	71	45
Purchase of investment shares	(6)	(223)	(104)	(540)
Net cash provided by (used for) financing activities	(60,890)	(11,099)	(186,638)	22,113
Effect of exchange rate changes on cash and cash equivalents	2,982	69	3,457	2,615
Increase in cash and cash equivalents	86,644	24,364	123,145	107,412
	331,973	230,585	295,472	147,537

Cash and cash equivalents, at beginning of period								
Cash and cash equivalents, at end of period	$	418,617	$	254,949	$	418,617	$	254,949
Supplemental disclosure of cash flow information:								
Cash paid during the year for:								
Interest	$	2,814	$	3,632	$	11,468	$	12,187
Income taxes	$	24,759	$	7,725	$	83,006	$	35,894

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

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 September 30, 2004 and the results of operations and cash flows for the three months and nine months ended September 30, 2004 and 2003. Certain reclassifications have been made in the financial statements from amounts previously reported. The condensed financial statements for the three months and nine months period ended September 30, 2004 and 2003 have been subjected to a review by PricewaterhouseCoopers, the Company s independent public auditors, whose report dated October 15, 2004, is presented on page 22. The results of operations for the three months and nine months ended September 30, 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.

With respect to the unaudited financial information of the Company for the nine-month periods ended September 30, 2004 and 2003, included in this Form 10-Q, PricewaterhouseCoopers reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate report dated October 15, 2004 appearing herein, states that they did not audit and they do not express an opinion on that unaudited financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied. PricewaterhouseCoopers is not subject to the liability provisions of Section 11 of the Securities Act of 1933 for their report on the unaudited financial information because that report is not a report or a part of the registration statement prepared or certified by PricewaterhouseCoopers within the meaning of Sections 7 and 11 of the Act.

B. Inventories were as follows:

(in millions)

	September 30, 2004	December 31, 2003
Metals at lower of average cost or market:		
Finished goods	$ 2.7	$ 2.3
Work-in-process	60.8	34.7
Supplies at average cost	43.5	39.7
Total inventories	$ 107.0	$ 76.7

C. At September 30, 2004, the Company has recorded, provisionally priced sales of 130.3 million pounds of copper, at an average provisional price of $1.42 per pound. Also, the Company has recorded provisionally priced sales of 4.9 million pounds of molybdenum at an average provisional price of $18.45 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 largely in the fourth quarter of 2004.

At September 30, 2004, the Company has recorded $18.0 million in revenue resulting from the increase in the 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 $6.8 million in revenue resulting from the increase in the price of molybdenum from the date of signing the provisionally priced molybdenum sales contracts and the month-end quoted price.

D. Ore Reserves:

The Company uses a copper price of 90 cents per pound to calculate its official ore reserve position, which were declared and filed with the Security and Exchange Commission in 1998 for the Cuajone mine and in 1999 for the Toquepala mine. The Company uses these reserves estimates for planning purposes and managing its operations. These ore reserves are reported to governmental authorities in Peru on an annual basis and are reported annually in the Company s annual report and form 10K. The Company believes that the 90 cent copper price assumption is consistent with long-term projections based on average historical prices over recent full economic and pricing cycles.

Commencing in 2003, for purposes of calculating financial statements results, the Company recalculates its ore reserves using a copper price based on the three-year copper price according to COMEX. Accordingly, for the year 2004 and 2003 the Company used 75 cents and 76 cents copper price, respectively, for financial statement purposes. Southern Peru uses these ore reserves estimates in determining the amount of mine stripping capitalized, units of production amortization of capitalized mine stripping and amortization of intangible assets 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 2002, the Internal Revenue Service (IRS) issued a preliminary Notice of Proposed Adjustment for the years 1994 through 1996. 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 continuing their field audit of the tax years 1997 through 1999 as well as continuing their field audit work of tax years 2000 through 2002. As a result of 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 pending. 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 contingences 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 and penalties from the Peruvian Tax Administration (SUNAT) for fiscal years 1996 through 1999, in which several deductions taken were disallowed. SUNAT has challenged the Company s depreciation method and deduction of other expenses related to charges incurred outside of Peru from 1996 through 1999, and the deduction of certain interest expenses from 1997 through 1999. The Company appealed these assessments.

In February 2003, the Peruvian tax court confirmed SUNAT s assessments and penalties with regard to depreciation and deductions of other expenses incurred outside of Peru for fiscal years 1996 and 1997. In consequence, the Company recognized an additional tax and workers participation liability for fiscal years 1998 and 1999 on the amounts assessed by SUNAT. Therefore, in 2003 the Company recorded a charge to workers participation, (included in cost of sales on the condensed consolidated statement of earnings) and income tax expense of $0.5 million and $4.4 million, respectively. The Company, however, has not recognized a liability for penalties and interest assessed by SUNAT in connection with the depreciation and other expenses deduction as it considers they are not applicable. The status of the penalty appeals is as follows:

With regards to the appeal of the penalty related to fiscal year 1996, the Company was required to issue a letter of credit of $3.4 million, which was executed by SUNAT in July 2003. This deposit is recorded in other assets on the condensed consolidated balance sheet. The Peruvian tax court denied the Company s appeal in February 2004. In consequence, the Company filed a lawsuit against the Peruvian tax court and SUNAT in the superior court of Peru in April 2004. The Company was not required to issue a deposit for appeal of assessments and rulings on any other years.

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In regard to the penalty issued by SUNAT related to fiscal year 1997, in November 2002 the Peruvian tax court indicated that the penalty needed to be modified and declared the previously issued penalty null. According to this tax court resolution, SUNAT issued a new penalty in December 2003. This penalty, and penalties related to fiscal years 1998 and 1999 have been protested before SUNAT.

The Company continues to appeal SUNAT s assessment of penalties and interest related to the disallowance of the above-mentioned items for fiscal years 1997 through 1999.

The Company has not recorded any expense associated with the assessment challenging deductions of interest expense for the years 1997, 1998, or 1999.

The Company s appeal before Peruvian tax court related to the assessments (pertaining to the deduction of certain interest expense) for fiscal year 1997, was denied. In this regard, the Company filed in May 2003 a lawsuit before the superior court against SUNAT and the Peruvian tax court seeking the reversal of the ruling of the Tax Court. The tax court has not ruled on the interest deductions for 1998 or 1999.

Company management believes that it will prevail in all of the above actions. 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. Debt and Available Credit Facilities:

The Company´s Peruvian bonds contain a limitation on the payment of stockholder dividends of no more then 50% of net income for any fiscal year. On October 18, 2004, the Company obtained a waiver of this restriction allowing for the payment of dividends of up to 100% of net income for each of the quarters ending September 30, 2004, December 31, 2004 and March 31, 2005.

G. Related Party Transaction:

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 56,600 tons in the first nine months of 2004. During the first nine months of 2004, SPL sold $148.1 million of copper rods, of which $50.5 million of sales to The Marmon Group - Cerro Wire, were recorded as sales to stockholders and affiliates in the condensed consolidated statement of earnings. In addition, SPCC had sales of $2.6 million to other affiliates. At September 30, 2004, there was a total of $10.0 million in related party accounts receivable of which $9.0 million related to SPL s sales to an affiliate, The Marmon Group - Cerro Wire and $1.0 million related to sales by the Company to other related entities. The Company pays ASARCO a tolling charge upon its receipt of copper rods.

H. 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 forsee 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 SO2 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 forsee 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 Actions: 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 formers 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 Company has not made a provision for this lawsuit, because it believes that is has meritorious defenses to the claims asserted in the complaint. The labor court dismissed this lawsuit in January 2005.

In February 2004, a lawsuit was filed against the Company by approximately 3,000 former employees of SPCC seeking the delivery of a substantial number of labor shares (now called investment shares) plus dividends and interest. The labor court dismissed the complaint due to procedural defects on the grounds that each of the plaintiffs should file an individual lawsuit. The plaintiffs attorney appealed this resolution before the Superior Labor Court. In May 2004, the appeal by the plaintiffs was granted and the lawsuit was reinstated. The case is now pending before the Superior Labor Court in Lima. A similar lawsuit was dismissed in April 2003 due to procedural defects. The Company intends to defend vigorously against the lawsuit. The Company has not made a provision for this lawsuit because it believes that it has meritorious defenses to the claims asserted in the complaint.

The investments share litigation described above is based on claims of former employees for ownership of investment shares issued from the 1970s until 1989 under a former Peruvian mandatory profit sharing system. The Company asserts that the claims are meritless and that the investment shares were distributed to the former employees in accordance with the Peruvian profit sharing system that was in effect at the time. In most cases, the distribution of the investment shares occurred while the claimants were in the employment of the Company. The Company s defenses include evidence of receipt of the investment shares by the claimants. Should the workers be successful in these cases, the Company would be responsible for back dividends and the issuance of such shares which would increase the Company s minority interest and negatively impact the Company s cash flow. The amount of this contingency cannot be estimated by management at this time.

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. This is based on certain assumptions, including advice from legal counsel, the current status of private Treasury/IRS policy debates and the timing of the ultimate outcome of settlement. It is possible, however, that future results of operations for any particular quarterly or annual period could be materially affected by changes in our assumptions of the effectiveness of our strategies, related to those proceedings, or when they are resolved in future periods.

I. 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 its approximately 99.15% shareholding in Grupo Mexico s subsidiary, Minera Mexico, S.A. de C.V. (MM), in return for the issuance to it 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 third party advisors and consultants to assist the committee in carrying out its duties. On October 21, 2004, the Board of Directors of SPCC, upon the recommendation of the special committee, unanimously approved a merger agreement under which Grupo Mexico will, through its subsidiary, Americas Mining Corporation (AMC), sell to SPCC its approximately 99.15% shareholding in MM, in return for the issuance to AMC of 67.2 million shares of SPCC. As part of this transaction SPCC will pay a special transaction dividend in the aggregate amount of $100 million prior to the closing of the transaction to all of SPCC s existing shareholders. This merger agreement is subject to ratification by two-thirds of SPCC s shareholders and a maximum net debt level of $1.0 billion in MM. There can be no assurance as to whether a merger can be reached with regard to this transaction.