SOUTHERN COPPER CORP/
Form 10-K/A
August 30, 2006

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

2005 FORM 10-K/A

Amendment No. 2

ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2005 **Commission File Number: 1-14066**

SOUTHERN COPPER CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**13-3849074**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
11811 North Tatum Blvd. Suite 2500, Phoenix, AZ	**85028**
(Address of principal executive offices)	(Zip code)

Registrant s telephone number, including area code: **(602) 977-6595**

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

Title of each class	**Name of each exchange on which registered**
Stock, par value $0.01 per share	New York Stock Exchange
$200,000,000 6.375% Notes due 2015	Lima Stock Exchange Luxembourg Stock Exchange

$600,000,000	7.500%	Notes due 2035	Luxembourg Stock Exchange

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment of this Form 10-K. o

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

Large accelerated filer x Accelerated filer o Non-accelerated filer o

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

As of January 31, 2006, there were of record 147,228,025 shares of Common Stock, par value $0.01 per share, outstanding, and the aggregate market value of the shares of Common Stock (based upon the closing price on such date as reported on the New York Stock Exchange - Composite Transactions) of Southern Copper Corporation held by non affiliates was approximately $3,194.1 million.

PORTIONS OF THE FOLLOWING DOCUMENTS ARE INCORPORATED BY REFERENCE:

Part III:	Proxy statement in connection with the 2006 Annual Meeting of Stockholders
Part IV:	Exhibit index is on Page B1 through B2.

EXPLANATORY NOTE

This amendment on Form 10-K/A is being filed to amend the Annual Report on Form 10-K of Southern Copper Corporation (SCC) for the year ended December 31, 2005 (the Form 10-K), originally filed with the Securities and Exchange Commission on March 13, 2006 (the Original Filing) and amended on Form 10-K/A on March 28, 2006. The purpose of this amendment is to amend portions of Item 1 and Item 2 as well as to update SCC s address in our Form 10-K. Additionally, SCC has corrected certain minor typographical errors in the Original Filing.

While we are amending only certain portions of our Form 10-K, for convenience and ease of reference, we are filing the entire Form 10-K, in an amended and restated format. Unless stated otherwise, all information contained in this amendment is as of December 31, 2005. This amendment does not change any previously reported financial results, nor does it reflect events occurring after the date of the Original Filing. This amendment does not affect the timeliness of the original filing to which this amendment relates.

PART I

Item 1. Business

MINE ACCIDENT

On Sunday, February 19, 2006, at about 2:00 am, a gas explosion occurred at our Pasta de Conchos coal mine, located in the San Juan Sabinas municipality, in the state of Coahuila, Mexico. The explosion caused a cave-in at three of the main tunnels leading into the mine. Initially 11 of our miners were rescued, some with minor injuries and some unharmed. Regrettably, 65 of our miners remained trapped. Our crews, with assistance from the Mexican army, regional industry and supported from the government of Coahuila, worked around the clock to reach and rescue our men. As work progressed, the build up of methane gas made it apparent that any chance of our men remaining alive was hopeless. Commencing on Saturday, February 25 our efforts have been redefined as a mission to recover the bodies of our men so that their families can have the solace of proper burial. We honor the memory of these men

Javier Perez Aguilar
Amado Rosales Hernandez
Jesus Morales Boone
Lauro Olacio Zarazu
Guillermo Iglesias Ramos
Adrian Barboza Alvarez
Jose Luis Calvillo H.
Oscar Javier Cerda Espinoza
Jose Angel Guzman Franco
Roberto Zapata Gonzalez
Mario Alberto Ruiz Ramos
Pedro Doñez Posada
Ricardo Hernandez Rocha
Jesus Armando Rodriguez T.
Jesus Alberto de Leon C.
Fermin Tavares Garza
Jose Guadalupe Garcia M.
Rolando Alcocer Soria
Roberto Guerrero Ramirez
Gil Rico Montelongo
Isidoro Briseño Rios
Jesus Viera Armendariz
Ignacio Hernandez Lopez
Jorge Antonio Moreno Tovar
Juan Manuel Rosas Hernandez
Jesus Alvarez Flota
Agustin Botello Hernandez
Jorge Bladimir Muñoz D.
Ignacio Campos Rosales
Juan Antonio Cruz Garcia
Juan Fernando Garcia M.
Jesus Cortez Ibarra
Tomas Patlan Martinez
Juan Arturo Salazar Olvera
Felipe de Jesus Torres R.
Feliciano Vazquez Posada
Pablo Soto Nieto
Hugo Ramirez Garcia
Jose Alfredo Ordoñez M.
Margarito Cruz Rios
Gregorio Rangel Ocura
Margarito Zamarron Alfaro
Jose Manuel Peña Saucedo
Jose Eduardo Martinez B.
Julian Martinez Ojeda
Raul Villasana Cantu
Eliud Valero Valero
Juan Antonio Cardenas Limon
Gilberto Rios Salazar
Guillermo Ortiz Mora
Mario de Jesus Cordero A.
Jose Porfirio Cibrian M.
Jose Ramon Hernandez Ramos
Juan Raul Artega Garcia
Luis Jorge de Hoyos Marquez
Mauro Antonio Sanchez Rocha
Ernesto de la Cruz Sanchez
Jose Alfredo Silva C.
Jorge Arturo Ortega Jimenez
Juan Ramon Barrientos G.
Arturo Garcia Diaz
Juan Martin Gomez Martinez
Reyes Cuevas Silva
Jose Armando Castillo M.
Jose Isabel Mijares Yañez

THE COMPANY

We are a leading integrated producer of copper, molybdenum, zinc and silver. All of our mining, smelting and refining facilities are located in Peru and in Mexico and we conduct exploration activities in those countries and Chile. See Review of Operations for maps of our principal mines, smelting facilities and refineries. Our operations make us the largest mining company in Peru and also in Mexico. We are the largest publicly traded copper mining company in the world based on reserves and the fifth largest copper mining company in the world based on 2004 sales. We were incorporated in Delaware in 1952 and have conducted copper mining operations since 1960. Since 1996, our common stock has been listed on both the New York Stock Exchange and the Lima Stock Exchange.

Our Peruvian copper operations involve mining, milling and flotation of copper ore to produce copper concentrates and molybdenum concentrates; the smelting of copper concentrates to produce blister copper and beginning in the first quarter of 2006 copper anodes; and the refining of blister copper/anode copper to produce copper cathodes. As part of this production process, we also produce significant amounts of molybdenum and silver. We also produce refined copper using SX/EW technology. We operate the Toquepala

and Cuajone mines high in the Andes mountains, approximately 984 kilometers southeast of the city of Lima, Peru. We also operate a smelter and refinery west of the Toquepala and Cuajone mines in the city of Ilo, Peru.

Our Mexican operations are conducted through our subsidiary, Minera México S.A. de C.V. (Minera Mexico), which we acquired on April 1, 2005. Minera México engages principally in the mining and processing of copper, zinc, silver, gold, lead and molybdenum. Minera México operates through subsidiaries that are grouped into three separate units. Mexicana de Cobre S.A. de C.V. (together with its subsidiaries, the Mexcobre Unit) operates an open-pit copper mine, a copper ore concentrator, a SX/EW plant, a smelter, refinery and rod plant. Mexicana de Cananea S.A. de C.V. (together with its subsidiaries, the Cananea Unit) operates an open-pit copper mine, which is located at the site of one of the world s largest copper ore deposits, a copper concentrator and two SX/EW plants. Industrial Minera México, S.A. de C.V. (Immsa) and Minerales Metálicos del Norte, S.A. (together with Immsa and its subsidiaries, the Immsa Unit) operate five underground mines that produce zinc, lead, copper, silver and gold, a coal and coke mine and several industrial processing facilities for zinc and copper.

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

The sales prices for our products are largely determined by market forces outside of our control. For additional information on the pricing of the metals we produce, please see Metal prices . Our management, therefore, focuses on cost control and production enhancement to improve profitability. We achieve these goals through capital spending programs, exploration efforts and cost reduction programs. Our focus is on seeking to remain profitable during periods of low copper prices and maximizing results in periods of high copper prices.

Currency Information:

Unless stated otherwise, references herein to U.S. dollars , dollars , or $ are to U.S. dollars; references to S/. , nuevo sol or nuevos soles , are Peruvian Nuevos Soles; and references to peso , pesos , or Ps. , are to Mexican pesos.

Unit Information:

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

ORGANIZATIONAL STRUCTURE

The following is a chart describing Grupo México S.A. de C.V. (Grupo Mexico), its ownership of us and our ownership of our recently acquired Minera México subsidiary. For clarity of presentation, the chart identifies only principal subsidiaries and eliminates intermediate holding companies.

We are a majority-owned, indirect subsidiary of Grupo México. Through its wholly-owned subsidiaries, Grupo México currently owns approximately 75.1% of our capital stock. Grupo México s principal business is to act as a holding company for shares of other corporations engaged in the mining, processing, purchase and sale of minerals and other products and railway and other related services.

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

On April 1, 2005, we acquired Minera México, the largest mining company in Mexico on a stand-alone basis, from Americas Mining Corporation (AMC), a subsidiary of Grupo México, our controlling stockholder. Minera México is a holding company and all of its operations

are conducted through subsidiaries that are grouped into three separate units: (i) the Mexcobre Unit, (ii) the Cananea Unit and (iii) the Immsa Unit. We now own 99.95% of Minera Mexico.

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 metals prices on commodity exchanges, which can be volatile.

Additional business information follows:

COPPER BUSINESS

Copper is the world s third most widely used metal and an important component in the world s infrastructure. Copper has unique chemical and physical properties, including high electrical conductivity and resistance to corrosion, as well as excellent malleability and ductility that has made it a superior material for use in the electrical energy, telecommunications, building construction, transportation and industrial machinery businesses. Copper is also an important metal in non-electrical applications such as plumbing, roofing and, when alloyed with zinc to form brass, in many industrial and consumer applications.

Copper industry fundamentals, including copper demand, price levels and stocks, strengthened in late 2003 and copper prices have continued to improve in 2004 and 2005 from the 15-year price lows set during 2002.

BUSINESS REPORTING SEGMENTS:

Our Company operates in a single industry, the copper industry. With the acquisition of Minera Mexico in April 2005, we determined that to effectively manage our business we needed to focus on three operating components or segments. These segments are our Peruvian operations, our Mexican open-pit operations and our Mexican underground operations, known as our IMMSA unit. Our Peruvian operations include the Toquepala and Cuajone mine complexes and the smelting and refining plants, industrial railroad and port facilities which service both facilities. Our Mexican open-pit operations combined two units of Minera Mexico, Mexcobre and Mexcananea, which includes La Caridad and Cananea mine complexes and smelting and refining plants and support facilities which service both complexes. Our IMMSA unit includes five underground mines that produce zinc, lead, copper, silver and gold, a coal and coke mine, and several industrial processing facilities for copper, zinc and silver. Segment information is included under the captions Overview-Metal production and Ore reserves , as well as in Note 19 of our Consolidated Combined Financial Statements.

REVIEW OF OPERATIONS

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

COPPER AND MOLYBDENUM EXTRACTION PROCESSES

Our operations include open-pit and underground mining, concentrating, copper smelting, copper refining, copper rod production, solvent extraction/electrowinning (SX/EW), zinc refining, sulfuric acid production, molybdenum concentrate production and silver and gold refining. The copper and molybdenum extraction process is outlined below, followed by a description of each principal component process.

OPEN-PIT MINING

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

UNDERGROUND MINING

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

CONCENTRATING

The copper ore with a copper grade over 0.4% from the open-pit primary crusher or the copper, zinc and lead-bearing ore from the underground mines is transported to a concentrator plant where gyratory crushers break the ore into sizes no larger than three-quarters of an inch. The ore is then sent to a mill section where it is ground to the consistency of fine powder. The finely ground ore is mixed with water and chemical reagents and pumped as a slurry to the flotation separator where it is mixed with certain chemicals. In the flotation separator, reagents solution and air pumped into the flotation cells cause the minerals to separate from the waste rock and bubble to the surface where they are collected and dried.

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

COPPER SMELTING

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

COPPER REFINING

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

COPPER ROD PLANT

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

SOLVENT EXTRACTION/ELECTROWINNING (SX/EW)

An alternative to the conventional concentrator/smelter/refinery process is the leaching and SX/EW process. During the SX/EW process, certain types of low-grade ore with a copper grade under 0.4% are leached with sulfuric acid to allow copper content recovery. The acid and copper solution is then agitated with a solvent that contains chemical additives that attract copper ions. As the solvent is lighter than water, it floats to the surface carrying with it the copper content. The solvent is then separated using an acid solution, freeing the copper. The acid solution containing the copper is then moved to electrolytic extraction tanks to produce copper cathodes. Refined copper can be produced more economically (though over a longer period) and from lower grade ore using the SX/EW process instead of the traditional concentrating, smelting and refining process.

MOLYBDENUM PRODUCTION

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

ZINC REFINING

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

SULFURIC ACID PRODUCTION

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

SILVER AND GOLD REFINING

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

SLOPE STABILITY:

Peruvian Operations

Both the Toquepala and Cuajone pits are approximately 700 meters deep and under the present mine plan configuration will reach a depth of 1,200 meters. The deepening pit presents us with a number of geotechnical challenges. Perhaps the foremost concern is the possibility of slope failure, a possibility that all open pit mines face. In order to maintain slope stability, in the past we have decreased pit slope angles, installed additional or duplicate haul road access, and increased stripping requirements. We have also responded to hydrological conditions and removed

material displaced by a slope failure. There is no assurance that we will not have to take these or other actions in the future, any of which may negatively affect our results of operations and financial condition, as well as have the effect of diminishing our stated ore reserves. To meet the geotechnical challenges relating to slope stability of the open pit mines, we have taken the following steps:

In the late 1990 s we hosted round table meetings in Vancouver, B.C. with a group of recognized slope stability and open pit mining specialists. The agenda for these meetings was principally a review of pit design for mines with greater than 700 meter depth. The discussions included practices for monitoring, data collection and blasting processes.

Based on the concepts defined at the Vancouver meetings, we initiated slope stability studies to define the mining of reserves by optimum design. These studies were performed by outside consultants and included slope stability appraisals, evaluation of the numerical modeling, slope performance and inter-ramp angle design and evaluation of hydrological conditions.

The studies were completed in 2000 and we believe we implemented the study recommendations. One of the major changes implemented was slope angle reduction at both

mines, Toquepala by 5 degrees average and Cuajone by 7 degrees average. Although this increased the waste included in the mineable reserve calculation, it also improved the stability of the pits.

Since 1998, a wall depressurization program has been in place in both pits. This consists of a horizontal drilling program, which improves drainage thereby reducing saturation and increasing wall stability. Additionally, a new blasting control program was put in place, implementing vibration monitoring and blasting designs of low punctual energy. Also a new slope monitoring system was implemented using reflection prisms, deformation inclinometers and piezometers for water level control, as well as real-time robotic monitoring equipment.

To increase the possibility of mining in the event of a slide, we have provided for two ramps of extraction for each open pit mine.

While these measures cannot guarantee that a slope failure will not occur, we believe that our mining practices are sound and that the steps taken and the ongoing reviews performed are a prudent methodology for open pit mining.

OVERVIEW METAL PRODUCTION

The table below sets forth 2005, 2004 and 2003 mine production data by metal.

(million pounds)	**2005**	**2004**	**2003**
Copper contained in concentrates	1,268	1,331	1,206
Copper in SX/EW cathodes	253	252	262
Total copper	1,521	1,583	1,468
Zinc contained in concentrate	317	295	284
Molybdenum contained in concentrate	33	32	28
Silver contained in concentrate (million ounces)	18	19	18
Gold contained in concentrate (thousands ounces)	32	34	31

METAL PRODUCTION BY SEGMENTS

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

PERUVIAN OPERATIONS

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

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

Cuajone

Our Cuajone operations consist of an open-pit copper mine and a concentrator located in southern Peru, 30 kilometers from the city of Moquegua and 840 kilometers from Lima. Access to the Cuajone property is by plane from Lima to Tacna (1:20 hours) and then by highway to Moquegua and Cuajone (3:30 hours). The concentrator has a milling capacity of 87,000 tons per day. Overburden removal commenced in 1970 and ore production commenced in 1976. Our Cuajone operations utilize a conventional open-pit mining method to collect copper ore for further processing in our concentrator.

The table below sets forth 2005, 2004 and 2003 production information for our Cuajone operations:

		2005	2004	2003
Mine annual operating days	(days)	365	366	365

Total material mined	(kt)	109,855	101,265	97,471
Total ore mined	(kt)	29,544	29,380	29,754
Copper grade	(%)	0.643	0.792	0.745
Molybdenum grade	(%)	0.026	0.025	0.026
Average ore mined per day	(kt)	80.9	80.3	81.5
Leach material mined	(kt)	0	0	0
Leach material grade	(%)	0	0	0
Stripping ratio	(x)	2.72	2.45	2.28
Total material milled	(kt)	29,621	29,319	29,798
Copper concentrate	(kt)	619.2	752.9	710.0
Molybdenum concentrate	(kt)	9.5	8.7	9.0
Average copper grade in concentrates	(%)	26.43	25.82	25.99
Molybdenum concentrate average grade	(%)	55.576	53.742	53.881
Copper in concentrate	(kt)	163.7	194.4	184.5
Molybdenum in concentrate	(kt)	5.3	4.7	4.9
Copper recovery	(%)	85.96	83.64	83.13
Molybdenum recovery	(%)	69.7	64.5	63.5

Key: kt = thousands of tons

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

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

Major Cuajone mine equipment include 3 trucks with a capacity of 290 tons, 18 trucks with a capacity of 240 tons and 8 trucks with a capacity of 218 tons, 4 trucks with a capacity of 109 tons, 3 shovels with a capacity of 73 tons (43 m3), 1 shovel with a capacity of 54 tons, 1 shovel with a capacity of 23 tons (11.4 m3), 1 front end loader with a capacity of 42 tons, 4 front end loaders with a capacity of 3.8 m3, 3 front end loaders with a capacity of 3.1 m3, 3 front end loaders with a capacity of 6.1 m3, 4 electric drills and 1 wheel tractor. We continuously improve and renovate our equipment

Geology

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

The Cuajone deposit is located approximately 28 kilometers from the Toquepala deposit and is part of the Toquepala Group dated 60 to 100 million years (Upper Cretaceous to Lower Tertiary). The Cuajone lithology includes volcanic rocks from Cretaceous to Quaternary. There are 32 rock types including, pre-mineral rocks, balsaltic andesite, porphyritic rhyolite, Toquepala dolerite and intrusive rocks, including diorite, porphyritic latite, breccias and dikes. In addition, the following post-mineral rocks are present, the Huaylillas formation which appears in the south-southeast side of the deposit and has been formed by conglomerates, tuffs, traquites and agglomerates. These formations date 17 to 23 million years and are found in the Toquepala Group as discordance. The Chuntacala formation which dates 9 to 14 million years and is formed by conglomerates, flows, tuffs and agglomerates placed gradually in some cases and in discordance in others. Also Quaternary deposits are found in the rivers, creeks and hills. The mineralogy is simple with regular grade distribution and vertically funnel-shaped. Ore minerals include chalcopyrite ($CuFeS_2$), chalcosine (Cu_2S) and molybdenite (MoS_2) with occasional galena, tetraedrite and enargite as non economical ore.

Exploration in the mine

Exploration activities during the drill campaign in 2005 are as follows:

Studies	Meters	Holes	Notes
Infill Drilling	1,795.60	14	Evaluated the 2006 Mine Plan
Geotechnical Holes	1,536.85	11	Dewatering holes
Total	3,332.45	25	

Concentrator

Our Cuajone operations use state-of-the-art computer monitoring systems at the concentrator, the crushing plant and the flotation circuit in order to coordinate inflows and optimize operations. Material with a copper grade over 0.40% is loaded onto rail cars and sent to the milling circuit, where giant rotating crushers reduce the size of the rocks to approximately one-half of an inch. The ore is then sent to the ball mills, which grind it to the consistency of fine powder. The finely ground powder is agitated in a water and reagents solution and is then transported to flotation cells. Air is pumped into the cells producing a froth that carries the copper mineral to the surface but not the waste rock, or tailings. Recovered copper, with the consistency of froth, is filtered and dried to produce copper concentrates with an average copper content of 26.4%. Concentrates are then shipped by rail to the smelter at Ilo. Sulfures under 0.40% copper are considered waste.

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

Major Cuajone concentrator plant equipment include 1 primary crusher, 3 secondary crushers, 7 tertiary crushers, 10 primary ball mills, 4 ball mills for re-crushing, 1 vertical mill, 110 flotation cells, 8 column cells, 1 Larox Filter Press, 2 Middling Thickeners, 3 Tailings Thickeners, 1 High-Rate Tailings, 1 truck and a recycled water pipe line.

Since the mill expansion to reach actual nominal capacity finished in 1999, only some minor changes have been made to the plant. The plant s equipment is in good physical condition and currently in operation.

In 2003 and 2004, 2 additional column cells and 4 additional flotation cells were installed to increase resident time and copper recovery.

In 2005, 8 cracked ball mill shells were replaced after operating at Cuajone for the last 26 years. In 2006, 2 mill shells will be replaced in order to complete the replacement schedule. After these replacements, all ball mills will be completely operational. In 2006, 5 additional flotation cells were installed.

Toquepala

Our Toquepala operations consist of an open-pit copper mine and a concentrator. We also refine copper at the SX/EW facility through a leaching process. Toquepala is located in southern Peru, 30 kilometers from Cuajone and 870 kilometers from Lima. Access is by plane from Lima to the city of Tacna (1:20 hours) and then by the Pan-American highway to Camiara (1:20 hours) and by trail road to Toquepala (1 hour). The concentrator has a milling capacity of 60,000 tons per day, which has been expanded from 45,000 tons per day in 2002. The SX/EW facility has a refining capacity of 56,000 tons per year. Overburden removal commenced in 1957 and ore production commenced in 1960. Our Toquepala operations utilize a conventional open-pit mining method to collect copper ore for further processing in our concentrator.

The table below sets forth 2005, 2004 and 2003 production information for our Toquepala operations:

		2005	2004	2003
Mine annual operating days	(days)	365	366	365
Total material mined	(kt)	134,505	115,120	105,242
Total ore mined	(kt)	21,224	21,820	21,215
Copper grade	(%)	0.812	0.817	0.749
Molybdenum grade	(%)	0.039	0.044	0.029
Average ore mined per day	(kt)	58.1	59.6	58.1
Leach material mined	(kt)	16,693	9,708	28,013
Leach material grade	(%)	0.222	0.268	0.268
Estimated leach recovery	(%)	28.24	26.87	24.86
SX/EW cathode production	(kt)	36.5	42.1	47.8
Stripping ratio	(x)	5.34	4.28	3.96
Total material milled	(kt)	21,225	21,807	21,208
Copper concentrate	(kt)	576.4	580.1	505.2
Molybdenum concentrate	(kt)	9.7	11.2	7.8
Average copper grade in concentrates	(%)	27.32	27.73	28.18
Molybdenum concentrate average grade	(%)	54.7	53.7	53.2

Copper in concentrate	(kt)	157.5	160.9	142.4
Molybdenum in concentrate	(kt)	5.3	6.0	4.2
Copper recovery	(%)	91.47	90.28	89.63
Molybdenum recovery	(%)	64.6	62.2	66.4

Key: kt = thousands of tons

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

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

Major mine equipment at Toquepala include 8 trucks with a capacity of 290 tons, 5 trucks with a capacity of 231 tons, 18 trucks with a capacity of 218 tons, 9 trucks with a capacity of 181 tons, 1 truck with a capacity of 109 tons, 4 shovels with a capacity of 73 tm (43 m3), 3 shovels with a capacity of 23 tons (11.4 m3), 3 electric drills, 2 rotary drills, 1 front-end loader with a capacity of 21.4 m3.

We continuously improve and renovate our equipment. In 2003, we started a project to install a crushing, conveying and spreading system at the Toquepala mine to improve cost containment and production efficiency. The new system is expected to improve recovery at our leaching facilities and will largely eliminate costly truck haulage in the process. The primary crusher was placed in operation in August 2005. The overland conveyors 1, 2 and 3, and the grasshoppers 30 and 31 were put in the production line. The conveying reached its rated capacity of 6,500 ton/hr. in September 2005. The construction of the ramp will continue until final completion of the project, expected in the fourth quarter of 2006.

Geology

The Toquepala porphyry copper deposit is located on the western slopes of Cordillera Occidental, in the southern-most Andes Mountains of Peru. The deposit is part of a mineral district that contains two additional known deposits, Cuajone and Quellaveco.

The Toquepala deposit is in the southern region of Peru, located on the western slope of the Andes mountain range, approximately 120 kilometers from the border with Chile. This region extends into Chile and is home to many of the worlds most significant known copper deposits. The deposit is in a territory with intrusive and eruptive activities of rhyolitic and andesitic rocks which are 70 million years old (Cretaceous-Tertiary) and which created a series of volcanic lava. The lava is composed of rhiolites, andesites and volcanic agglomerates with a western dip and at an altitude of 1,500 meters. These series are known as the Toquepala Group. Subsequently, different intrusive activities occurred which broke and smelted the rocks of the Toquepala Group. These intrusive activities resulted in diorites, granodiorites and dikes of porphyric dacite. Toquepala has a simple mineralogy with regular copper grade distribution. Economic ore is found as disseminated sulfurs throughout the deposit as veinlets, replenishing empty places or as small aggregates. Ore minerals include chalcopyrite (CuFeS2), chalcosine (Cu2S) and molybdenite (MoS2). A secondary enrichment zone is also found with thicknesses between 0 and 150 meters.

Exploration in the mine

Exploration activities during the drill campaign in 2005 are as follows:

Studies	Meters	Holes	Notes
Lateral Boundaries	503.76	2	Delayed drilling from the 2004 drill campaign made in January 2005.
Leach Material Confirmation	434.10	7	Phase III exploration on East side of pit in order to confirm leach material indicated in Long Term Model.
Geotechnical Drilling	5,639.48	21	Inclinometers relocation and information about inside rock from the east side using oriented drills.
Total	6,577.34	30	

Concentrator

Our Toquepala operations use state-of-the-art computer monitoring systems at the concentrator, the crushing plant and the flotation circuit in order to coordinate inflows and optimize operations. Material with a copper grade over 0.40% is loaded onto rail cars and sent to the milling circuit, where giant rotating crushers reduce the size of the rocks to approximately one-half of an inch. The ore is then sent to the ball and bar

mills, which grind it to the consistency of fine powder. The finely ground powder is agitated in a water and reagents solution and is then transported to flotation cells. Air is pumped into the cells producing a froth, which carries the copper mineral to the surface but not the waste rock, or tailings. Recovered copper, with the consistency of froth, is filtered and dried to produce copper concentrates with an average copper content of 27.3%. Concentrates are then shipped by rail to the smelter at Ilo.

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

Major concentrator plant equipment at Toquepala include 1 primary crusher, 3 secondary crushers, 6 tertiary crushers, 8 bar mills, 33 ball mills, 1 Distributed Control System (DCS), 1 optimizing control system (OCS), 42 flotation cells, 15 column cells, 72 Agitair 1.13 m3 cells, 2 Larox filter presses, 5 middling thickeners, 2 tailings thickeners, 3 high-rate tailings, 1 tripper car, 1 track tractor and a recycled water pipe line.

In order to reduce operation and maintenance costs and to comply with environmental requirements, we replaced the disc filters at the Toquepala concentrator with a new vertical press filter in 2005. The same year we also conducted a modernization project to replace old equipment with new and more efficient equipment.

SX/EW Plant

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

Copper oxides from Cuajone with a grade higher than 0.359%TCu, with an acid solubility index higher than 20% and a cyanide solubility index higher than 50% is leached. In Toquepala, the leach material cutoff grade is 0.25% TCu and therefore material with a total copper grade between 0.25% and 0.40% is leached.

Major equipment at the SX Cuajone plant include 1 primary jaw crusher and 1 secondary cone crusher with a capacity of 4,170 tons per day, to process Cuajone s oxides. In addition the plant has 1 agglomeration mill, 1 front end loader and 3 trucks each with a capacity of 109 tons for agglomerated ore hauling to the leach dumps. Copper in solution produced in Cuajone is sent to Toquepala through an 8 pipe laid alongside the Cuajone - Toquepala railroad track.

Major equipment at the Toquepala Plant include 2 spray systems, 1 for the south dump and 1 for the northwest dump and 4 pregnant solution (PLS) ponds, each with its own pumping system to send the solution to the SX/EW Plant. The plant also has 3 lines of SX, each with a nominal capacity of 1,068 m3/hr of pregnant solution and 162 electrowinning cells arranged in two lines, one with 122 cells and the other with 40 cells.

Equipment and main facilities are supported by a SX/EW maintenance plan and a SX/EW Quality Management System to assure good physical condition and high availability. The SX/EW plant has maintained its ISO 9000 certification since 2002.

Processing Facilities - Ilo

Our Ilo smelter and refinery complex is located in the southern part of Peru, 17 kilometers north of the city of Ilo, 121 kilometers from Toquepala, 147 kilometers from Cuajone, and 1,240 kilometers from the city of Lima. Access is by plane from Lima to Tacna (1:20 hours) and then by highway to the city of Ilo (2 hours). Additionally, we maintain a port facility in Ilo, from which we ship our product and receive supplies. Product shipped and supplies received move between Toquepala, Cuajone and Ilo on our industrial railroad.

Smelter

Our Ilo smelter provides blister copper for the refinery we operate as part of the same facility. Blister copper produced by the smelter exceeds the refinery s capacity and the excess is sold to other refineries around the world. The nominal installed capacity of the smelter is 1,131,500 tons per year. We are in the process of modernizing the Ilo smelter to comply with Peruvian government requirements. The project is part of our Environmental Compliance and Management Program, or PAMA, which was approved by the Peruvian government in 1997. The project will modernize the smelter and is targeted to capture no less than 92% of the sulfur dioxide emissions, in compliance with PAMA requirements. The modernization program is progressing on schedule and expected to be completed by the end of 2006. As part of this project an anode casting wheel was completed in January 2006 and blister production was replaced with anode production, enabling us to eliminate a costly re-melting step in our production process.

During 2005, 2004 and 2003, 325,623, 320,722 and 314,920 tons, respectively, of copper blister were produced, with average grades of 99.35%, 99.37% and 99.31%, respectively. The copper recovery was 97.57% for 2005, 97.23% for 2004 and 96.80% for 2003.

The table below set forth 2005, 2004 and 2003 production and sales information for our Ilo smelter plant:

	2005	2004	2003
Concentrate smelted (kt)	1,206	1,213	1,183
Sulfuric acid produced (kt)	370	390	363
Blister sales (kt)	41,321	29,684	28,060
Average blister price ($/t or $/lb)	1.87	1.35	0.79
Average gold price ($/t or $/lb)	447.33	407.85	356.32
Average silver price ($/t or $/lb)	7.26	6.54	4.85

Major equipment at our Ilo smelter include 2 reverberatory furnaces, 7 converters, 1 El Teniente converter, 2 casting wheels, a sulfuric acid plant with a capacity of 300,000 tons per year and an oxygen plant with a capacity of 100,000 tons per year.

Refinery

The refinery consists of an anode plant, an electrolytic plant, a precious metals plant and a number of ancillary installations. The refinery is producing grade A copper cathode of 99.99% purity. The nominal capacity is 280,000 tons per year. Anodic slimes are recovered from the refining process and are sent to the precious metals facility to produce silver, gold and selenium.

During 2005, 2004 and 2003, 285,205, 280,679 and 284,006 tons, respectively, of copper cathodes were produced, with an average grade of 99.998% for the three years.

The precious metals plant produced 109,894 kilograms of refined silver and 184 kilograms of gold in 2005, 118,906 kilograms of refined silver and 174 kilograms of gold in 2004 and 111,951 kilograms of refined silver and 265 kilograms of gold in 2003. Selenium production was, 48.7

tons, 51.9 tons and 47.8 tons in 2005, 2004 and 2003, respectively.

Major equipment at our Ilo refinery plant include 2 basculant ovens each with a 400 tons capacity, 1 casting wheel (70 MT/hour), 1 electrolytic plant of 280,000 tons/year capacity (cathodes), 926 commercial cells and 52 starting cells. Major equipment at the precious metals plant include 1 selenium reactor, 2 copella furnaces, 22 silver refining cells and 1 hydrometallurgical system for gold recovery.

Other facilities in Ilo are a coquina plant with a production capacity of 200,000 tons per year of seashells and a lime plant with a capacity of 80,000 tons per year. We also operate an industrial railroad to haul concentrates and supplies between Toquepala, Cuajone and Ilo. The railroad s equipment include 30 locomotives, 264 dump cars, 91 flat

cars, 254 boxcars, 8 closed boxcars, 11 closed hopper-type cars, 34 open hopper-type cars, 36 various tank wagons, 24 sulfuric acid tanks and 5 patrol cars.

MEXICAN OPERATIONS

Following is a map indicating the approximate location of our Mexican mine complexes as well as our processing facilities:

MEXICAN OPEN PIT UNIT

Our Mexican open-pit segment operations combines two units of Minera Mexico, Mexcobre and Mexcananea, which includes La Caridad and Cananea mine complexes and smelting and refining plants and support facilities which service both complexes.

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

Cananea

We operate an open-pit copper mine, a concentrator and two SX/EW plants at our Cananea mining complex, located 71 kilometers from La Caridad, Mexico and 61 kilometers south of the Arizona border on the outskirts of the town of Cananea. Cananea is connected by paved

highways to the city of Agua Prieta in the northeast, to the town of Nacozari in the southeast, and to the town of Imuris in the west. Cananea is also connected by railway to Agua Prieta and Nogales. A municipal airport is located approximately 20 km to the northeast of Cananea.

The concentrator has a milling capacity of 76,700 tons per day. The SX/EW facility has a refining capacity of 54,750 tons per year. The Cananea site is one of the world s largest porphyry copper deposits. The Cananea mine is the oldest continuously operating copper mine in North America, with operations tracing back to 1899. Cananea uses a conventional open-pit mining method to collect copper ore for further refining in our concentrator.

The table below sets forth 2005, 2004 and 2003 production information for Cananea:

		2005	2004	2003
Mine annual operating days	(days)	365	359	348
Total material mined	(kt)	102,508	93,160	75,692
Total ore mined	(kt)	25,638	26,258	20,314
Copper grade	(%)	0.572	0.583	0.576
Average ore mined per day	(kt)	70.2	73.1	58.4
Leach material mined	(kt)	52,112	39,048	26,793
Leach material grade	(%)	0.314	0.284	0.281
Estimated leach recovery	(%)	50.00	50.00	50.00
SX/EW cathode production	(kt)	56.4	50.2	49.5
Stripping ratio	(x)	3.00	2.55	2.73
Total material milled	(kt)	25,622	26,256	20,316
Copper concentrate	(kt)	436.5	469.3	337.9
Average copper grade in concentrates	(%)	27.21	26.26	27.85
Copper in concentrate	(kt)	118.7	123.2	94.1
Copper recovery	(%)	81.03	80.53	80.63

Key: kt = thousands of tons

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

The copper and molybdenum grade are total grade. The molybdenum grade value corresponds to molybdenum disulfide (molybdenite); molybdenum recovery is presently about 42%.

Major Cananea mine equipment include 41 trucks for ore hauling with individual capacities that range from 240 to 360 tons, 8 shovels with individual capacities that range from 39 to 70 tons, and mine auxiliary equipment such as 9 drillers, 3 front loaders, 5 motor graders and 25 tractors.

Geology

The Cananea mine is unusual in that the ore explored and sampled at the mine has been of consistent quality, unlike most copper deposits which evidence a decline in grades at deeper strata. The Cananea region is within the southern Cordilleran region, extending from southern Mexico to the northwestern United States.

Cananea is in the Southern Cordilleran Orogen which extends to the northwest of the lower 48 states of the United States. The geological and structural features of the region are representative of large copper deposits of the disseminated porphyry type. The mining district lies within a metalogenetic Basin and Range province. The geology is complex and consists of a series of Paleozoic age calcareous rocks, from Cambrian to Carboniferous, correlated to a type section in southeastern Arizona, USA, that unconformably overlie a Precambrian granitic basement. A prominent deep seated igneous activity, occurred during various epochs. Volcanic rocks, grading in composition from rhyolites to andesites and tuffs, were intruded, by shallow, quartz monzonite porphyries of Laramide age, along structural weak zones, thus closing the geologic history of the region. Intense and pervasive hydrothermal phyllic-argillic alteration, and sulfide mineralization also occurred in several episodes. An initial early pegmatitic stage, associated with chalcopyrite, bornite, pyrite and molybdenite in breccia chimneys, followed by an extensive flooding of hydrothermal solutions, widely accompanied with mineralization of quartz, pyrite and chalcopyrite. A subsequent stage of quartz-pyrite comprises and closes the primary sequence.

An extensive and economically important zone of supergene enrichment, principally with disseminations and veinlets of chalcocite (Cu2S), formed below the iron oxide capping. This zone coincides with the topography and has an average thickness of 300 meters. In the hypogene zone, the predominant sulfide mineral is chalcopyrite (CuFeS2). Likewise, it has been documented that molybdenite (MoS2) content in the deposit increases with depth.

The Cananea copper porphyry deposit is considered unique since the deepest exploration conducted to date in the core of the deposit has confirmed a significant increase in copper grades. It is unlike other deposits of similar type which commonly display relative lower grades at depth. The district is also unique for the occurrence of high grade breccia pipes, usually in the form of clusters that follow the mineralized trend. From the perspective of the size of the resources and reserves of this outstanding porphyry copper deposit, it is recognized as world class. The current aerial dimensions of the mineralized ore body are 5 X 3 kilometers and projects to more than 1 kilometer at depth. Considering the enormous potential that the ore deposit in Cananea presents, it is assured that the operation can support a significant increase in the capacity of copper production.

Mine Exploration

The exploration program to define and quantify the molybdenum mineral resources and reserves started in the third quarter of 2005. We conducted a geo-statistic analysis to define the interpolation parameters, modeling and quantification of molybdenum associated with copper reserves in the deposit. In the first quarter of 2006, we started a diamond drilling program. We expect to finish this exploration program at the beginning of 2007.

In 2005, we started an exploration drilling program near the porphyric copper ground. The main objective of this exploration is to condemn the areas where leach and barren material will be dumped. The first drilling stage was carried out through the inverse circulation method reaching a depth close to 300 meters. The second exploration stage is about to start, and diamond drilling will be used, in order to reach greater depths.

Regarding molybdenum exploration results, the Cananea porphydic deposit continues to show the relation copper-molybdenum. Peripheral exploration results on the deposit confirm the mineralogic pattern throughout the district.

Concentrator

Cananea uses state-of-the-art computer monitoring systems at the concentrator, the crushing plant and the flotation circuit in order to coordinate inflows and optimize operations. Material with a copper grade over 0.38% is loaded onto trucks and sent to the milling circuit, where giant rotating crushers reduce the size of the rocks to approximately one-half of an inch. The ore is then sent to the ball and bar mills, which grind it to the consistency of fine powder. The finely ground powder is agitated in a water and reagents solution and is then transported to flotation cells. Air is pumped into the cells producing a froth, which carries the copper mineral to the surface but not the waste rock, or tailings. Recovered copper, with the consistency of froth, is filtered and dried to produce copper concentrates with an average copper content of 27.21%. Concentrates are then shipped by rail to the smelter at La Caridad.

The Cananea concentrator plant, with a milling capacity of 76,700 tons per day, consists of 2 primary crushers, 4 secondary crushers, 10 tertiary crushers, 10 primary mills, a Distributed Control System, 5 mills for re-grinding, 103 primary flotation cells, 10 column cells, 70 exhaustion

flotation cells, 7 thickeners and 2 drum filters.

SX/EW Plant

The Cananea Unit operates a leaching facility and two SX/EW plants. All copper ore with a grade lower than the mill cut-off grade 0.38%, but higher than 0.25% copper, is delivered to the leaching dumps. A cycle of leaching and resting occurs for approximately five years to achieve a 56% recovery.

The Cananea Unit currently maintains 16.5 million cubic meters of pregnant leach solution in inventory with a concentration of approximately 1.79 grams of copper per liter.

Major equipment at the Solvents Extraction and Electrowinning (SX-EW) I and II Plants of Cananea include 2 crushing systems (no. 1 and no. 2). Crushing system no. 1 has a capacity of 10,000 tons per day and includes an apron feeder, a conveyor belt feeder, 7 conveyor belts system and a distributor car. Crushing system no. 2 has a capacity of 15,000 tons per day and includes one crusher, a conveyor belt feeder, 3 conveyor belts and a distributing car. There are 4 irrigation systems for the dumps and 6 dams for Pregnant Leach Solution (PLS). Plant I has 3 solvent extraction tanks with a nominal capacity of 960 m3/hr of PLS and 46 electrowinning cells. Plant I has a daily production capacity of 30 tons of copper cathodes with 99.999% purity. Plant II has 5 trains of solvent extraction with a nominal capacity of 3,300 m3/hr of PLS and 176 cells distributed in two bays. Plant II has a daily production capacity of 120 tons of copper cathodes with 99.999% purity.

We intend to increase Cananea s production of electrolytic copper by building a new SX/EW plant(SXEW III). The new plant will produce electrolytic copper cathodes of ASTM grade 1 or LME grade A. The project includes the installation of storage for deliverables required for operation of the plant and the installation of an emergency power plant and a fire protection system. The project is currently underway. In its first stage, it is expected to produce 10,500 tons of additional copper by the end of 2007. Studies for a 22,900 ton subsequent expansion of the SX/EW plant are also underway. As the Cananea mine has the largest quantity of our copper reserves, we are studying several possibilities for expanding it to a scale that fully maximizes its potential.

La Caridad

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

La Caridad mine and mill are located about 23 km southeast of the town of Nacozari de Garcia in northeastern Sonora. Nacozari is about 264 km northeast of the Sonora state capital of Hermosillo and 121 km south of the US-Mexico border. Nacozari is connected by paved highway with Hermosillo and Agua Prieta and by rail with the international port of Guaymas, and the Mexican and United States rail systems. An airstrip with a reported runway length of 2,500 meters is located 36 km north of Nacozari, less than one kilometer away from the La Caridad copper smelter and refinery. The smelter and the sulfuric acid plants, as well as the refineries and rod plant, are located approximately 24 km from the mine, and the lime plant is situated 18 km from the U.S. border. Access is by paved highway and by railroad.

The concentrator began operations in June 1979, the molybdenum plant in June 1982, the smelter in June 1986, the first sulfuric acid plant in July 1988, the SX/EW plant in July 1995, the second sulfuric acid plant in January 1997, the copper refinery in July 1997, the rod plant in April 1998 and the precious metals refinery in July 1999.

The table below sets forth 2005, 2004 and 2003 production information for La Caridad:

		2005	2004	2003
Mine annual operating days	(days)	364	365	364
Total material mined	(kt)	75,465	72,430	73,916

Total ore mined	(kt)	31,551	27,574	27,327
Copper grade	(%)	0.483	0.504	0.508
Molybdenum grade	(%)	0.0324	0.0341	0.0345
Average ore mined per day	(kt)	86.4	75.5	74.9
Leach material mined	(kt)	29,969	22,450	28,996
Leach material grade	(%)	0.260	0.274	0.267
Estimated leach recovery	(%)	38.54	36.68	29.88
SX/EW cathode production	(kt)	22.0	21.8	21.5
Total material milled	(kt)	31,644	27,488	27,307
Stripping ratio	(x)	1.39	1.63	1.70
Copper concentrate	(kt)	449.6	401.6	410.5
Molybdenum concentrate	(kt)	7.4	6.5	6.1
Average copper grade in concentrates	(%)	27.20	27.49	26.12
Molybdenum concentrate average grade	(%)	56.88	56.69	57.33
Copper in concentrate	(kt)	122.3	110.4	107.2
Molybdenum in concentrate	(kt)	4.2	3.7	3.5
Copper recovery	(%)	79.95	79.62	77.36

Key: kt = thousands of tons

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

The copper and molybdenum grade are total grade. The molybdenum grade value corresponds to molybdenum disulfide (molybdenite); molybdenum recovery is presently about 42%.

Major mine equipment include 33 trucks for ore hauling with individual capacity from 170 to 240 tons, 8 shovels with individual capacities from 22 to 52 tons. Loading and auxiliary equipment include 6 drillers, 3 front loaders, 4 motor graders and 21 tractors.

Geology

The La Caridad deposit is a porphyry copper deposit typical of those in the southern basin and range province in the southwestern United States. The La Caridad mine uses a conventional open-pit mining method. The ore body is situated within a mountain top, which gives La Caridad the advantage of a relatively low waste-stripping ratio, natural pit drainage and relatively short haul distances for both ore and waste. The mining method involves drilling, blasting, loading and haulage of waste, leach and ore to waste and leaching dumps and to the primary crushers.

La Caridad deposit is located in northeastern Sonora, Mexico. The deposit is situated near the crest of the Sierra Juriquipa, about 15 kilometers southeast of the town of Nacozari, Sonora, Mexico. The Sierra Juriquipa rises to elevations of around 2,000 meters in the vicinity of La Caridad and is one of the many north-trending mountain ranges in Sonora that form a southern extension of the Basin and Range province.

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

Supergene enrichment, consisting of complete to partial chalcosite (Cu_2S) replacement of chalcopyrite ($CuFeS_2$). The zone of supergene enrichment occurs as a flat and tabular blanket with an average diameter of 1,700 meters and an average thickness between 0 and 90 meters.

Economic ore is found as disseminated sulfurs within the central part of the deposit. Sulfide-filled breccias cavities are most abundant in the intrusive breccias. This breccias-cavity mineralization occurs as sulfide aggregates which have crystallized in the spaces separating breccias clast. Near the margins of the deposit, mineralization occurs almost exclusively in veinlets.

Ore minerals include chalcopyrite ($CuFeS_2$), chalcosite (Cu_2S) and molybdenite (MoS_2).

Mine Exploration

We have been mining the La Caridad orebody for the past 25 years. The extent of the model area is approximately 6,000 meters by 4,000 meters with elevation ranging from 750 to 1,800 meters.

Fourteen drilling campaigns have been conducted on the property since 1968. These campaigns drilled a total of 3,162 drill holes. There are 2,055 reverse circulation drill holes. The rest are diamond drill holes, and some hammer drilling. A total of 515,297.74 meters have been drilled.

Currently, Mexicana de Cobre, is drilling a new exploration program, the budget is 25,000 meters. The target is to get up to 900 levels in order to reduce the drilling space and to define the copper and molybdenum mineralization continuity and also carry out metallurgical testing as for flotation and leaching processes.

Concentrator

Mexcobre uses state-of-the-art computer monitoring systems at the concentrator, the crushing plant and the flotation circuit in order to coordinate inflows and optimize operations. The concentrator has a current capacity of 90,000 tons of ore per day.

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

La Caridad concentrator plant has a milling capacity of 90,000 tons per day and consists of 2 primary crushers, 6 secondary crushers, 12 tertiary crushers, 12 ball mills, a master milling control system, 168 primary flotation cells, 4 re-grinding mills, 60 cleaning flotation cells, 6 thickeners and 6 drum filters.

In 2004, we improved our concentrator with the acquisition of an allied primary crusher. In addition, in 2003 we improved our La Francisca leach dam with a pumping and instrumentation system.

SX/EW Plant

Approximately 463.6 million tons of leaching ore with an average grade of approximately 0.25% copper have been extracted from the La Caridad open-pit mine and deposited in leaching dumps from May 1995 to December 31, 2005. All copper ore with a grade lower than the mill cut-off grade 0.30%, but higher than 0.15% copper, is delivered to the leaching dumps. In 1995, we completed the construction of a new SX/EW facility at La Caridad that has allowed processing of this ore and certain leach ore reserves that are not mined and has resulted in a reduction in our production costs of copper. The SX/EW facility has a total capacity of 21,900 tons of copper cathodes per year.

La Caridad Solvent Extraction and Electrowinning (SX-EW) Plant has 9 irrigation systems for the dumps and 2 dams of pregnant copper solution (PLS), a container of heads that permits the combination of the solutions of both dams and feeds the Solvent Extraction plant with a more homogenous concentration. The plant has 3 trains of solvent extraction with a nominal capacity of 2,070 m3/hr and 94 electrowinning cells distributed in one single electrolytic bay. The plant has a daily production capacity of 62 copper cathodes tons with 99.999% purity.

Processing Facilities La Caridad

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

Smelter

Copper concentrates are carried to the La Caridad smelter where they are processed and cast into copper anodes of 99.2% purity to be sold to refineries. Sulfur dioxide off-gases collected from the flash furnaces and converters are processed into sulfuric acid at two sulfuric acid plants and sold to third parties.

Almost all of the anodes produced in the smelter are sent to the La Caridad copper refinery in order to increase the copper purity. The actual installed capacity of the smelter is 1,000,000 tons per year, capacity that is sufficient to receive the concentrates of the Mexicana de Cobre (La Caridad) and Mexicana de Cananea Mining complex. The smelter includes a flash type concentrates drier, a steam drier, a flash furnace, 1 El Teniente modified converted furnace, 2 electric furnaces for the cleaning of slag, 3 Peirce Smith converters, 3 raffinate furnaces and 2 casting wheels. The amount of smelted copper concentrates was 894,735, 820,459 and 629,505 tons for 2005, 2004 and 2003, respectively. The anode production capacity is 300,000 tons per year and the production for 2005, 2004 and 2003 was 282,412, 250,890 and 199,033 tons, respectively.

Sulfuric acid production was 833,380, 778,350 and 603,300 tons for 2005, 2004 and 2003, respectively.

The table below sets forth 2005, 2004 and 2003 production information for the La Caridad processing facilities:

		2005	2004	2003
Total Copper concentrate smelted	(kt)	894.7	820.5	629.5
Anode copper production	(kt)	282.4	250.9	199.0
Average copper content in anode	(%)	99.25	99.21	99.17
Average smelter recovery	(%)	97.40	97.41	98.70
Sales data:				
Copper concentrate	(kt)	22.7		
Average realized price copper concentrates	($ per pound)	1.73		
Anode Copper	(kt)			
Average realized price anode copper	($ per pound)			
Average realized price copper rod	($ per pound)	1.75	1.35	0.88
Average premium copper rod	($ per pound)	0.07	0.06	0.07
Average realized price gold	($ per ounce)	442.92	408.35	360.46
Average realized price silver	($ per ounce)	7.40	6.65	4.84
Average realized price sulfuric acid	($ per ton)	35.52	18.33	13.73

Refinery

Mexcobre includes an electrolytic copper refinery at La Caridad that uses permanent cathode technology. The actual installed capacity of the refinery is 300,000 tons per year. The refinery consists of an anode plant with a preparation area, an electrolytic plant with an electrolytic cell house with 1,115 cells and 32 releaser cells, 2 cathode stripping machines, an anode washing machine, a slime treatment plant and a number of ancillary installations. The refinery is producing grade A copper cathode of 99.99% purity. Anodic slimes are recovered from the refining process and sent to the slimes treatment plant where additional copper is extracted. The slimes are then filtered, packed and shipped to the La Caridad precious metals refinery to produce silver and gold. The refined cathode production for 2005, 2004 and 2003 was 233,685, 202,146 and 163,967 tons, respectively.

The operations of the precious metal refinery are divided into two stages: (i) the antimony is eliminated from the slime; and (ii) the slime is dried in a steam dryer. After this the dried slime is smelted and a gold and silver alloy is obtained, which is known as dore. The precious metal refinery plant has a Hydrometallurgic Stage and a Pyrometallurgic Stage, besides a Steam Drier, Dore Molding System Kaldo Furnace, 20 Electrolytic Cells in the silver refinery, 1 Induction Furnace for Silver, 1 Silver Ingot Molding System, 2 Reactors for obtaining fine Gold. The process ends with the refining of the gold and silver alloy. The production of gold for 2005, 2004 and 2003 was 817, 575 and 594 kilograms**,** respectively. The production of

silver for 2005, 2004 and 2003 was 142,534, 90,914 and 136,117 kilograms, respectively.

Copper Rod Plant

A rod plant at the Mexcobre complex was completed in April 1998 and reached its maximum annual operating capacity of 150,000 tons in May 1999. The plant is producing 8 millimeter copper rods with a purity of 99.99%. The rod plant includes a vertical furnace, 1 retention furnace, 1 molding machine, 1 laminating machine, 1 coiling machine and 1 coil compacter. Copper rod production for 2005, 2004 and 2003 was 113,167, 69,529 and 53,822 tons, respectively.

Other facilities include the lime plant with a capacity of 132,000 tons per year and located near the Agua Prieta city in the State of Sonora; 2 sulfuric acid plants, one with an annual capacity of 2,625 tons and the second with an annual capacity of 2,135 tons; 3 oxygen plants, two with a production capacity of 200,000 tons per year and the third, with a capacity of 100,000 tons per year; and 2 power turbogenerators that use the kiln residual heat from the furnace, the first with a 11.5 Mw capacity and the second with a 25 Mw capacity.

MEXICAN IMMSA UNIT

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

The table below sets forth 2005, 2004 and 2003 production information for our Mexican IMMSA unit:

		2005	2004	2003
Average annual operating days(*)		311	311	311
Total material mined and milled	(kt)	4,618	4,389	4,279
Zinc concentrate	(kt)	264.3	244.1	236.4
Zinc average ore grade	(%)	3.58	3.46	3.57
Zinc average grade in concentrates	(%)	54.33	54.79	54.46
Zinc average recovery	(%)	86.80	88.01	84.34
Lead concentrate	(kt)	38.5	37.5	40.2
Lead average ore grade	(%)	0.58	0.61	0.68
Lead average grade in concentrates	(%)	50.71	50.19	51.94
Lead average recovery	(%)	72.70	70.77	71.76
Copper concentrate	(kt)	56.4	68.3	84.2
Copper average ore grade	(%)	0.44	0.50	0.65
Copper average grade in concentrates	(%)	22.68	22.03	24.48
Copper average recovery	(%)	62.32	68.19	67.77

(*) Weighted average annual operating days based on total material mined and milled in the 5 mines: Charcas, San Martin, Taxco, Santa Barbara and Santa Eulalia

Charcas

The Charcas mining complex is located 111 kilometers north of the city of San Luis Potosi in the State of San Luis Potosi, Mexico. Charcas is connected to the state capital by a paved highway of 130 km. 14 km from the southeast of the Charcas complex is the Los Charcos railroad station which connects with the Mexico-Laredo railway. Also, there is a paved road which connects Charcas to the city of Matehuala through federal highway no. 57 which begins at the northeast of the Charcas town site. The complex includes three underground mines and one flotation plant and produces zinc, lead and copper concentrates, with significant amounts of silver. The Charcas mining district was discovered in 1573

and operations in the 20th century began in 1911. The Charcas mine is characterized by low operating costs and good quality ores and is situated near the zinc refinery. We have expanded production capacity of the mine by 32% since 1993, and the Charcas mine is now Mexico s largest producer of zinc.

The Charcas complex s equipment include 9 Jumbo drilling tools, 16 scoop trams for mucking and loading, 5 trucks and 4 locomotives for internal ore haulage and 3 hoists. For treating the ore, there are 2 primary crushers, one secondary crusher, one tertiary crusher, 4 mills and 3 flotation circuits.

Geology

The Charcas mining district occupies the east-central part of the Mexica Central Mesa and is part of the Sierra Madre Metallogenic Province. Geological history starts in the Superior Triasic, where sandy clay sediments were deposited argilloarenaceous. Due to emersion, in the beginning of the Jurassic Superior, the sediments suffered intense erosion, settling on continental sediments. This sequence was affected by tectonic effort which folded and failed on this rock package. Later the positioning of intrusive rocks originated fractures which gave way to positioning of mineral deposits. The site s paragenesis suggests two stages of mineralization. First minerals are rich in silver, lead and zinc, with abundant calcite and small quantities of quartz chalcopyrite. Second, there is a link of copper and silver, where the characteristic minerals are chalcopyrite, lead ore with silver content, pyrite and scarce sphalerite. Economic ore is found as replacement sulfurs in carbonates host rock. The ore mineralogy comprises predominantly calcopyrite (CuFeS2), sphalerite (ZnS), galena (PbS) and silver minerals as diaphorite (Pb2Ag3Sb3S8).

Mine exploration

In Charcas, 17,702 meters of diamond drilling were executed from underground stations. With this drilling, one million tons of measured resources were added to the reserve base in 2005.

The table below sets forth 2005, 2004 and 2003 production information for our Chancas mine:

		2005	2004	2003
Annual operating days	(days)	324	326	326
Total material mined and milled	(kt)	1,328	1,317	1,213
Zinc concentrate	(kt)	123.6	123.8	116.6
Zinc average ore grade	(%)	5.68	5.76	5.85
Zinc average grade in concentrates	(%)	57.11	57.34	57.42
Zinc average recovery	(%)	93.59	93.56	94.32
Lead concentrate	(kt)	6.0	7.1	7.4
Lead average ore grade	(%)	0.29	0.33	0.38
Lead average grade in concentrates	(%)	36.75	38.44	41.79
Lead average recovery	(%)	56.14	63.51	66.89
Copper concentrate	(kt)	2.9	2.5	2.6
Copper average ore grade	(%)	0.20	0.20	0.23
Copper average grade in concentrates	(%)	27.62	25.50	26.57

Copper average recovery	(%)	30.36	24.17	25.00

The Charcas mine uses the hydraulic cut-and-fill method and the room-and-pillar mining method with descending benches. The broken ore is hauled to the underground crusher station. The crushed ore is then hoisted to the surface for processing in the flotation plant to produce lead, zinc and copper concentrates. The capacity of the flotation plant is 4,000 tons of ore per day; 1,327,990, 1,317,288 and 1,212,938 tons of ore were mined at Charcas during 2005, 2004 and 2003, respectively. The lead concentrate produced at Charcas is treated at a third party refinery in Mexico. The zinc and copper concentrates are treated at our San Luis Potosi zinc refinery and copper smelter.

Santa Barbara

The Santa Barbara mining complex is located approximately 26 kilometers southwest of the city of Hidalgo del Parral in southern Chihuahua, Mexico. The area can be reached via paved road from Hidalgo del Parral, a city on federal highway 45, which provides all essential services. Chihuahua, the state capital is located 250 km north of the Santa Barbara complex. Additionally, El Paso on the Texas border is located 600 km north of Santa Barbara. Santa Barbara includes three main underground mines and a flotation plant and produces lead, copper and zinc concentrates, with significant amounts of silver. Gold-bearing veins were discovered in the Santa Barbara district as early as 1536. Mining activities in the 20th century began in 1913.

The mining operations at Santa Barbara are more diverse and complex than at any of the other mines in our Mexican operations, with veins that aggregate approximately 21 kilometers in length. Each of the three underground mines has several shafts and crushers. Due to the variable characteristics of the ore bodies, four types of mining methods are used: shrinkage stoping, long-hole drilled open stoping, cut-and-fill stoping and horizontal bench stoping. The ore, once crushed, is processed in the flotation plant to produce concentrates. The flotation plant has a capacity of 6,000 tons of ore per day; 1,486,622, 1,453,793 and 1,450,124 tons of ore were mined at the Santa Barbara mine during 2005, 2004 and 2003, respectively. The lead concentrate produced is treated at a third party refinery in Mexico. The copper concentrates are treated at our San Luis Potosi copper smelter, and the zinc concentrates are either treated at the San Luis Potosi zinc refinery or exported.

The major mine equipment at Santa Barbara include 12 Jumbo drilling tools, 2 Simba drilling tools, 33 scoop trams, 9 trucks and 6 locomotives for internal ore haulage, 5 trucks for external haulage and 6 hoists. For treating the ore, there are 4 primary jaw crushers, one secondary crusher and 2 tertiary crushers, 3 mills and 3 flotation circuits. The concentrator plant has a milling capacity of 6,000 tons of ore per day.

Geology

The majority of production from the district comes from quartz veins within faults and fractures. The north to northwestern trending veins is up to several kilometers long, dips steeply to the west and is 0.5 to 30 meters wide. Ore shoots up to several hundred meters in length, extends to at least 900 meters below the surface and is separated from other ore by 0.5 to 1 meter of barren quartz vein. Metal zoning occurs in some veins, with zinc and lead content generally decreasing with depth and copper increasing with depth. Three main systems of veins exist inside the district, represented by the veins Coyote, Segovedad Novedad and Coyote Seca Palmar. In addition to the main veins, there are many smaller sub-parallel to branching ore bearing veins. Economic ore minerals include sphalerite (ZnS), marmatite (ZnFeS), galena (PbS), chalcopyrite (CuFeS2) and tetrahedrite (CuFe)12Sb4S13. Gangue minerals include quartz (SiO2), pyrite (FeS2), magnetite (Fe2O4), pyrrhotite (Fe2+S), arsenopyrite (FeAsS) and fluorite (CF2) ..

The Santa Barbara district has mineralization to indicate that it will continue to be a significant producer of lead, copper and zinc for decades. The full potential of the district has not yet been defined, but the area seems to justify an increase of the exploration to support a new increase in the production.

Mine Exploration

In Santa Barbara, 12,140 meters were drilled from underground stations in 2005. The measured resource developed was 724,576 tons.

The table below sets forth 2005, 2004 and 2003 production information for our Santa Barbara mines:

		2005	2004	2003
Annual operating days	(days)	328	328	327
Total material mined and milled	(kt)	1,487	1,454	1,450
Zinc concentrate	(kt)	54.2	58.3	57.9
Zinc average ore grade	(%)	2.28	2.43	2.49
Zinc average grade in concentrates	(%)	53.99	53.29	53.20
Zinc average recovery	(%)	86.33	88.02	85.31
Lead concentrate	(kt)	20.5	24.1	24.1
Lead average ore grade	(%)	0.92	1.09	1.21
Lead average grade in concentrates	(%)	55.43	53.06	55.51
Lead average recovery	(%)	83.24	80.82	82.07
Copper concentrate	(kt)	14.3	11.3	14.2
Copper average ore grade	(%)	0.50	0.45	0.53
Copper average grade in concentrates	(%)	29.39	27.70	28.34
Copper average recovery	(%)	56.45	48.00	52.51

San Martin

The San Martin mining complex is located in the municipality of Sombrerete in the western part of the state of Zacatecas, Mexico, approximately 101 kilometers southeast of the city of Durango and 9 km east of the Durango State boundary. Access to the property is via federal highway no. 45 between the cities of Durango and Zacatecas. A paved six kilometer road connects the mine and town of San Martin with the highway. The city of Sombrerete is about 16 kilometers east of the property. The complex includes an underground mine and a flotation plant and produces lead, copper and zinc concentrates, with significant amounts of silver. The mining district in which the San Martin mine is located was discovered in 1555. Mining operations in the 20th century began in 1949. San Martin lies in the Mesa Central between the Sierra Madre Occidental and the Sierra Madre Oriental.

The horizontal cut-and-fill mining method is used at the San Martin mine. The broken ore is hauled to the underground crusher station. The ore is then brought to the surface and fed to the flotation plant to produce concentrates. The flotation plant has a total capacity of 4,400 tons of ore per day; 1,231,476, 1,259,220 and 1,287,239 tons of ore were mined at San Martin in 2005, 2004 and 2003, respectively. The lead concentrate is treated at a third party refinery in Mexico. The copper concentrate is treated at our San Luis Potosi copper smelter and zinc concentrate is either treated at the San Luis Potosi zinc refinery or exported.

Geology

San Martin lies in the Central Mesa between two major geologic provinces, Sierra Madre Occidental and Sierra Madre Oriental. The main sedimentary rock-formation in the San Martin district is the Upper Cretaceous Age Cuesta del Cura limestone. The formation is an interlayered sequence of shallow marine limestone and black chert, and it is overlain by Indura formation which outcrops at the foot of the topographic heights of the Cuesta del Cura formation. It consists mainly of alternating shales and fine-grained clayed limestones in 10 to 30 centimeter thick layers.

The district s most important mineral deposits are replacement veins and bodies generated in the skarn by Cerro de la Gloria granodiorite intrusion. An extensive zone of skarn west of the intrusive, hosts the San Marcial, Ibarra and Gallo-Gallina main ore veins, which appear at the surface for distances of up to 1,000 meters, with thicknesses of 40 centimeters to 4 meters, paralleling the intrusive contact. In the central part of the deposit there is a horizontal zoning with respect to the contact of the intrusive with high values of silver and copper. In the top of the deposit there is mostly lead and zinc. In the northeast/east over concentric structures to the intrusive there is an increment of lead, zinc and silver in the

skarn. Economic ore is found as replacement ore bodies between the main veins as massive and disseminated sulphides with widths from 8m up 200m. These bodies consist mostly of chalcopyrite (Cu Fe S2), sphalerite (Zn S), galena (Pb S), bornite (Cu5 Fe S4), tetrahedrite (CuFe)12Sb4S13, native silver (Ag),

pyrrotite (FeS), arsenopirite (Fe As S), stibnite (Sb2 S3). The molybdenum and tungsten are found in little portions in the skarn near the contact associated with the calcite.

Mine Exploration

A total of 9,782 meters of diamond drilling were executed in San Martin, 7,137 meters from underground and 2,645 meters from surface. A total measured resource of 778,594 tons has been developed.

The table below sets forth 2005, 2004 and 2003 production information for our San Martin mines:

		2005	2004	2003
Annual operating days	(days)	301	304	301
Total material mined and milled	(kt)	1,231	1,259	1,287
Zinc concentrate	(kt)	36.7	40.5	44.3
Zinc average ore grade	(%)	2.03	2.21	2.65
Zinc average grade in concentrates	(%)	51.12	52.19	49.91
Zinc average recovery	(%)	75.25	75.96	64.89
Lead concentrate	(kt)	2.4		
Lead average ore grade	(%)	0.20		
Lead average grade in concentrates	(%)	31.60		
Lead average recovery	(%)	29.16		
Copper concentrate	(kt)	39.2	54.5	67.4
Copper average ore grade	(%)	0.80	1.01	1.34
Copper average grade in concentrates	(%)	19.87	20.70	21.09
Copper average recovery	(%)	79.05	88.74	82.22

Santa Eulalia

The mining district of Santa Eulalia is located in the central part of the state of Chihuahua, Mexico, approximately 26 kilometers east of the city of Chihuahua. This district covers approximately 48 square kilometers and is divided into three fields: east field, central field and west field. The west field and the east field, in which the principal mines of the complex are found, are separated by 6 kilometers. The Buena Tierra mine is located in the west field and the San Antonio mine is located in the east field. The mining district was discovered in 1590, although exploitation did not formally begin until 1870.

The district of Santa Eulalia is connected to the city of Chihuahua by a paved road (highway no. 45), at a distance of 10 km there is a paved detour to Aquiles Serdan and Francisco Portillo (also known as Santo Domingo) where the Company s offices and the Buena Tierra mine are located. Access to the Buena Tierra mine and San Antonio mine is through an 11 km unpaved road.

The Santa Eulalia mine suspended operations totally from October 2000 to December 2004, during which time rehabilitation work was completed at the Tiro San Antonio and pipes were installed to expand the pumping capacity to 10,500 gallons per minute. In January 2005,

operations began at the Santa Eulalia mine, with a production plan for 230,900 tons. The flotation plant, at which lead concentrate and zinc concentrate are produced, has a capacity of 1,500 tons or ore per day 209,658 tons of ore were mined at Santa Eulalia in 2005. The lead concentrate is treated at a third party refinery, and the zinc concentrate is treated at our San Luis Potosi zinc refinery. The production plan for 2006 is estimated to be 260,800 tons.

Major mine equipment at the Santa Eulalia mine include 3 Jumbo drilling tools, 9 scoop trams for mucking and loading, 3 trucks, 4 hoists, 2 primary crushers, 2 mill crushers, 1 mill and 2 flotation circuits. The concentrator plant has a milling capacity of 1,450 tons of ore per day.

Geology

Santa Eulalia is the largest of a number of similar districts that lie along the intersection of the Laramide-aged Mexican Thrust Belt and the Tertiary volcanic plateau of the Sierra Madre Occidental. Deposits throughout the belt occur in a thick Jurassic-Cretaceous carbonate succession that overlies Paleozoic or older crust.

The main sedimentary rock in the Santa Eulalia district is the Lower Cretaceous Limestone. These are irregularly covered by volcano sedimentary conglomerates that are overlaid by volcanic rocks of the Tertiary and alluvial material of the Quaternary Age.

In the Santa Eulalia mining district a thickness of 500 meters of sedimentary rocks is known to exist which consists of the following formations: 1) Formation Lagrima (limestone fossils); 2) Formation Glen Rose (limestone blue and at its base a black limestone appears); and 3) Formation Cuchillo (limestone with shale). Dikes and sills of riolite composition and sills of diabase also exist.

In the district there are several systems of fractures and faults associated with the emplacement of felsitic and maphic intrusives. The most important controller of the ore bodies are the fractures North-South.

The mineralization corresponds in its majority to ore skarns silicoaluminates of calcium, iron and manganese with variable quantities of lead, zinc, copper and iron sulphides, located in the planes of crossings in the interstices of the silicates.

Economic ore is found as replacement in the Limestone Glen Rose in the contact with dikes and sills and replacements in diabase sills. The mineralogy comprises predominantly: sphalerite (ZnS), galena (PbS) and small quantities of pyrargyrite (Ag3 Sb S3).

Mine Exploration

2,918 meters were drilled from underground in 2005. The measured resource developed was 211,635 tons.

The table below sets forth 2005, 2004 and 2003 production information for our Santa Eulalia mine:

		2005	2004	2003
Annual operating days	(days)	329	16	
Total material mined and milled	(kt)	210	6	
Zinc concentrate	(kt)	24.8	0.7	
Zinc average ore grade	(%)	8.08	10.19	
Zinc average grade in concentrates	(%)	51.73	45.93	

Zinc average recovery	(%)	75.68	49.71
Lead concentrate	(kt)	4.6	0.2
Lead average ore grade	(%)	1.89	2.40
Lead average grade in concentrates	(%)	60.32	51.033
Lead average recovery	(%)	69.75	65.71

Taxco

The Taxco mining complex is located on the outskirts of the city of Taxco in the northern part of Guerrero State, Mexico, approximately 71 kilometers from the city of Cuernavaca Morelos where access through the highway to the complex is possible. The complex includes several underground mines and a flotation plant and produces lead and zinc concentrates, with some amounts of gold and silver. The mining district in which the Taxco mines are located was discovered in 1519. Mining activities in the 20th century commenced in 1918. The Taxco district lies in the northern part of the Balsas-Mexcala basin adjacent to the Paleozoic Taxco-Zitacuaro Massif.

IMMSA employs shrinkage, cut-and-fill and the room and pillar mining methods at the Taxco mines. The flotation plant has a capacity of 2,000 tons of ore per day; 362,550, 352,174 and 328,243 tons or ore were mined at Taxco in 2005, 2004 and 2003, respectively. The lead concentrate is treated at a third party refinery in Mexico. The zinc concentrates is either treated at the San Luis Potosi zinc refinery or exported.

The major mine equipment at the Taxco complex include 5 Jumbo drilling tools, 12 scoop trams for mucking and loading, 6 trucks and 4 locomotives for internal ore haulage and 3 hoists. For treating the ore, there are 2 primary crushers, 3 secondary crushers, 3 mills and 2 flotation circuits. The concentrator plant has a milling capacity of 2,000 tons of ore per day.

Geology

The Taxco district is stratigraphically formed of rocks from Jurassic to recent periods which are described below, with emphasis on the mineralization control characteristics. Taxco Schist is composed of a series of schists and fylites, most likely from a volcanic-sedimentary sequence of tufa and limonites. They represent a sequence of metamorphological arch and its age has been defined as Jurassic Medium. Morelos formation, from the Upper Cretaceous age (Apian-Turonian) lies on a discordant form over Taxco schist and its contact is several times marked by a clay zone (mylonites) and breccia, which implies a shifting of this unit over the schist (packs). Mezcala formation, is constituted by a sequence of shale and sandstone with some inter-stratified layers of limestone. Its base is calcarean which sometimes is mistaken with top of Morelos formation. Its top tends to be rich in clay with thin limestone layers. Balsas group, which is constituted by conglomerates and is sandy on its base, rests in discordance form on an erosioned surface from the Mexcala formation. The Tilzapotla Ryolite is the newest rock which emerged in the district before the alluvial deposit. It is formed of flux, breccia, tuffaceous, ignimbrites and vitrophyrre of ryolite composition.

There are four types of ore deposits found in Taxco district. In order of importance they are as follows: fisure-filling veins, replacement veins, blanket-like replacement bodies (so called mantos),stock works and brecciate chimneys. The three first ones are intimately related and they were formed in the same era, although in different stages.

The veins reach up to 2 kilometers in length and variable potency of 30 centimeters to 8 meters, which is the case of copper veins at the mines of Guerrero, Hueyapa and Palo Amarillo at the San Antonio mine; the Remedios mine has among other veins, El Muerto and El Cristo 1 kilometer long and 5 meters in average potency.

Economic ore is found in the deposit in veins. Ore mineral include argentiferous galena (PbS), sphalerite (ZnS), pyrargyrite (Ag3 Sb S3), and other sulphosalts, and replacement mantos . The most mineralized zones are in the vicinity of the veins with the limestone. The mineralization is more intensive in the base of the limestone and consists of sphalerite(ZnS), galena (PbS), pyrite (FeS) and magnetite (FeOFe2O3).

Mine Exploration

The underground drilling in this property was 7,357 meters. From surface, 4,194 meters were drilled. The measured resource developed with this drilling was 643,267 tons.

The table below sets forth 2005, 2004 and 2003 production information for our Taxco mine:

		2005	2004	2003
Annual operating days	(days)	215	217	222
Total material mined and milled	(kt)	363	352	328
Zinc concentrate	(kt)	25.0	20.7	17.7
Zinc average ore grade	(%)	3.92	3.49	3.51
Zinc average grade in concentrates	(%)	48.66	49.23	50.51
Zinc average recovery	(%)	85.51	82.97	77.39
Lead concentrate	(kt)	5.1	6.1	6.8
Lead average ore grade	(%)	0.80	1.07	1.28
Lead average grade in concentrates	(%)	48.24	52.55	49.25
Lead average recovery	(%)	85.03	84.51	79.71

Processing Facilities - San Luis Potosi

Our San Luis Potosi electrolytic zinc refinery is located in the city of San Luis Potosi, in the state of San Luis Potosi, Mexico. Our San Luis Potosi copper smelter is adjacent to the San Luis Potosi zinc refinery.

Smelter

The San Luis Potosi copper smelter has been in operation since 1925 and has gone through several phases of modernization, principally over the last ten years. The smelter presently has the capacity to process 230,000 tons of copper concentrate per year.

The plant operates one blast furnace (with a second on stand-by) that smelts incoming materials, mainly copper concentrates and copper byproducts from lead plants, to produce a copper matte. The copper matte is then treated in one of the two Pierce Smith converters, producing copper blister (97.4% copper), which in 2005 contained approximately one ounce of gold and 400 ounces of silver per ton of copper blister produced. Of a total copper concentrate intake of 50,243 tons in 2005, approximately 90% was supplied by the Immsa Unit s mines and the remaining amount was smelted under toll arrangements with third parties. Copper blister production in 2005, 2004 and 2003 amounted to 21,318, 22,666, and 23,548 tons, respectively. Blister production is sold to third parties. Approximately 50% of blister production was sold to customers in the United States in 2005, 21% was sold to customers in Germany, 10% to customers in Mexico and the remaining to customers in other countries.

The San Luis Potosi copper smelter s equipment include 2 yard locomotives, 2 Traxcavos, 20 dump cars and 6 mechanic front loaders for the furnace charge mixing. Smelting and conversion equipment include 3 blast furnaces, 2 Pierce Smith converter furnaces, 2 molding furnaces, 6 electric front loaders, 6 towing units, 3 narrow way locomotives, 2 bridge cranes, two 7-ton cranes and 3 hoists. Venting System equipment include 9 fans with different capacities and 2 filtering bag houses. This plant has a smelting capacity of 24,000 tons of blister copper per year.

As the materials treated at the smelter contain various impurities (especially lead and arsenic), the facility has been equipped with an arsenic recovery plant for treatment of the flue dust produced in the blast furnace section. This material contains approximately 35% lead and 18% arsenic which, when treated, produces approximately 1,800 tons per year of high purity arsenic trioxide which is, in turn, sold in the United States principally to the wood preserving industry. Approximately 15,000 tons per year of lead bearing calcines (approximately 32% lead) are sold annually to Industrias Peñoles, S.A. de C.V. (Peñoles).

The table below sets forth 2005, 2004 and 2003 production information for our San Luis Potosi copper smelter:

		2005	2004	2003
Total copper concentrate smelted	(kt)	50.2	59.2	62.0
Blister copper production	(kt)	21.3	22.7	23.5
Copper average grade in blister	(%)	98.17	97.40	96.74
Average smelter recovery	(%)	96.89	98.19	95.20
Average realized price copper blister	($ per pound)	1.83	0.80	0.80

Zinc Refinery

The San Luis Potosi electrolytic zinc refinery was built in 1982. It was designed to produce 105,000 tons of refined zinc per year by treating up to 200,000 tons of zinc concentrate from our own mines, principally Charcas, located only 113 kilometers from the

refinery. Refined zinc production in 2005, 2004 and 2003 amounted to 101,523, 102,556 and 101,069 tons, respectively. The refinery produces special high grade zinc (99.995% zinc), high grade zinc (over 99.9% zinc) and zinc-based alloys with aluminum, lead, copper or magnesium in varying quantities and sizes depending on market demand. In 2005, the plant produced as byproducts 176,295 tons of sulfuric acid, 706 tons of refined cadmium, 14,566 kilograms of silver and 4 kilograms of gold.

The electrolytic zinc refinery s major equipment include a roaster with a capacity of 85 m2 of roasting area, a steam recovery boiler and an acid plant. There is a calcinea processing area with 5 leaching stages: neutral, hot acid, intermediate acid, acid, purified fourth and jarosite, as well as two stages for solution purifying. Additionally, the equipment include a cell house with two electrowinning circuits to finally obtain metallic zinc; an alloy and molding area with 2 induction furnaces and four molding systems, two of them with chains to produce 25 kilograms ingots; and two casting wheels to manufacture one ton Jumbo pieces. This refinery has a production capacity of 104,000 tons of refined zinc per year.

The table below sets forth 2005, 2004 and 2003 production information for our San Luis Potosi zinc refinery:

		2005	2004	2003
Total zinc concentrate treated	(kt)	166.8	164.2	169.7
Zinc production	(kt)	101.5	102.6	101.1
Average refinery recovery	(%)	94.57	94.90	94.72
Average realized price refined zinc	($ per pound)	0.64	0.42	0.40
Average realized price zinc concentrate	($ per pound)	0.64	0.48	0.40
Average realized price silver	($ per ounce)	7.19	6.67	4.84

Nueva Rosita Coal and Coke Complex

The Nueva Rosita coal and coke complex, which began operations in 1924, is located in the state of Coahuila, Mexico on the outskirts of the city of Nueva Rosita near the Texas border. It comprises an underground coal mine, with a present yearly capacity of approximately 280,000 tons of coal, and a 21-coke oven facility capable of producing 104,000 tons of metallurgical coke per year. At present the 21 ovens are being re-engineered and modernized, with an investment of $12 million, to service the operations of the facility for the next 25 years.

The room-and-pillar mining method is employed at the underground Nueva Rosita coal mine with continuous miners. At present, the coke oven installation supplies the San Luis Potosi copper smelter with low-cost coke, resulting in significant cost savings to the smelter. The surplus production (approximately 21,608 tons per year) is sold to Peñoles and other Mexican consumers in northern Mexico. The complex includes a coal washing plant completed in 1998 that has a capacity of 900,000 tons per year and produces cleaner coal of a higher quality. The 2005, 2004 and 2003 production of clean coal was 257,016, 238,336 and 260,966 tons, respectively.

Exploration:

At Nueva Rosita, 8,771 meters of diamond drilling and 2,943 meters of reverse circulation were drilled. The diamond drilling was done in the Guayacan, Santo Tomas and Esperanza areas located within a 30 km radius of our present mine. The results at Esperanza and Guayacán are encouraging, but the results at Santo Tomas were negative. The drilling will continue at all three properties in 2006.

The table below sets forth 2005, 2004 and 2003 production information for our Nueva Rosita coal and coke complex:

		2005	2004	2003
Underground mine	(kt)	257.0	238.3	261.0
Open pit	(kt)	407.1	129.3	142.8
Coal mined	(kt)	664.1	367.6	403.8
Average BTU content	BTU/Lb	10,017.2	9,883.8	9,872.3
Average percent sulfur	%	1.02	0.95	0.97
Clean coal produced	(kt)	181.0	116.6	112.6
Coke tonnage produced	(kt)	44.4	46.2	76.6
Average realized price coal	($ per ton)	24.41	25.27	23.41
Average realized price arsenic clean coal	($ per ton)	62.83	56.46	29.74
Average realized price coke	($ per ton)	197.99	189.98	112.85

In the Pasta de Conchos mining complex within the mine there are 5 continuous mining equipment, 6 transporting cars, 2 locomotives, 1 long wall equipment and a cutting machine. There is also a hoist to transport materials inside the unit; a breaker in the surface to feed the washing plant; and a set of 21 coke ovens with a capacity of 100,000 coke tons per year. There is a by-product plant to clean the coke gas in which tar, ammonium sulfate and light crude oil are recovered. There are also two boilers to produce 80,000 steam pounds that are used in the by-products plant.

EXPANSION AND MODERNIZATION PROGRAM

For a description of our Expansion and Modernization Program see Management s Discussion and Analysis of Financial Condition and Results of Operations-Expansion and Modernization Program .

EXPLORATION ACTIVITIES

We are engaged in ongoing extensive exploration to locate additional ore bodies in Peru, Mexico and Chile. We spent $24.4 million on exploration programs in 2005, $15.6 million in 2004 and $17.9 million in 2003, and have budgeted $33.4 million for 2006.

Currently in Peru, we have direct control of 99,537 hectares of mineral rights. In Mexico, we hold 295,367 hectares of exploration concessions. We also hold 38,200 hectares of exploration concessions in Chile.

Peru

Los Chancas. The Los Chancas project, located in the department of Apurimac in southern Peru, is a copper and molybdenum porphyry deposit. In 2004 we completed the final phase of the diamond drilling program the second and final phase of metallurgical testing. At the end of 2005 several companies have been invited to present proposals for the execution of the pre-feasibility studies that will begin in 2006. Once completed, we will be able to make a determination if more exploration is needed or if the project contains commercially mineable reserves, which would warrant future development after comprehensive economic, technical and legal feasibility studies are completed.

Testing to date indicates a mineral deposit of 200 million tons with a copper grade of 1.0%, 0.07% molybdenum and 0.12 grams of gold per ton.

Tantahuatay. The Tantahuatay project is located in the department of Cajamarca in northern Peru. We have performed exploration work in the upper part of the deposit principally for gold recovery. Work to date indicates mineralization of 27.1 million tons, with an average gold content of 0.89 grams per ton and 13.0 grams of silver per ton. This project, in which we have a 44.25% share, continues in the exploratory stage. During 2004 and 2005 we concentrated our efforts on dealing with social and environmental concerns of communities near the project.

Tia Maria. The Tia Maria project, located in the department of Arequipa in southern Peru, is a copper porphyritic system. In 2005 a total of 29,000 meters of diamond drilling was

completed out of the 15,000 meters projected. The drilling is continuing into 2006 to complete the program. This project is in the exploratory stage.

Other Peruvian Prospects. As part of our 2005 exploration and development program, we drilled at the Gloria Cristina prospect located in northern Peru, in the department of La Libertad, and at the El Fiscal prospect in southern Peru, in the department of Arequipa. The El Fiscal prospect shows evidence of copper-gold mineralization and we are scheduling additional drilling as part of 2006 exploration and development program. Both prospects show evidence of copper-gold mineralization.

Mexico

In addition to exploratory drilling programs at existing mines, we are currently conducting exploration to locate mineral deposits at various other sites in Mexico. In particular, we have identified significant copper and gold deposits at El Arco site.

El Arco. The El Arco site is located in the state of Baja California in Mexico. Preliminary investigations of the El Arco site indicate a mineral deposit of 846 million tons of sulfide with average copper grades of 0.51% and 0.14 grams of gold per ton, and 170 million tons of leach materials with average copper grades of 0.56%. Currently we are in the process of identifying water sources for a leaching operation.

Angangueo. The Angangueo site is located in the state of Michoacán in Mexico. A mineral deposit of 13 million tons has been identified with diamond drilling. The mineral deposit contains 0.16 grams of gold and 262 grams of silver per ton, and is comprised of 0.79% lead, 0.97% copper and 3.5% zinc. During 2005, we received the approval for our environmental impact study and we are in the process of obtaining land use approval.

Buenavista. The Buenavista project site is located in the state of Sonora in Mexico, adjacent to the Cananea ore body. Drilling and metallurgical studies have shown that the site contains a mineral deposit of 36 million tons containing 29 grams of silver, 0.69% of copper and 3.3% of zinc per ton.

Chile

In 2003 we acquired several exploration properties in Chile with over 35,000 hectares of mining rights. In 2004 we started exploration work on certain of these Chilean properties with diamond drilling on El Salado prospects.

El Salado. The El Salado prospect, located in the Atacama Region, stretches over 2,700 hectares and is also being explored for copper-gold. Through 2005, 11,079 meters of diamond drilling was completed. We are currently doing a geological evaluation of Sierra Aspera, a copper-gold prospect, located in the north of Chile.

Other Chilean Prospects. Other prospects like Catanave and Esperanza, located in the Tarapaca and Atacama regions, respectively, in northern Chile, are scheduled for future exploration.

PRINCIPAL PRODUCTS AND MARKETS

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

Our marketing strategy and annual sales planning emphasize developing and maintaining long-term customer relationships, and thus acquiring annual or other long-term contracts for the sale of our products is a high priority. Approximately 90% of our metal production for the year 2005, 2004 and 2003, was sold under annual or longer-term contracts. Sales prices are determined based on prevailing commodity prices for the quotation period, generally being the month of, the month prior to or the months following the actual or contractual month of shipment or delivery, according to the terms of the contract.

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

For additional information on sales by segment, see Management s Discussion and Analysis of Financial Condition and Results of Operations Segment Sales Information .

METALS PRICES

Prices for our products are principally a function of supply and demand and, except for molybdenum, are established on the Commodities Exchange, or COMEX, in New York and the London Metal Exchange or LME the two most important metal exchanges in the world. Prices for our molybdenum products are established by reference to the publication Platt s Metals Week. Our contract prices also reflect any negotiated premiums and the costs of freight and other factors. From time to time, we have entered into hedging transactions to provide partial protection against future decreases in the market price of metals and we may do so under certain market conditions. In 2003 and 2004, however, we did not enter into any material hedging transactions. We have, however, entered into copper swap contracts in 2005. At December 31, 2005 we do not have any copper swap contracts. See Management s Discussion and Analysis of Financial Condition and Results of Operations Quantitative and Qualitative Disclosure about Market Risk . For a further discussion of prices for our products, please see Management s Discussion and Analysis of Financial Condition and Result of Operations Metal Prices .

COMPETITIVE CONDITIONS

Competition in the copper market is principally on a price and service basis, with price being the most important consideration when supplies of copper are ample. The Company s products compete with other materials, including aluminum and plastics.

EMPLOYEES

As of December 31, 2005, we employed 12,877 persons, approximately 71% of whom are covered by labor agreements with ten different labor unions. During the last several years, we have experienced strikes or other labor disruptions that have had an adverse impact on our operations and operating results. We cannot assure you that in the future we will not experience strikes or other labor-related work stoppages that could have a material adverse effect on our financial condition and results of operations.

Peru

Approximately 59% of our Peruvian labor force was unionized at December 31, 2005, represented by nine separate unions. Collective bargaining agreements are in effect with each of these unions. These agreements are in force through 2007.

In Peru on August 31, 2004, unionized workers at our mining units in Toquepala and Cuajone stopped work and asked for additional wage increases based on high metals prices. The strike ended after twelve days. The union demands included salary increases, benefits and different application of certain aspects of their labor agreements and it also expressed

opposition to our acquisition of Minera México. The Peruvian labor ministry declared the strike illegal and the workers returned to work but asserted their right to return to strike. In early 2005, the workers removed the strike threat, indicating they would pursue their grievances through the labor ministry. There were no labor strikes in 2005 or 2003.

Employees of the Toquepala and Cuajone units reside in town sites, where we have built 2,513 houses and apartments and 1,186 houses and apartments respectively. In 1998, Company housing, at our Ilo unit, was sold to workers at nominal prices. We still hold 90 houses at Ilo for staff personnel. Housing, together with maintenance and utility services, is provided at minimal cost to most of our employees. Our town site and housing complexes include schools, medical facilities, churches, social clubs, shopping, banking and other services.

Mexico

Approximately 76% of our Mexican labor force at December 31, 2005 were members of the *Sindicato Nacional de Trabajadores Minera Metalúrgicos y Similares de la República Mexicana, A.C.* (the National Mine Workers Union, or the Union). Under Mexican law, the terms of employment for unionized workers is set forth in collective bargaining agreements. Mexican companies negotiate the salary provisions of collective bargaining agreements with the labor unions annually and negotiate other benefits every two years. We conduct negotiations separately at each mining complex and each processing plant.

On October 26, 2005, the workers at our La Caridad mining complex went on strike claiming that the Company still owed them profit sharing from 2003. The strike was declared illegal and the workers returned to work two days later after the Company agreed to pay each worker approximately $900.00. The total paid was $3.1 million.

On July 12, 2004, the workers of Mexicana de Cobre went on strike, asking for the review of certain contractual clauses; workers were satisfied with the review and returned to work 18 days later. On October 15, 2004, the workers of Mexicana de Cananea went on strike, followed by the Mexicana de Cobre workers. The strike lasted for 6 days at Mexicana de Cobre and 9 days at Mexicana de Cananea. The strike was resolved by the acquisition by Minera México of the 5% of the stock of Mexicana de Cananea and Mexicana de Cobre that was owned by the Union.

On January 20, 2003, approximately 1,117 members of the Union went on strike at the Cananea mine in the state of Sonora, alleging a violation of their collective bargaining agreement. This strike was resolved on February 5, 2003.

Employees of the Mexcobre and Cananea Units reside in town sites at La Caridad and Cananea, where we have built approximately 2,000 houses and apartments and 275 houses and apartments, respectively. Employees of the Immsa Unit principally reside on the grounds of the mining or processing complexes in which they work and where we have built approximately 900 houses and apartments. Housing, together with maintenance and utility services, is provided at minimal cost to most of our employees. Our town sites and housing complexes include educational and, in some units, medical facilities, churches, social clubs, shopping, banking and other services. At the Cananea Unit, health care is provided free of charge to employees and retired unionized employees and their families.

FUEL, ELECTRICITY AND WATER SUPPLIES

Aside from ore, the principal raw materials for our operations are fuels (including fuel oil to power boilers and generators, natural gas for metallurgical processes at our Mexican operations and diesel fuel for mining equipment), electricity and water. We believe that supplies of fuel, electricity and water are readily available. Although the prices of these raw materials may fluctuate, we have generally been able to offset all or a portion of our increased costs through cost and energy saving measures. However, during

the period from 2003 through 2005 we have experienced increases in energy prices that have surpassed levels we can effectively control through cost savings.

Peru

In Peru, electric power for our operating facilities is generated by two thermal electric plants owned and operated by Energía del Sur, S.A. (Enersur), a diesel and waste heat boilers plant located adjacent to the Ilo smelter and a coal plant located south of Ilo. Power generation capacity for Peruvian operations is currently 344 megawatts. In addition, we have 9 megawatts of power generation capacity from two small hydro-generating installations at Cuajone. Power is distributed over a 224-kilometer closed loop transmission circuit. We obtain fuel in Peru principally from the Exxon Mobil Corporation.

In 1997, we sold our Ilo power plant to Enersur and entered into a power purchase agreement. We and Enersur also entered into an agreement for the sharing of certain services between the power plant and our smelter at Ilo. These arrangements were amended in 2003, and we made a one-time contractual payment to Enersur of $4.0 million associated with the termination of the original power purchase agreement. We believe we can satisfy the need for increased electricity requirements for our Peru operations from other sources, including local power providers.

In Peru, we have water concessions for well fields at Huaitire, Vizcachas and Titijones and surface water rights from the Suches lake, which together are sufficient to supply the needs of our two operating mine sites at Toquepala and Cuajone. At Ilo, we have desalinization plants that produce water for industrial and domestic use that we believe are sufficient for our current and projected needs.

Mexico

In Mexico, fuel is purchased directly or indirectly from Petróleos Mexicanos, (PEMEX), the state oil monopoly. Electricity for our Mexican operations, which is used as the main energy source at each mining complex we operate, is either purchased from the *Comisión Federal de Electricidad* (the Federal Electricity Commission, or CFE), the state electrical power producer, or steam-generated at Mexcobre s smelter by recovering energy from the flash furnace through a waste heat boiler. Accordingly, a significant portion of our operating costs in Mexico are dependent upon the pricing policies of Pemex and CFE, which reflect government policy as well as international market prices for crude oil, natural gas and conditions in the refinery markets. Mexcobre s natural gas pipeline (between Douglas, Arizona and Nacozari, Sonora) that began operating in May 1999, permits us to import natural gas from the United States into Mexico at market prices and thereby reduce operational costs. A contract with PEMEX, provides us with the option of using a fixed price for a portion of our natural gas purchases.

In December we announced our plans for a 450 Megawatt power generation plant in Mexico to supply our own facilities. We anticipate that the project, which is currently out for bids, will be built and managed by an independent power company and our obligation will be the supply of coal from our reserves and an agreement to use the power output. We expect this plant will give us the ability to better control the cost of our energy requirements, which are a major element of our operating costs. The project is expected to be finished in 2008, is expected to create nearly 900 permanent jobs, 3,000 jobs during the construction stage and will exceed Mexican and international environmental standards.

In Mexico, water is a national property and industries not connected to a public services water supply must obtain a water concession from *Comisión Nacional del Agua* (the National Water Commission , or CNA). Water usage fees are established in the *Ley Federal Derechos,* which

distinguishes several availability zones with different fees per unit of volume according to each zone. All of our operations have one or several water concessions and, with the exception of Mexicana de Cobre, pump out the required water from

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

ENVIRONMENTAL MATTERS

For a discussion of environmental matters reference is made to the information contained under the caption Environmental matters in Note 13 Commitments and Contingencies of the Consolidated Combined Financial Statements.

MINING RIGHTS AND CONCESSIONS

Peru

We have 177,387 hectares in concessions from the Peruvian Government for our exploration, exploitation, extraction and/or production operations, distributed among our various sites as follows:

	Toquepala	Cuajone	Ilo	Other	Total
			(hectares)		
Plants	300	456	421		1,177
Operations	40,699	22,663	13,311		76,673
Exploration				99,537	99,537
Total	40,999	23,119	13,732	99,537	177,387

We believe that our Peruvian concessions are in full force and effect under applicable Peruvian laws and that we are in compliance with all material terms and requirements applicable to these concessions. The concessions have indefinite terms, subject to our payment of concession fees of up to $3.00 per hectare annually for the mining concessions and a fee based on nominal capacity for the processing concessions. Fees paid during 2005, 2004 and 2003 were approximately $0.8, $1.1 and $1.0 million, respectively. We have two types of mining concessions in Peru: metallic and non-metallic concessions. We also have water concessions for well fields at Huaitire, Titijones and Vizcachas and surface water rights from the Suches Lake, which together are sufficient to supply the needs of our Toquepala and Cuajone operating units.

In June 2004, the Peruvian Congress enacted legislation imposing a royalty charge to be paid by mining companies in favor of the regional governments and communities where mining resources are located. Under the new law, we are subject to a 1% to 3% tax, based on sales, applicable to the value of the concentrates produced in our Toquepala and Cuajone mines. We made provisions of $40.3 million and $17.6 million in 2005 and 2004 respectively, for this new tax which went into effect as of June 25, 2004. These provisions are included in cost of sales (exclusive of depreciation, amortization and depletion) on the Consolidated Combined Statement of Earnings.

In a ruling, the Peruvian Constitutional Tribunal stated that the royalty charge applies to all concessions held in the mining industry, implying that those entities with tax stability contracts are subject to this charge. In 1996, we entered into a tax stability contract with the Peruvian

government (a Guaranty and Promotional Measures for Investment Contract) relating to our own SX/EW production, which, among other things, fixes tax rates and other contributions relating to such production. We believe that the Constitutional Tribunal s interpretation relating to entities with tax stability contracts is incorrect and we intend to protest the imposition of the royalty charge on our SX/EW production, when and if assessed. Provision made by us for the royalty charge does not include approximately $5.9 million of additional potential liability relating to our SX/EW production from June 30, 2004 through December 31, 2005.

Mexico

In Mexico we have approximately 505,127 hectares in concessions from the Mexican Government for our exploration and exploitation activities as outlined in the table below.

	Underground Mines	La Caridad	Cananea	Projects	Total
			(hectares)		
Exploration	25,250	91,084	5,492	173,541	295,367
Exploitation	29,835	44,257	7,790	127,878	209,760
Total	55,085	135,341	13,282	301,419	505,127

We believe that our Mexican concessions are in full force and effect under applicable Mexican laws and that we are in compliance with all material terms and requirements applicable to these concessions. Under Mexican law, mineral resources belong to the Mexican nation and a concession from the Mexican federal government is required to explore (exploration concession) or mine mineral reserves (exploitation concession). Exploration concessions have a six-year term, at the end of which they have to be changed to exploitation concessions, which have a 50-year term that can be renewed for another 50 years. Exploration concessions have holding fees of up to $3 per hectare. Holding fees for exploitation concessions can be up to $15 per hectare. Fees paid during 2005, 2004, and 2003 were approximately $2.1 million, $1.8 million and $2.1 million, respectively. In addition, all of our operating units in Mexico have water concessions that are in full force and effect. We generally own the land to which our Mexican concessions relate, although ownership is not required in order to explore or mine a concession. We also own all of the processing facilities of our Mexican operations and the land on which they are constructed.

REPUBLIC OF PERU AND MEXICO

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

AVAILABLE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the U.S. Securities and Exchange Commission (SEC). You may read and copy any document we file at the SEC s Public Reference Room at 100 F Street, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for information on the Public Reference Room. The SEC maintains a web-site that contains annual, quarterly and current reports, proxy statements and other information that issuers (including Southern Copper Corporation) file electronically with the SEC. The SEC s web-site is www.sec.gov.

Our Internet address is www.southerncoppercorp.com. Commencing with the Form 8-K dated March 14, 2003, we have made available free of charge on this internet address our annual, quarterly and current reports, as soon as reasonably practical after we electronically file such material with, or furnish it to, the SEC. Our web page includes the Corporate Governance guidelines and the charters of its most important Board Committees. However, the information found on our website is not part of this or any other report.

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Item 1A. Risk Factors

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

Risks Relating to Our Business Generally

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

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

In 2005, an approximately 29% increase in copper prices on the LME, and the COMEX, and a 95% increase in molybdenum prices, contributed to an increase of approximately 33% in our total sales in 2005 as compared with 2004, this after an increase of approximately 96% in 2004. While the price of copper dropped to a 15-year low of $0.61 per pound in 2001, it has since increased by approximately 213.0% to $2.26 per pound as of February 28, 2006. The price of molybdenum has also recently increased significantly and is currently at historically high levels. The average annual price of molybdenum over the five-year period ended December 31, 2005 was $11.54 per pound, with a price per pound as of February 28, 2006 of $22.25 per pound. Over the past three years, as a result of this increase in molybdenum prices, molybdenum has become a significant contributor to our sales.

We cannot predict whether metals prices will rise or fall in the future. A decline in metals prices and, in particular, copper or molybdenum prices, could have an adverse impact on our results of operations and financial condition, and we might, in very adverse market conditions, consider curtailing or modifying certain of our mining and processing operations.

Changes in the level of demand for our products could adversely affect our product sales.

Our revenue is dependent on the level of industrial and consumer demand for the concentrates and refined and semi-refined metal products we sell. Changes in technology, industrial processes and consumer habits may affect the level of that demand to the extent that changes increase or decrease the need for our metal products. A change in demand could impact our results of operations and financial condition.

Our actual reserves may not conform to our current estimates of our ore deposits.

There is a degree of uncertainty attributable to the calculation of reserves. Until reserves are actually mined and processed, the quantity of ore and grades must be considered as estimates only. The proven and probable ore reserves data included in this report are estimates prepared by us based on evaluation methods generally used in the mining industry. Independent engineers have not verified these reserves estimates. We may be required in the future to revise our reserves estimates based on our actual production. We cannot assure you that our actual reserves conform to geological, metallurgical or other expectations or that the estimated volume and grade of ore will be recovered. Market prices, increased production costs, reduced recovery rates, short-term operating factors, royalty taxes and other factors may render proven and probable reserves uneconomic to exploit and may result in revisions of reserves data from time to time. Reserves data are not indicative of future results of operations. See Ore Reserves .

Our business requires capital expenditures which we may not be able to maintain.

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

The expected benefits of our recent acquisition of Minera México, including expected synergies, may not be realized.

On April 1, 2005, we completed our acquisition of Minera México from AMC, a subsidiary of Grupo México, our controlling stockholder. We are now in the process of integrating two companies that previously had been affiliated but operated independently. We acquired Minera México based on a number of factors, including trends we believe may favor consolidation in the copper mining industry, potential improvement in production and our relative cost position, geographic diversification of our operations and potential operating synergies. We also considered potential negative effects in evaluating the transaction, including lower than expected mineral production from Minera México, diversion of management s attention and the risk that potential operating synergies may not be realized. We cannot assure you that the benefits we expect from the acquisition will be achieved or that potential negative effects will not be realized and adversely affect us.

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

Our financing instruments and those of our Minera México subsidiary include financial and other restrictive covenants that, among other things, limit our and Minera Mexico s abilities to incur additional debt and sell assets. If either we or our Minera México subsidiary do not comply with these obligations, we could be in default under the applicable agreements which, if not addressed or waived, could require repayment of the indebtedness immediately. Our Minera México subsidiary is further limited by the terms of its outstanding notes, which also restrict the Company s applicable incurrence of debt and liens. In addition, future credit facilities may contain limitations on its incurrence of additional debt and liens and on its ability to dispose of assets. See Management s Discussion and of Financial Condition and Results of Operations Liquidity and Capital Resources Financing.

Applicable law restricts the payment of dividends from our Minera México subsidiary to us.

Minera México is a Mexican company and, as such, may pay dividends only out of net income that has been approved by the shareholders. Shareholders must also approve the actual dividend payment, after mandatory legal reserves have been created and losses for prior fiscal years have been satisfied. As a result, these legal constraints may limit the ability of our Minera México subsidiary to pay dividends to us, which in turn, may have an impact on our ability to service debt.

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

As shown by our recent tragic mining accident in Mexico, the business of mining, smelting and refining copper, zinc and other metals is subject to a number of risks and hazards, including industrial accidents, labor disputes, unusual or unexpected geological conditions, changes in the regulatory environment, environmental hazards and weather and other natural phenomena, such as earthquakes. Such occurrences could result

in damage to, or destruction of, mining operations resulting in monetary losses and possible legal liability. In particular, surface and underground mining and related processing activities present inherent risks of injury to personnel and damage to equipment. We maintain insurance against many of these and other risks, which may not provide adequate coverage in certain circumstances. Insurance against certain risks, including certain liabilities for environmental pollution or hazards as a result of exploration and production, is not generally available to us or other companies within the mining industry. We do not have, and do not intend to obtain, political risk insurance. These or other uninsured events may adversely affect our financial condition and results of operations.

The loss of one of our large customers could have a negative impact on our results of operations.

The loss of one or more of our significant customers could adversely affect our financial condition and results of operations. In 2005, 2004 and 2003, our largest customer accounted for approximately 11.7%, 10.7% and 6.7%, respectively, of our sales. Additionally, our five largest customers in each of 2005, 2004 and 2003 collectively accounted for approximately 40.8%, 33.7% and 26.5%, respectively, of our sales.

Deliveries under our copper sales agreements can be suspended or cancelled by our customers in certain cases.

Under each of our copper sales agreements, we or our customers may suspend or cancel delivery of copper during a period of force majeure. Events of force majeure under these agreements include acts of nature, labor strikes, fires, floods, wars, transportation delays, government actions or other events that are beyond the control of the parties. Any suspension or cancellation by our customers of deliveries under our copper or other sales contracts that are not replaced by deliveries under new contracts or sales on the spot market would reduce our cash flow and could adversely affect our financial condition and results of operations.

The copper mining industry is highly competitive.

We face competition from other copper mining and producing companies around the world. Although we are currently among the lowest cost copper producers in our region, we cannot assure you that competition from lower cost producers will not adversely affect us in the future.

In addition, mines have limited lives and, as a result, we must periodically seek to replace and expand our reserves by acquiring new properties. Significant competition exists to acquire properties producing or capable of producing copper and other metals.

The mining industry has experienced significant consolidation in recent years, including consolidation among some of our main competitors, as a result of which an increased percentage of copper production is from companies that also produce other products and may, consequently, be more diversified than we are. We cannot assure you that the result of current or further consolidation in the industry will not adversely affect us.

Potential changes to international trade agreements, trade concessions or other political and economic arrangements may benefit copper producers operating in countries other than Peru and Mexico, where our mining operations are currently located. We cannot assure you that we will be able to compete on the basis of price or other factors with companies that in the future may benefit from favorable trading or other arrangements.

Increases in energy costs, accounting policy changes and other matters may adversely affect our results of operations.

We require substantial amounts of fuel oil, electricity and other resources for our operations. Fuel, gas and power costs constitute approximately 43.4% of our production

cost. We rely upon third parties for our supply of the energy resources consumed in our operations. The prices for and availability of energy resources may be subject to change or curtailment, respectively, due to, among other things, new laws or regulations, imposition of new taxes or tariffs, interruptions in production by suppliers, worldwide price levels and market conditions. For example, during the 1970s and 1980s, our ability to import fuel oil was restricted by Peruvian government policies that required us to purchase fuel oil domestically from a government-owned oil producer at prices substantially above those prevailing on the world market. In addition, in recent years the price of oil has risen dramatically due to a variety of factors. Disruptions in supply or increases in costs of energy resources could have a material adverse effect on our financial condition and results of operations.

We believe our results of operations can, from time to time, be affected by accounting policy changes, including the March 17, 2005 Emerging Issues Task Force, or EITF, consensus ratified by the Financial Accounting Standards Board, or FASB, on March 30, 2005 and the subsequent modification to the transition provisions approved by the EITF in its June 15-16, 2005 meeting. The consensus states that stripping costs incurred during the production phase of a mine are variable production costs that should be included in the cost of the inventory produced (extracted) during the period that the stripping costs are incurred. On January 1, 2006 the Company adopted this consensus by reversing $499.5 million of net cumulative capitalized stripping cost and capitalized leach inventory cost as of December 31, 2005 and recording a net charge of $322.9 million to retained earnings after the recognition of a workers participation and tax benefit of $176.6 million. In addition, near-term future years operating income could be negatively impacted to the extent that costs previously capitalized are expensed. For further discussions see Notes to consolidated combined financial statements Impact of new accounting standards .

A 2005 Mexican Supreme Court decision reduced our results by requiring increased workers profit sharing payments by our Minera México subsidiary. In May 2005, the court rendered a decision that changed the method of computing the amount of statutory workers profit-sharing required to be paid by certain Mexican companies, including Minera México. The court s ruling in effect prohibited applying net operating loss carryforwards in computing the income used as the base for determining the workers profit sharing amounts, as further described under Management s Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources-Other Liquidity Considerations .

Additionally, we expect our future results will continue to be affected by the recently-enacted Peruvian mining royalty charge, which has reduced our earnings in the second half of 2004 and the year 2005, as further described under Business-Mining Rights and Concessions-Peru.

We may be adversely affected by labor disputes.

In the last several years we have experienced a number of strikes or other labor disruptions that have had an adverse impact on our operations and operating results. See Business-Employees. For example, in Peru, on August 31, 2004, unionized workers at our mining units in Toquepala and Cuajone initiated work stoppages and sought additional wage increases based on high metals prices. The strike was resolved on September 13, 2004. Additionally, in February 2006 construction workers at the Ilo Smelter modernization project went on strike and blocked access to our Ilo production facilities. Our Ilo refinery and smelter production was interrupted for a short period before the matter was resolved. This disruption did not significantly affect our production.

In Mexico, on October 26, 2005 the workers at our La Caridad mining complex went on strike claiming that the Company still owed them profit sharing from 2003. The strike was declared illegal and the workers returned to work two days later after the Company agreed to pay each worker approximately $900.00. The total paid was $3.1 million. On July 12, 2004, the workers of Mexcobre went on strike asking for the review of certain

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contractual clauses. Such a review was performed and the workers returned to work 18 days later. On October 15, 2004, the workers of Mexcananea went on strike, followed by the Mexicana de Cobre workers. The strike lasted for 6 days at Mexicana de Cobre and 9 days at Mexicana de Cananea. In each case, our operations at the particular mine ceased until the strike was resolved. In Mexico, collective bargaining agreements are negotiated every year in respect of salaries and every two years for other benefits. We cannot assure you that we will not experience strikes or other labor-related work stoppages that could have a material adverse effect on our financial condition and results of operations.

Environmental, health and safety laws and other regulations may increase our costs of doing business, restrict our operations or result in operational delays.

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

Environmental regulations in Peru and Mexico have become increasingly stringent over the last decade and we have been required to dedicate more time and money to compliance and remediation activities. Furthermore, Mexican authorities have become more rigorous and strict in enforcing Mexican environmental laws. We expect additional laws and regulations will be enacted over time with respect to environmental matters. Recently, Peruvian environmental laws have been enacted imposing closure and remediation obligations on the mining industry. Our Mexican operations are also subject to the environmental agreement entered into by Mexico, the United States and Canada in connection with the North American Free Trade Agreement. The development of more stringent environmental protection programs in Peru and Mexico and in relevant trade agreements could impose constraints and additional costs on our operations and require us to make significant capital expenditures in the future. We cannot assure you that future legislative, regulatory or trade developments will not have an adverse effect on our business, properties, results of operations, financial condition or prospects.

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

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

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

Our profits may be negatively affected by currency exchange rate fluctuations.

Our assets, earnings and cash flows are influenced by various currencies due to the geographic diversity of our sales and the countries in which we operate. As some of our costs are incurred in currencies other than our functional currency, the U.S. dollar, fluctuations in currency exchange rates may have a significant impact on our financial results. These costs principally include electricity, labor, maintenance, operation contractors and fuel. For the year ended December 31, 2005, a substantial portion of our costs were denominated in a currency other than U.S. dollar. Operating costs are influenced by the currencies of the countries where our mines and processing plants are located and also by those currencies in which the costs of equipment and services are determined. The Peruvian nuevo sol, the Mexican peso and the U.S. dollar are the most important currencies influencing costs.

The U.S. dollar is our functional currency and our revenues are primarily denominated in U.S. dollars. However, portions of our operating costs are denominated in Peruvian nuevos soles and Mexican pesos. Accordingly, when inflation in Peru or Mexico increases without a corresponding devaluation of the nuevo sol or peso, our financial position, results of operations and cash flows could be adversely affected. To manage the volatility related to the risk of currency rate fluctuations, we may enter into forward exchange contracts. We cannot assure you, however, that currency fluctuations will not have an impact on our financial condition and results of operations.

Further, in the past there has been a strong correlation between copper prices and the exchange rate of the U.S. dollar. A strengthening of the U.S. dollar may therefore be accompanied by lower copper prices, which would negatively affect our financial condition and results of operations.

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

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

Litigation involving Asarco may adversely affect us.

Our direct and indirect parent corporations, including AMC and Grupo México, have from time to time been named parties in various litigations involving ASARCO LLC (Asarco). Asarco, a mining company, is indirectly wholly owned by Grupo México. In March 2003, AMC purchased its interest in SCC from Asarco. In August 2002 the U.S. Department of Justice brought a claim alleging fraudulent conveyance in connection with Asarco s environmental liabilities and AMC s then-proposed purchase of SCC from Asarco. That action was settled pursuant to a Consent Decree dated February 2, 2003. The consent decree is binding solely on the U.S. government. In October 2004, AMC, Grupo México, Mexicana de Cobre and other parties, not including SCC, were named in a lawsuit filed in New York State court in connection with alleged asbestos liabilities, which lawsuit claims, among other matters, that AMC s purchase of SCC from Asarco should be voided as a fraudulent conveyance. While Grupo México and its affiliates believe that these claims are without merit, we cannot assure you that these or future claims, if successful, will not have an adverse effect on our parent corporations or us. Any increase in the financial obligations of our parent corporations, as a result of matters related to Asarco or otherwise could, among other matters result in our parent corporations attempting to obtain increased dividends

or other funding from us. In

2005, certain subsidiaries of Asarco filed bankruptcy petitions in connection with alleged asbestos liabilities. In July 2005, the unionized workers of Asarco commenced a work stoppage. The work stoppage was settled in November 2005 with the extension of the existing contract for an additional thirteen month period until December 31, 2006. A further deterioration of the financial condition of Asarco could result in additional claims being filed against Grupo México and its subsidiaries, including SCC, Minera México or its subsidiaries. As a result of various factors, including the above mentioned work stoppage, in August 2005, Asarco LLC entered into bankruptcy proceedings under Chapter 11 of the U.S. Bankruptcy Code before the U.S. Bankruptcy Court of Corpus Christi, Texas. Asarco s bankruptcy case is being joined with the bankruptcy cases of its subsidiaries. Asarco is in continuing possession of its properties and is operating and managing its businesses as a debtor in possession. Asarco believes that by utilizing the Chapter 11 process it can achieve an orderly restructuring of its business and finally resolve, among other contingencies, its environmental and asbestos claims. However, it is impossible to predict how the bankruptcy court will ultimately rule with respect to such petitions and the impact such rulings will have on Asarco and its subsidiaries and ultimately upon us.

We are controlled by Grupo México, which exercises significant influence over our affairs and policies and whose interests may be different from yours.

Grupo México owns indirectly approximately 75.1% of our capital stock. We own substantially all of Minera México s capital stock. In addition, certain of our and Minera México s officers and directors are also officers of Grupo México. We cannot assure you that the interests of Grupo México will not conflict with yours.

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

the composition of our board of directors and, as a result, any determinations of our board with respect to our business direction and policy, including the appointment and removal of our officers;

determinations with respect to mergers and other business combinations, including those that may result in a change of control;

whether dividends are paid or other distributions are made and the amount of any dividends or other distributions;

sales and dispositions of our assets; and

the amount of debt financing that we incur.

In addition, we and Minera México have in the past engaged in, and expect to continue to engage in, transactions with Grupo México and its other affiliates that may present conflicts of interest. For additional information regarding the share ownership of, and our relationships with, Grupo México and its affiliates, see Related Party Transactions.

We may pay a significant amount of our net income as cash dividends on our common stock in the future.

We have distributed a significant amount of our net income as dividends since 1996. Our dividend practice is subject to change at the discretion of our board of directors at any time. The amount that we pay in dividends is subject to a number of factors, including our results of operations, financial condition, cash requirements, tax considerations, future prospects, legal restrictions, contractual restrictions in credit agreements, limitations imposed by the government of Peru, Mexico or other countries where we have significant operations and other factors that our board of directors may deem relevant. We anticipate paying a significant amount of our net income as cash dividends on our common stock in the foreseeable future. Such payments would reduce cash available to meet our debt service obligations.

Risks Associated with Doing Business in Peru and Mexico

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

Under the laws of Peru and Mexico, mineral resources belong to the state and government concessions are required in both countries to explore for or exploit mineral reserves. In Peru, our mineral rights derive from concessions from the Peruvian Ministry of Energy and Mines for our exploration, exploitation, extraction and/or production operations. In June 2004, the Peruvian Congress enacted legislation imposing a royalty to be paid by mining companies in favor of the regional governments and communities where mining resources are located. Under the new law, we are subject to a 1% to 3% tax, based on sales, applicable to the value of the concentrates produced in our Toquepala and Cuajone mines. See Business Mining Rights and Concessions Peru. In Mexico, our mineral rights derive from concessions granted, on a discretionary basis, by the *Secretaría de Economía* (Ministry of Economy), pursuant to the *Ley Minera* (the Mining Law) and regulations thereunder.

Mining concessions in both Peru and Mexico may be terminated if the obligations of the concessionaire are not satisfied. In Peru, we are obligated to pay certain fees for our mining concession. In Mexico, we are obligated, among other things, to explore or exploit the relevant concession, to pay any relevant fees, to comply with all environmental and safety standards, to provide information to the Ministry of Economy and to allow inspections by the Ministry of Economy. Any termination or unfavorable modification of the terms of one or more of our concessions, or failure to obtain renewals of such concessions subject to renewal or extensions, could have a material adverse effect on our financial condition and prospects.

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

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

From 1985 through 1990, during the Alan García administration, government policies restricted our ability, among other things, to repatriate funds and import products from abroad. In addition, currency exchange rates were strictly controlled and all exports sales were required to be deposited in Peru s *Banco Central de Reserva*, where they were exchanged from U.S. dollars to the Peruvian currency at less-than-favorable rates of exchange. These policies generally had an adverse effect on our results of operations. Controls on repatriation of funds limited the ability of our stockholders to receive dividends outside of Peru but did not limit the ability of our stockholders to receive distributions of earnings in Peru.

In July 1990, Alberto Fujimori was elected president, and his administration implemented a broad-based reform of Peru s economic and social conditions aimed at stabilizing the economy, restructuring the national government by reducing bureaucracy, privatizing state-owned companies, promoting private investment, developing and strengthening free markets and enacting programs for the strengthening of basic services related to education, health, housing and infrastructure. After taking office for his third term in July 2000 under extreme protest, President Fujimori was forced to call for general elections due to the outbreak of corruption scandals, and later resigned in favor of a transitory government headed by the president of Congress, Valentín Paniagua.

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Mr. Paniagua took office in November 2000 and in July 2001 handed over the presidency to Alejandro Toledo, the winner of the elections decided in the second round held on June 3, 2001, ending two years of political turmoil. Since his election, President Toledo has retained, for the most part, the economic policies of the previous government, focusing on promoting private investment, eliminating tax exemptions, reducing underemployment and unemployment and privatizing state-owned companies in various sectors including energy, mining and public services. President Toledo also implemented fiscal austerity programs, among other proposals, in order to stimulate the economy. Despite Peru s moderate economic growth, the Toledo administration has at times faced public unrest spurred by the high rates of unemployment, underemployment and poverty. President Toledo has been forced to restructure his cabinet on several occasions to quell public unrest and to maintain his political alliances.

Given that the Toledo administration continues to face a fragmented Congress and continuing public unrest, we cannot assure you that the government will continue its current economic policies or that Peru s recent economic growth will be sustained. In addition, presidential elections are expected to be held in Peru in the second quarter of 2006, which may mean a change in Peru s economic policies. Because we have significant operations in Peru, future Peruvian governmental actions could have an adverse effect on market conditions, prices and returns on our securities, and on our business, results of operations, financial condition, ability to obtain financing and prospects.

There is a risk of terrorism in Peru relating to *Sendero Luminoso* and the *Movimiento Revolucionario Tupac Amaru*, which were particularly active in the 1980s and early 1990s. We cannot guarantee that acts by these or other terrorist organizations will not adversely affect our operations in the future.

Mexican economic and political conditions may have an adverse impact on our business.

A significant part of our operations are based in Mexico. In the past, Mexico has experienced both prolonged periods of weak economic conditions and dramatic deterioration in economic conditions, characterized by exchange rate instability and significant devaluation of the peso, increased inflation, high domestic interest rates, a substantial outflow of capital, negative economic growth, reduced consumer purchasing power and high unemployment. An economic crisis occurred in 1995 in the context of a series of internal disruptions and political events including a large current account deficit, civil unrest in the southern state of Chiapas, the assassination of two prominent political figures, a substantial outflow of capital and a significant devaluation of the peso. We cannot assure you that such conditions will not recur, that other unforeseen negative political or social conditions will not arise or that such conditions will not have a material adverse effect on our financial condition and results of operations.

On July 2, 2000, Vicente Fox of the *Partido Acción Nacional* (the National Action Party), or PAN, was elected president. Although his election ended more than 70 years of presidential rule by the *Partido Revolucionario Institucional* (the Institutional Revolutionary Party), or PRI, neither the PAN nor the PRI succeeded in securing a majority in the Mexican congress. In elections in 2003 and 2004, the PAN lost additional seats in the Mexican Congress and state governorships. The lack of a majority party in the legislature and the lack of alignment between the legislature and the executive branch have resulted in legislative gridlock, which is expected to continue at least until the Mexican presidential elections in 2006. Such legislative gridlock has impeded the progress of structural reforms in Mexico, which may have a material adverse effect on the Mexican economy and cause disruptions to our operations. Furthermore, economic plans of the Mexican government in the past have not, in certain respects, fully achieved their objectives, and we cannot assure you that any reforms that are undertaken will achieve their stated goals. Because we have significant operations in Mexico, we cannot provide any assurance that current legislative gridlock and/or future political developments in Mexico, including the 2006 presidential and

congressional elections, will not have a material adverse effect on market conditions, prices and returns on our securities, our ability to obtain financing, and our results of operations and financial condition.

Peruvian inflation, reduced economic growth and fluctuations in the nuevo sol exchange rate may adversely affect our financial condition and results of operations.

Over the past several decades, Peru has experienced periods of high inflation, slow or negative economic growth and substantial currency devaluation. The inflation rate in Peru, as measured by the *Indice de Precios al Consumidor* and published by the *Instituto Nacional de Estadística e Informática*, the National Institute of Statistics, has fallen from a high of 7,649.7% in 1990 to 1.5% in 2005. The Peruvian currency has been devalued numerous times during the last 20 years. The devaluation rate has decreased from a high of 4,019.3% in 1990 to 4.5% in 2005. Our revenues are primarily denominated in U.S. dollars and our operating expenses are partly denominated in U.S. dollars. If inflation in Peru were to increase without a corresponding devaluation of the nuevo sol relative to the U.S. dollar, our financial position and results of operations, and the market price of our common stock, could be affected. Although the Peruvian government s stabilization plan has significantly reduced inflation and the Peruvian economy has experienced moderate growth in recent years, we cannot assure you that inflation will not increase from its current level or that such growth will continue in the future at similar rates or at all.

Among the economic circumstances that could lead to a devaluation of the nuevo sol is the decline of Peruvian foreign reserves to inadequate levels. Peru s foreign reserves at February 28, 2006, were $14.0 billion as compared to $12.6 billion at December 31, 2004. We cannot assure you that Peru will be able to maintain adequate foreign reserves to meet its foreign currency denominated obligations or that Peru will not devalue its currency should its foreign reserves decline.

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

Although all of our Mexican operations sales of metals are priced and invoiced in U.S. dollars, a substantial portion of our Mexican operations cost of sales are denominated in pesos. Accordingly, when inflation in Mexico increases without a corresponding devaluation of the peso, as it did in 2000, 2001 and 2002, the net income generated by our Mexican operations is adversely affected.

The annual inflation rate in Mexico was 3.3% in 2005, 5.2% in 2004 and 4.0% in 2003. The Mexican government has publicly announced that it does not expect inflation to exceed 3.0% in 2006. At the same time, the peso has been subject in the past to significant devaluation, which may not have been proportionate to the inflation rate and may not be proportionate to the inflation rate in the future. The value of the peso declined by 4.9% in 2005 and increased by 0.3% in 2004 and 9.0% in 2003.

While the Mexican government does not currently restrict the ability of Mexican companies or individuals to convert pesos into dollars or other currencies, in the future, the Mexican government could impose a restrictive exchange control policy, as it has done in the past. We cannot assure you that the Mexican government will maintain its current policies with regard to the peso or that the peso s value will not fluctuate significantly in the future. The imposition of such exchange control policies could impair Minera México s ability to obtain imported goods and to meet its U.S. dollar-denominated obligations and could have an adverse effect on our business and financial condition.

Developments in other emerging market countries and in the United States may adversely affect the prices of our common stock and our debt securities.

The market value of securities of companies with significant operations in Peru and Mexico is, to varying degrees, affected by economic and market conditions in other

emerging market countries. Although economic conditions in such countries may differ significantly from economic conditions in Peru or Mexico, as the case may be, investors reactions to developments in any of these other countries may have an adverse effect on the market value or trading price of the securities, including debt securities, of issuers that have significant operations in Peru or Mexico.

In addition, in recent years economic conditions in Mexico have increasingly become correlated to U.S. economic conditions. Therefore, adverse economic conditions in the United States could also have a significant adverse effect on Mexican economic conditions including the price of our debt securities. We cannot assure you that the market value or trading prices of our common stock and debt securities, will not be adversely affected by events in the United States or elsewhere, including in emerging market countries.

Item 2. Properties

We were incorporated in Delaware in 1952. Our corporate offices in the United States are located at 11811 North Tatum Blvd. Suite 2500, Phoenix, Arizona 85028. Our telephone number in Phoenix, Arizona is (602) 977-6595. Our corporate offices in Mexico are located in Mexico City and our corporate offices in Peru are located in Lima. Our website is www.southerncoppercorp.com We believe that our existing properties are in good condition and suitable for the conduct of its business.

The following table sets forth as of December 31, 2005, the locations of production facilities by reportable segment, the processes used, as well as the key production and capacity data for each location:

Facility Name	*Location*	*Process*	*Nominal* Capacity (1)	*2005* Production	*2005 Capacity Utilization*
PERUVIAN OPEN PIT UNIT					
Mining Operations					
Cuajone Open-pit Mine	***Cuajone (Peru)***	***Copper ore milling and recovery, copper and molybdenum concentrate production***	***87.0 ktpd - Milling***	***81.9 ktpd***	***94.1%***
Toquepala Open-pit Mine	***Toquepala (Peru)***	***Copper ore milling and recovery, copper and molybdenum concentrate production***	***60.0 ktpd - Milling***	***59.5 ktpd***	***99.1%***
Toquepala SX-EW Plant	***Toquepala (Peru)***	***Leaching, solvent extraction and cathode electro winning***	***56.0 ktpy - Refined***	***36.5 ktpy***	***65.2%***
Processing Operations					
Ilo Copper Smelter	***Ilo (Peru)***	***Copper smelting, blister production***	***1,131.5 ktpy - Concentrate feed***	***1,206.3 ktpy***	***106.6%***
Ilo Copper Refinery	***Ilo (Peru)***	***Copper refining***	***280 ktpy - Refined cathodes***	***285.2 ktpy***	***101.9%***
Ilo Acid Plant	***Ilo (Peru)***	***Sulfuric Acid***	***300 ktpy - Sulfuric acid***	***369.7 ktpy***	***123.2%***
Ilo Precious Metals Refinery	***Ilo (Peru)***	***Slime recovery & processing, gold & silver refining***	***365 tpy***	***311.4 tpy***	***85.3%***
MEXICAN OPEN PIT UNIT					
Cananea Open-Pit Mine	***Sonora (Mexico)***	***Copper Ore milling & recovery, copper concentrate production***	***76.7 ktpd - Milling***	***70.2 ktpd***	***91.5%***
Cananea SX-EW I, II Plants	***Sonora (Mexico)***	***Leaching, solvent extraction & refined cathode electrowinning***	***54.8 ktpy (combined)***	***56.4ktpy***	***103.0%***
La Caridad Open-Pit Mine	***Sonora (Mexico)***	***Copper ore milling & recovery, copper & molybdenum concentrate production***	***90.0 ktpd - Milling***	***87.0 ktpd***	***96.7%***
La Caridad SX-EW Plant	***Sonora (Mexico)***	***Leaching, solvent extraction & cathode electro winning***	***21.9 ktpy - Refined***	***22.0 ktpy***	***100.5%***
Processing Operations					
La Caridad Copper Smelter	***Sonora (Mexico)***	***Concentrate smelting, anode production***	***1,000 ktpy - Concentrate feed***	***894.7 ktpy***	***89.5%***
La Caridad Copper Refinery	***Sonora (Mexico)***	***Copper refining***	***300 ktpy Copper cathode***	***233.7 ktpy***	***77.9%***
La Caridad Copper Rod Plant	***Sonora (Mexico)***	***Copper rod production***	***150 ktpy Copper rod***	***113.2 ktpy***	***75.4%***

La Caridad Precious Metals Refinery	*Sonora (Mexico)*	*Slime recovery & processing, gold & silver refining*	*2.8 ktpy - Slime*	*0.7 ktpy*	*26.6%*
La Caridad Sulfuric Acid Plant	*Sonora (Mexico)*	*Sulfuric acid*	*1,565.5 ktpy - Sulfuric acid*	*833.4 ktpy*	*53.2%*
IMMSA UNIT					
Underground Mines					
Charcas	*San Luis Potosi (Mexico)*	*Copper, zinc, lead milling, recovery & concentrate production*	*4.0 ktpd - Milled ore*	*3.6 ktpd*	*91.0%*
San Martin	*Zacatecas (Mexico)*	*Lead, zinc, copper & silver mining, milling recovery & concentrate production*	*4.4 ktpd Milled ore*	*3.4 ktpd*	*76.7%*
Santa Barbara	*Chihuahua (Mexico)*	*Lead, copper and zinc mining & concentrates production*	*6.0 ktpd Milled ore*	*4.1 ktpd*	*67.9%*
Santa Eulalia	*Chihuahua (Mexico)*	*Lead & zinc mining and milling recovery & concentrate production*	*1.5 ktpd Milled ore*	*0.6 ktpd*	*38.3%*
Taxco	*Guerrero (Mexico)*	*Lead, zinc silver & gold mining recovery & concentrate production*	*2.0 ktpd Milled ore*	*1.0 ktpd*	*49.7%*
Nueva Rosita Coal & Coke Complex(2)	*Coahuila (Mexico)*	*Clean coal production*	*900 ktpy clean coal*	*181 ktpy*	*20.1%*
Processing Operations					
San Luis Potosi Copper Smelter	*San Luis Potosi (Mexico)*	*Concentrate smelting, blister production*	*230 ktpy Concentrate feed*	*103.1 ktpy*	*44.8%*
San Luis Potosi Zinc Refinery	*San Luis Potosi (Mexico)*	*Zinc concentrates refining*	*105 ktpy Zinc cathode*	*101.5% ktpy*	*96.7%*
San Luis Potosi Sulfuric Acid Plant	*San Luis Potosi (Mexico)*	*Sulfuric acid*	*180.0 ktpy Sulfuric acid*	*176.3 ktpy*	*97.9%*

Key:

koz = thousands of ounces

ktpd = thousands of tons per day

ktpy = thousands of tons per year

tpy = tons per year

(1) Our estimates of actual capacity contemplating normal operating conditions with allowance for normal downtime for repairs and maintenance and based on the average metal content for the relevant period.

(2) At December 31, 2005, the coal reserves for the Nueva Rosita coal were 66,981,498 tons with average sulfur content of 1.0% and a BTU content of 8800 per pound.

SUMMARY OPERATING DATA

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

	Year Ended December 31,		
	2005	2004	2003
COPPER (thousand pounds):			
Mined			
Peru open pit			
Toquepala	347,130	354,618	313,878
Cuajone	360,805	428,553	406,814
SX EW Toquepala	80,464	92,869	105,283
Mexico open pit			
La Caridad	269,662	243,358	236,414
Cananea	261,778	271,670	207,461
SX EW La Caridad	48,603	48,005	47,334
SX EW Cananea	124,359	110,671	109,169
IMMSA Unit	28,228	33,186	41,738
Total Mined	**1,521,029**	**1,582,930**	**1,468,091**
Smelted			
Blister Ilo	713,200	702,646	689,513
Anodes La Caridad	617,953	548,763	435,168
Blister IMMSA	46,998	49,970	51,914
Total Smelted	**1,378,151**	**1,301,379**	**1,176,595**
Refined			
Peru Open Pit			
Cathodes Ilo	628,769	618,790	626,126
SX EW Toquepala	80,464	92,869	105,283
Mexico Open Pit			
Cathodes La Caridad	515,179	445,649	361,480
SX EW La Caridad	48,603	48,005	47,334
SX EW Cananea	124,359	110,671	109,169
Total Refined	**1,397,374**	**1,315,984**	**1,249,392**
Rod Mexico Open Pit			
La Caridad	249,485	153,282	118,654
Total Rod	**249,485**	**153,282**	**118,654**
SILVER (thousand ounces)			
Mined			
Peru Open Pit			
Toquepala	2,230	2,048	1,822
Cuajone	2,261	2,712	2,490
Mexico Open Pit			
La Caridad	2,123	1,777	1,846
Cananea	1,698	1,523	1,075
IMMSA Unit	10,183	10,470	10,770
Total Mined	**18,495**	**18,530**	**18,003**
Refined			
Peru Open Pit Ilo	3,533	3,823	3,599
Mexico Open Pit La Caridad	4,583	2,923	4,376
IMMSA Unit	4,371	4,050	4,171
Total Refined	**12,487**	**10,796**	**12,146**
MOLYBDENUM (thousand pounds)			
Mined			

Toquepala	11,737	13,236	9,156
Cuajone	11,638	10,267	10,730
La Caridad	9,260	8,184	8,184
Total Mined	**32,635**	**31,687**	**28,070**
ZINC (thousand pounds)			
Mined IMMSA	316,603	294,930	283,867
Refined IMMSA	223,820	226,097	222,819

Average Market Prices	Year Ended December 31, 2005	2004	2003
Copper price ($ per pound - LME)	$ 1.67	$ 1.30	$ 0.81
Copper price ($ per pound - COMEX)	$ 1.68	$ 1.29	$ 0.81
Molybdenum price ($ per pound) (1)	$ 31.05	$ 15.95	$ 5.21
Zinc price ($ per pound - LME)	$ 0.63	$ 0.48	$ 0.38
Silver price ($ per ounce - COMEX)	$ 7.32	$ 6.68	$ 4.89

(1) Platt s Metals Week Dealer Oxide

ORE RESERVES:

Ore reserves are those estimated quantities of proven and probable material that may be economically mined and processed for extraction of their mineral content. Proven (measured) reserves are reserves for which (a) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; (b)grade and/or quality are computed from the results of detailed samplings; and (c) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves are well-established. Probable (indicated) reserves are reserves for which quantity and grade and/or quality are computed from information similar to that used for proven (measure) reserves, but the sites for inspection, sampling, and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven (measured) reserves, is high enough to assume continuity between points of observation.

Mineralized material, on the other hand, is a mineralized body that has been delineated by appropriately spaced drilling and/or underground sampling to support the reported tonnage and average grade of metal(s). Such a deposit does not qualify as a reserve until legal and economic feasibility are concluded based upon a comprehensive evaluation of unit costs, grade, recoveries and other material factors.

Our proven and probable ore reserve estimates are based on engineering evaluations of assay values derived from the sampling of drill holes and other openings. We believe that the samplings taken are spaced at intervals close enough to render the estimates reliable. The ore reserves estimates include assessments of the metallurgy to determine copper recovery by flotation process and column leaching, as well as economic, marketing, legal, environmental, governmental, and other necessary considerations.

Our Peruvian operations, including the Toquepala and Cuajone reserves, are classified into proven (measured), probable (indicated) and possible (inferred) categories based on a RCB Index (Relative Confidence Bound Index) that measures our level of geologic knowledge and confidence in each block. The RCB index is a measure of relative confidence in the block grade estimate. This approach combines the local variability of the composites used to krig a block with the Kriging variance and incorporates the use of confidence intervals in measuring uncertainty of the block estimates relative to each other. The final resource classification is then based on the distribution of these RCB values for blocks above 0.05% Cu. It is the distribution that is used to find the breaks between proven/probable and probable/possible.

Our Mexican operations, including the Cananea and La Caridad reserves, are calculated

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

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

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

Pursuant to SEC guidance, the reserves information in this report are calculated using average metals prices over the most recent three years unless otherwise stated. We refer to these three-year average metals prices as current prices. Our current prices for copper are calculated using prices quoted by COMEX, and our current prices for molybdenum are calculated according to Platt s *Metals Week*. Unless otherwise stated, reserves estimates in this report use $1.261 per pound for copper and $17.817 per pound for molybdenum, both current prices as of December 31, 2005. The current prices for copper and molybdenum were $0.939 and $8.425 as of December 31, 2004 and $0.751 and $3.81 as of December 31, 2003.

For purposes of our long-term planning, our management uses metals price assumptions of $0.90 per pound for copper and $4.50 per pound for molybdenum. These prices are intended to approximate average prices over the long term. Our management uses these price assumptions, as it believes these prices reflect the full price cycle of the metals market.

For Peruvian operations, commencing in 2003, we have used reserves estimates based on current average prices as of the most recent year then ended to determine the amount of mine stripping that is capitalized, units of production amortization of capitalized mine stripping and amortization of intangible assets. In calculating such items in the case of our Minera Mexico subsidiary for periods prior to 2005, we have used reserves estimates based on the longer-term price assumptions discussed above.

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

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

For more information regarding our reserve estimates, see Management s Discussion and Analysis of Financial Conditions and Results of Operations Critical Accounting Policies and Estimates Ore Reserves

COPPER AND MOLYBDENUM RESERVES BY SITE:

The table below details our proven and probable copper and molybdenum reserves as estimated at December 31, 2005.

	PERUVIAN OPEN-PIT UNIT		MEXICAN OPEN-PIT UNIT			MEXICAN IMMSA UNIT	Sensitivity to Change in metals prices (3)	
	Cuajone Mine (1)	Toquepala Mine (2)	Cananea Mine (1)	La Caridad Mine (1)	TOTAL OPEN-PIT MINES	IMMSA (2)	Increase 20%	Decrease 20%
Mineral Reserves								
Metal prices:								
Copper ($/lb.)	1.261	1.261	1.261	1.261	1.261	1.261	1.513	1.009
Molybdenum ($/lb.)	17.817	17.817	17.817	17.817	17,817	17.817	21.381	14.254
Cut-off grade	0.30%	0.30%	0.25%	0.20%	0.26%		0.21%	0.36%
Sulfide ore reserves (thousands of tons)	1,935,407	2,174,479	3,759,426	1,562,184	9,431,496	41,644	12,481,624	6,111,769
Average grade:								
Copper	0.561%	0.580%	0.494%	0.315%	0.498%	0.51%	0.450%	0.577%
Molybdenum	0.019%	0.032%		0.028%	0.026%		0.025%	0.029%
Lead						1.06%		
Zinc						3.54%		
Leachable material (thousands of tons)	11,604	2,777,807	1,499,915	1,489,303	5,778,629		5,383,676	5,466,250
Leachable material grade	0.568%	0.172%	0.226%	0.157%	0.183%		0.159%	0.216%
Waste (thousands of tons)	5,022,010	7,364,671	3,979,732	540,455	16,906,868		20,813,111	13,510,787
Total material (thousands of tons)	6,969,021	12,316,957	9,239,073	3,591,942	32,116,993		38,678,411	25,088,806
Stripping ratio	2.60	4.66	1.46	1.30	2.41		2.10	3.10
Leachable material								
Reserves in stock (thousands of tons)	23,982	807,154	605,711	467,789	1,904,636		1,904,636	1,904,636
Average copper grade	0.463%	0.136%	0.139%	0.252%	0.170%		0.170%	0.170%
In pit reserves (thousands of tons)	11,604	2,777,807	1,499,915	1,489,303	5,778,629		5,383,676	5,466,250
Average copper grade	0.568%	0.172%	0.226%	0.157%	0.183%		0.159%	0.216%
Total leachable reserves (thousands of tons)	35,586	3,584,961	2,105,626	1,957,092	7,683,265		7,288,312	7,370,886
Average copper grade	0.497%	0.164%	0.201%	0.180%	0.180%		0.162%	0.204%
Copper contained in ore reserves (thousand	**10,924**	**17,390**	**21,961**	**7,259**	**57,534**	**212**	**64,707**	**47,040**

of tons) (4)

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(1) The Cuajone, Toquepala, Cananea and La Caridad concentrator recoveries calculated for these reserves were 83.7%, 87.0%, 81.0% and 82.59%, respectively, obtained by using recovery formulas according to the different milling capacity and geo-metallurgical zones.

(2) The Immsa Unit includes the Charcas, Santa Bárbara, San Martin, Santa Eulalia and Taxco mines. Zinc and lead contained in ore reserves are 1,474 and 441 thousand tons, respectively.

(3) In preparing the sensitivity analysis, we recalculated our reserves based on the

assumption that current average metal prices were 20% higher and 20% lower, respectively, than the actual current average prices for year-end 2005. Reserve results of this sensitivity analysis are not proportional to the increase or decrease in metal price assumptions. The analysis above does not include our Immsa Unit s underground mines, for which the sensitivity analysis is as follows:

	Sensitivity to 20% Change in Metals Prices	
	Increase 20%	Decrease 20%
Sulfide ore reserves (thousands of tons)	45,337	32,638
Average grade copper	0.49%	0.58%
Copper contained (thousands of tons)	222	189

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

The following is the average drill-hole spacing for proven and probable sulfide reserves:

As of December 31, 2005

	Proven	Probable
	(average spacing in meters)	
Cuajone	80.32	120.48
Toquepala	88.68	120.92
Cananea	51.96	100.94
La Caridad	38.52	105.90

The table below details our proven and probable copper and molybdenum reserves as of December 31, 2005 calculated based on long-term price assumptions of, $0.90 for copper and $4.50 for molybdenum.

	Cuajone Mine	Toquepala Mine	Cananea Mine	La Caridad Mine	Total Open-Pit Mines	Immsa (1)
Mineral Reserves						
Metal prices:						
Copper ($/lb.)	$ 0.90	$ 0.90	$ 0.90	$ 0.90	$ 0.90	$ 0.90
Molybdenum ($/lb.)	$ 4.50	$ 4.50	$ 4.50	$ 4.50	$ 4.50	$ 4.50
Sulfide ore reserves (thousands of tons)	1,064,339	576,593	2,102,432	480,477	4,223,841	34,568
Average grade:						
Copper	0.636%	0.731%	0.597%	0.400%	0.603%	0.54%
Molybdenum	0.020%	0.042%		0.028%	0.028%	
Lead						1.15%
Zinc						3.77%
Leachable material (thousands of tons)	32,211	925,075	1,378,185	826,505	3,161,976	
Leachable material grade	0.344%	0.218%	0.301%	0.206%	0.252%	
Waste (thousands of tons)	1,233,031	681,828	3,011,209	205,863	5,131,931	
Total material (thousands of tons)	2,329,581	2,183,496	6,491,826	1,512,845	12,517,748	
Stripping ratio	1.19	2.79	2.09	2.15	1.96	
Leachable material						
Reserves in stock (thousands of tons)	23,982	807,154	605,711	467,789	1,904,636	
Average copper grade	0.463%	0.136%	0.139%	0.252%	0.169%	
In-pit reserves (thousands of tons)	32,211	925,075	1,378,185	826,505	3,161,976	
Average copper grade	0.344%	0.218%	0.301%	0.206%	0.252%	
Total Leachable reserves (thousands of tons)	56,193	1,732,229	1,983,896	1,294,294	5,066,612	
Average copper grade	0.395%	0.180%	0.251%	0.223%	0.221%	
Copper contained in ore reserves (thousands of tons) (2)	6,880	6,232	16,700	3,625	33,437	187

(1) The Immsa Unit includes the Charcas, Santa Barbara, San Martin, Santa Eulalia and Taxco mines. Zinc and lead contained in ore reserves are 1,303 and 398 thousand tons, respectively.

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

OVERVIEW OF BLOCK MODEL RECONCILIATION PROCESS

We apply the following block model to mill reconciliation procedure.

The following stages are identified in the Cuajone, Toquepala, Cananea and La Caridad mines:

1. The mine geologists gather the necessary monthly statistical data from our information system (SRP), which provides ore tons milled and ore grades in the concentrator.

2. Mined areas are topographically determined and related boundaries are built.

3. Using the interactive planner option in our mining software (Minesight), ore tons and grades are calculated inside mined areas over the block model. At this point the current cut-off grade is considered.

4. In the final stage, accumulated tons mined, weighted average grade for ore material and leach is compared with data coming from our SRP system.

Tonnage and grade reconciliation for 2005 are as follows:

	Long Range Model		Mill		Variance	
Mine	**Tons (thousands)**	**% Copper**	**TONS (thousands)**	**% Copper**	**Tons (thousands)**	**% Copper**
Cuajone	29,616	0.650	29,544	0.643	72	0.007
Toquepala	21,144	0.849	21,224	0.812	(80)	0.037
Cananea	28,080	0.567	26,449	0.573	1,631	0.006
La Caridad	33,539	0.492	31,551	0.483	1,988	0.009

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

Item 3. Legal Proceedings

Reference is made to the information under the caption Litigation Matters in Financial Statement Note 13 Commitments and Contingencies on Page A-121.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Executive Officers of the Registrant

Set forth below are the executive officers of the Company, their ages as of February 6, 2006 and their positions.

Name	Age	Position
German Larrea Mota-Velasco	52	Chairman of the Board and Director
Oscar Gonzalez Rocha	67	President, Chief Executive Officer and Director
Xavier Garcia de Quevedo Topete	59	Executive Vice President, Chief Operating Officer and Director
J. Eduardo Gonzalez Felix	37	Vice President Finance, Chief Financial Officer and Director
Armando Ortega Gomez	45	Vice President, Legal, General Counsel, Secretary and Director
Jose N. Chirinos Fano	64	Comptroller
Mario Vinageras Barroso	50	Vice President, Commercial
Vidal Muhech Dip	65	Vice President, Projects

German Larrea Mota-Velasco has served as our Chairman of the Board since December 1999 Chief Executive Officer from December 1999 to October 2004 and as a member of the Board of Directors since November 1999. He has been Chairman of the Board of Directors, President and Chief Executive Officer of Grupo México (holding) since 1994. Mr. Larrea has been Chairman and Chief Executive Officer of Americas Mining Corporation (mining division) since 2003. Mr. Larrea has been Chairman of the Board and Chief Executive Officer of Grupo Minera México (mining division) since 1994 and of Grupo Ferroviario Mexicano (railroad division) since 1997. Mr. Larrea was previously Executive Vice Chairman of Grupo México and has been a member of the Board of Directors since 1981. He is also a director of Grupo Financiero Banamex, (Citigroup) S.A. de C.V., Banco Nacional de Mexico, S.A., Consejo Mexicano de Hombres de Negocios, and Grupo Televisa, S.A. de C.V.

Oscar Gonzalez Rocha has served as our Chief Executive Officer since October 21, 2004 and our President since December 1999. He has been our Director since November 1999. Previously, he was our General Director and Chief Operating Officer from December 1999 to October 20, 2004. He has been a Director of Grupo México since 2002 and Managing Director of Mexicana de Cobre, S.A. de C.V. from 1986 to 1999 and of Mexicana de Cananea S.A. de C.V. from 1990 to 1999. He was an Alternate Director of Grupo Mexico from 1988 to April 2002.

Xavier Garcia de Quevedo Topete has served as Executive Vice President and Chief Operating Officer since April 12, 2005 and as a member of our Board of Directors from November 1999 to the present. He has been the President and Chief Executive Officer of Minera México from September 2001 to April 2005. He was Managing Director of Grupo Ferroviario Mexicano S.A. de C.V., and of Ferrocarril Mexicano, S.A. de C.V. from December 1997 to December 1999, and Director General of Exploration and Development of Grupo Mexico from 1994 to 1997. He has been a director of Grupo México since April 2002.

J. Eduardo Gonzalez Felix has served as our Director and Vice President, Finance, and Chief Financial Officer since March 11, 2005. He has been the President and Chief Financial Officer of Grupo Mexico s Mining Division (Americas Mining Corporation) from January 2004 to March 2005 and its Chief Financial Officer from 1999 to

March 2003. Mr. Gonzalez has been the Chief Financial Officer of Minera Mexico from mid-2001 to December 2003. He had also headed Grupo Mexico s Treasury and Investor Relations departments from 1999 to 2001. Prior to joining Grupo Mexico, Mr. Gonzalez was a Senior Associate at McKinsey & Company, Inc., heading work for clients in various countries and industry sectors. Mr. Gonzalez has also worked at the Kimberley-Clark Corporation and the Chicago Board Trade.

Armando Ortega Gomez has served as a member of our Board of Directors since August 2002. Mr. Ortega has been our General Counsel since October 23, 2003, and has served as our Vice President, Legal and Secretary since April 25, 2002. Previously, he was our Assistant

Secretary from July 25, 2001 to April 25, 2002. He has been General Counsel of Grupo México since May 2001. He is also Assistant Secretary of Grupo México. Previously, he headed the Unit on International Trade Practices of the Ministry of Economy of Mexico with the rank of Deputy Vice Minister from January 1998 to mid-May 2001, and was a negotiator for international matters for said Ministry from 1988 to May 2001.

Jose N. Chirinos Fano has served as our Comptroller since April 2005 and as our Treasurer from April 2004 to April 2005. He has been Director of Comptroller and Finance since December 1999. From January 1994 until April 2005 he was our Assistant Comptroller. Since January 2004, Mr. Chirinos has been Vice President of Finance and Chief Financial Officer of Southern Peru Limited, one of our subsidiaries. He has held various positions in Accounting, Administration and Finance during his 39 years at our Company.

Mario Vinageras Barroso has served as our Vice President, Commercial since April 25, 2002. He has been Commercial Director of Grupo México since September 1994 and Corporate Director of Sales of Grupo México since June 1, 2000.

Vidal Muhech Dip has served as our Vice President, Projects since April 25, 2002. He has been Corporate Director of Engineering and Construction of Grupo México since April 1995. Previously, he was Director of Engineering and Construction of Industrial Minera México from 1985 to 1995.

PART II

Item 5. Market For Registrant s Common Equity and Related Stockholder Matters

At December 31, 2005, there were 2,116 holders of record of our Common Stock. SCC s Common Stock is traded on the New York Stock Exchange (NYSE) and the Lima Stock Exchange(BVL). The SCC Common Stock symbol is PCU on the NYSE and PCU1 on the BVL.

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

	2005					2004				
Quarters	**1st**	**2nd**	**3rd**	**4th**	**Year**	**1st**	**2nd**	**3rd**	**4th**	**Year**
Dividend per Share (Note 1)	$ 0.6792	$ 2.3776	$ 1.0430	$ 1.7000	$ 5.7998	$ 0.1467	$ 0.2946	$ 0.4103	$ 0.4481	$ 1.2998
Stock market Price										
NYSE:										
High	$ 64.20	$ 59.20	$ 55.96	$ 70.60	$ 70.60	$ 50.50	$ 41.85	$ 51.66	$ 54.10	$ 54.10
Low	$ 43.17	$ 41.63	$ 42.88	$ 50.20	$ 41.63	$ 36.16	$ 26.53	$ 36.16	$ 42.15	$ 26.53
BVL:										
High	$ 64.00	$ 59.20	$ 55.98	$ 70.75	$ 70.75	$ 50.80	$ 41.70	$ 52.00	$ 55.00	$ 55.00
Low	$ 43.39	$ 41.75	$ 42.55	$ 50.35	$ 41.75	$ 36.00	$ 26.50	$ 36.40	$ 42.20	$ 26.50

Note (1) Dividends per share based on the consolidated/combined results of SCC.

Actual dividends per share prior to the April 1, 2005 acquisition of Minera Mexico were $1.2497 in the first quarter of 2005; and $0.27, $0.542, $0.755, $0.8245 and $2.3915 for the first, second, third and fourth quarters of 2004 and the year 2004, respectively.

On January 26, 2006, a dividend of $2.75 per share was announced payable March 3, 2006 to shareholders of record as of February 15, 2006. Our dividend policy continues to be reviewed at Board of Directors meetings, taking into consideration the current intensive capital investment program and expected future cash flow generated from operations.

For a description of limitations on our ability of the Company to make dividend distributions, see Management s Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosures about Market Risk Liquidity and Capital Resources and Note 10 - Financings to our Consolidated Combined Financial Statements.

Equity Compensation Plan Information at December 31, 2005:

Plan Category	Number of securities to be issued upon exercise of outstanding options (a)	Weighted-average exercise price of outstanding options (b)	Number of securities remaining available for future issuance (c)
Stock incentive plan			645,060
Directors stock award plan	N/A	N/A	68,800

For further information on the Company s equity compensation plans see Note 14 Stockholders Equity to the Company s Consolidated Combined Financial Statements.

Item 6. Selected Financial Data

FIVE-YEAR SELECTED FINANCIAL AND STATISTICAL DATA

The selected historical financial data presented below as of and for the five years ended December 31, 2005, includes certain information that has been derived from our consolidated combined financial statements. The selected financial data should be read in conjunction with Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosures about Market Risk and the consolidated combined financial statements and notes thereto.

(In millions, except Capital Stock and Financial Data, except where noted)

	Year Ended December 31,				
Statement of Earnings Data	**2005**	**2004**	**2003**	**2002**	**2001(1)**
Net sales	$ 4,112.6	$ 3,096.7	$ 1,576.6	$ 1,388.4	$ 1,560.0
Operating income	2,094.5	1,482.4	325.7	186.9	75.2
Minority interest	(12.5)	(4.7)	(4.3)	(8.9)	2.8
Cumulative effect of change in accounting principle, net of income tax			(1.5)		
Net earnings (loss)	$ 1,400.1	$ 982.4	$ 83.5	$ 144.9	$ (109.9)
Per share amounts:					
Earnings (loss) basic and diluted	$ 9.51	$ 6.67	$ 0.57	$ 0.98	$ (0.75)
Dividends paid	$ 5.80	$ 1.30	$ 0.31	$ 0.19	$ 0.19

	As of December 31,				
Balance Sheet Data	**2005**	**2004**	**2003**	**2002**	**2001 (1)**
Cash, cash equivalents and marketable securities	$ 876.0	$ 756.0	$ 351.6	$ 175.1	$ 260.5
Total assets	5,687.6	5,319.2	4,491.0	4,419.0	4,480.6
Total long-term debt, including current portion	1,172.1	1,330.3	1,671.2	1,621.2	1,714.3
Total liabilities	2,348.8	2,494.3	2,385.9	2,452.5	2,633.3
Total stockholders equity	$ 3,326.1	$ 2,813.6	$ 2,022.7	$ 1,881.5	$ 1,751.9

	Year Ended December 31,				
Statement of Cash Flows	**2005**	**2004**	**2003**	**2002**	**2001(1)**
Cash provided from operating activities	$ 1,644.2	$ 1,172.4	$ 64.8	$ 181.9	N/A(2)
Depreciation, amortization and depletion	277.2	192.6	177.1	157.6	165.9
Cash (used for) investing activities	(425.4)	(219.5)	(59.7)	(85.2)	N/A(2)
Capital expenditures	(470.6)	(228.3)	(64.9)	(85.4)	(180.9)
Cash (used for) provided from financing activities	(1,055.6)	(540.6)	185.6	(145.9)	N/A(2)
Dividends paid	(853.9)	(191.4)	(45.4)	(21.5)	(28.8)

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Capital Stock	Year Ended December 31, 2005	2004	2003	2002	2001(1)
Common shares outstanding basic (in thousands)	147,228	147,224	147,220	147,213	147,210
Common shares outstanding diluted (in thousands)	147,228	147,224	147,225	147,217	147,212
NYSE Price High	$ 70.60	$ 54.10	$ 48.85	$ 15.54	$ 15.10
NYSE Price Low	$ 41.63	$ 26.53	$ 14.42	$ 10.82	$ 8.42
Book value per share	22.59	19.11	13.74	12.78	11.90
P/E ratio	7.04	7.08	83.11	15.41	(20.25)

Financial Ratios	Year Ended December 31, 2005	2004	2003	2002	2001(1)
Gross margin(3)	53.5%	50.7%	25.8%	19.4%	10.3%
Operating income margin(4)	50.9%	47.9%	20.7%	13.5%	4.8%
Net margin(5)	34.0%	31.7%	5.3%	10.4%	(7.0)%
Current assets to current liabilities	2.15	1.70	1.88	1.64	0.46
Net debt(6)/total capitalization(7)	8.2%	17.0%	39.5%	43.4%	45.4%
Ratio of Earnings to Fixed charges(8)	17.8x	12.6x	2.7x	1.5x	

(1) Financial information as of and for the year ended December 31, 2001 is unaudited.

(2) Information not available

(3) Represents net sales less cost of sales (including depreciation, amortization and depletion), divided by net sales as a percentage.

(4) Represents operating income divided by sales as a percentage.

(5) Represents net earnings divided by sales as a percentage.

(6) Net debt is defined as total debt minus cash balance.

(7) Represents net debt divided by net debt plus stockholders equity.

(8) Represents earnings divided by fixed charges. Earnings are defined as earnings before income taxes, minority interest and cumulative effect of change in accounting principle, plus fixed charges and amortization of interest capitalized, less interest capitalized. Fixed charges are defined as the sum of interest expense and interest capitalized, plus amortized premiums, discounts and capitalized expenses related to indebtedness. For the year 2001, the company would have had to generate additional earnings of $75,392,000 to achieve a ratio of earnings to fixed charges of 1:1.

Item 7 and 7.A Management s Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosures about Market Risk

EXECUTIVE SUMMARY

This Management s Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosures about Market Risk relates to and should be read together with our Audited Consolidated Combined Financial Statements as of and for each of the years in the three-year period ended December 31, 2005. Effective April 1, 2005, Southern Copper Corporation acquired substantially all of the outstanding common stock of Minera México. The acquisition was accounted for in a manner similar to a pooling of interests as it involved the reorganization of entities under common control. Under such accounting, the financial statements of SCC and Minera México are combined on a historical cost basis for all the periods presented since they were under the indirect common control of Grupo México during such periods. Therefore, unless otherwise noted, the discussion below of our financial condition and results of operations is for us, including our Minera México subsidiary, on a consolidated or combined basis for all periods. Our combined financial results may not be indicative of the results of operations that actually would have been achieved had the acquisition of Minera México taken place at the beginning of the periods presented and do not purport to be indicative of our future results.

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

OVERVIEW

Our business is primarily the production and sale of copper. In the process of producing copper, a number of valuable metallurgical byproducts are recovered, such as molybdenum, zinc, silver, lead and gold, which we also produce and sell. The sales prices for our products are largely determined by market forces outside of our control. Our management, therefore, focuses on production enhancement and cost control to improve profitability. We believe we achieve these goals through capital spending programs, exploration efforts and cost reduction programs. Our aim is to remain profitable during periods of low copper prices and to maximize financial performance in periods of high copper prices.

We discuss below several matters that our management believes are important to understand our results of operations and financial condition. These matters include (i) our operating cash costs as a measure of our performance, (ii) metals prices, (iii) our recent acquisition of Minera México, (iv) our business segments and (v) the effects of inflation and other local currency issues.

Since our inception, we have principally maintained operations in Peru. However, in recent years, we have refocused our plans and began steps to internationalize our business and broaden our market exposure. In 2003, we acquired exploration properties in Chile, which are being evaluated for potential exploitation. Beginning in 2004, we began tolling copper into rod in Amarillo, Texas. The biggest step, in the new focus, however, is the acquisition of Minera Mexico, see Minera Mexico acquisition below.

Operating Cash Costs

An overall benchmark used by us and a common industry metric to measure performance is operating cash costs per pound of copper produced. Operating cash cost is a non-GAAP measure that does not have a standardized meaning and may not be comparable to similarly titled measures provided by other companies. A reconciliation of our cash cost per pound to the cost of sales (including depreciation, amortization and depletion) as presented in the statement of earnings is presented under the subheading, Non-GAAP Information Reconciliation, below. We have defined operating cash cost per pound as cost of sales

(including depreciation, amortization and depletion); plus selling, general and administrative charges, treatment and refining charges; less byproducts revenue, depreciation, amortization and depletion, workers participation and other miscellaneous charges, the Peruvian royalty charge and the change in inventory levels; divided by total pounds of copper produced and purchased by us. In our calculation of operating cash cost per pound of copper produced, and purchased, we credit against our costs, the revenues from the sale of byproducts, principally molybdenum, zinc and silver. We account for this byproduct revenue because we consider our principal business to be the production and sale of copper. We believe that our company is viewed by the investment community as a copper company, and is valued, in large part, by the investment community s view of the copper market and our ability to produce copper at a reasonable cost. The increase over the last three years in the price of molybdenum, however, has had a significant effect on our traditional calculation of cash cost and its comparability between periods. Accordingly, we present cash costs below with and without crediting the byproduct revenues against our costs.

We exclude from our calculation of operating cash cost depreciation, amortization and depletion, which are considered non-cash expenses. Exploration is considered a discretionary expenditure and is also excluded. Workers participation provisions are determined on the basis of pre-tax earnings and are also excluded. Additionally excluded from operating cash costs are inventory changes, items of a non-recurring nature, and the portion of our mine stripping costs that we capitalize.

Our operating cash costs per pound, as defined, are presented in the table below for the three years ended December 31, 2005. We present cash costs with and without the inclusion of byproduct revenues below.

	2005	2004	2003
	(dollars per pound)		
Operating cash cost per pound of copper produced and purchased	$ 0.026	$ 0.182	$ 0.435
Operating cash cost per pound of copper produced and purchased (without byproduct revenue)	$ 1.005	$ 0.852	$ 0.743

A reconciliation of our operating cash costs per pound to our GAAP cost of sales is presented on page A-93 under the subheading Non-GAAP Information Reconciliation.

The reduction in the cash costs per pound of copper produced and purchased (including byproduct revenue) in 2005 and 2004 is to a large extent attributable to the increase in the molybdenum sales price. The credit to the above costs for molybdenum sales amounted to $0.617 per pound, $0.412 per pound and $0.102 per pound, in 2005, 2004 and 2003, respectively. The cash cost without byproduct revenue increased in 2005 and 2004 as a result of cost increases, including the cost of petroleum products, purchased electricity, maintenance expenses and the cost of replacement parts. In addition, the higher copper prices in 2005 and 2004 also increased our computation of cash cost, as we include in our calculation the cost of purchased metal. The higher value and accordingly the higher cost of copper in these years, increased our cash cost by $0.017 in 2004 and by a further $0.053 in 2005. Additionally, we believe our operating cash costs will increase in 2006 and the near-term years as a result of the EITF consensus, which we adopted on January 1, 2006 and is described below under Critical Accounting Policies and Estimates Capitalized Mine Stripping Costs and Leachable Material . If we had applied this consensus in 2005, 2004 and 2003 our pound operating cash cost would have increased by $0.075, $0.056 and $0.052, respectively.

Metals Prices

The profitability of our operations is dependent on, and our financial performance is significantly affected by, the international market prices for the products we produce, especially for copper, molybdenum, zinc and silver. Metals prices historically have been subject to wide fluctuations and are affected by numerous factors beyond our control.

These factors, which affect each commodity to varying degrees, include international economic and political conditions, levels of supply and demand, the availability and cost of substitutes, inventory levels maintained by producers and others and, to a lesser degree, inventory carrying costs and currency exchange rates. In addition, the market prices of certain metals have on occasion been subject to rapid short-term changes due to speculative activities.

We are subject to market risks arising from the volatility of copper and other metals prices. Assuming that expected metal production and sales are achieved, that tax rates are unchanged and giving no effects to potential hedging programs, metal price sensitivity factors would indicate the estimated change in net earnings resulting from metal price changes in 2006 as provided in the table below.

		Copper	Molybdenum	Zinc	Silver
Change in metal prices (per pound except silver	per ounce)	$ 0.01	$ 1.00	$ 0.01	$ 1.00
Change in net earnings (in millions)		$ 8.7	$ 14.4	$ 1.8	$ 11.4

Minera México Acquisition

On April 1, 2005, we acquired Minera México from Americas Mining Corporation, a subsidiary of Grupo México, our controlling stockholder. Minera México is the largest mining company in Mexico and the eleventh largest copper producer in the world on a stand-alone basis. On April 1, 2005, we exchanged 67,207,640 newly-issued shares of our common stock for the outstanding shares of Minera México s direct majority stockholder, and Minera México became our 99.1% owned subsidiary. As a part of this transaction, on March 1, 2005, we paid a special transaction dividend of $100 million to all of our stockholders. Upon completion of the merger, Grupo México increased its indirect beneficial ownership of our capital stock from approximately 54.2% to approximately 75.1%. On October 20, 2005, our board of directors approved the acquisition of 6,386,521 shares of Minera Mexico from Grupo Mexico. The acquired shares represent 0.81833% of the outstanding shares of Minera Mexico and were purchased for $30.3 million.

We are now in the process of integrating two companies that had previously been affiliated but operated independently. With this acquisition, we have increased our total copper reserves by 107%, or 23,199 million tons, based on year-end 2004 reserves, and have increased our annual copper production by 81%, equivalent to 320,000 tons of copper, based on 2004 production.

Business segments

Our Company operates in a single industry, the copper industry. With the acquisition of Minera Mexico in April 2005, we determined that to effectively manage our business we needed to focus on three operating segments. These segments are our Peruvian operations, our Mexican open-pit operations and our Mexican underground operations, known as our IMMSA unit. Our Peruvian operations include the Toquepala and Cuajone mine complexes and the smelting and refining plants, industrial railroad and port facilities which service both mines. Our Mexican open-pit operations include La Caridad and Cananea mine complexes, the smelting and refining plants and support facilities which service both mines. Our IMMSA unit includes five underground mines that produce zinc, lead, copper, silver and gold, a coal and coke mine, and several industrial processing facilities for zinc, copper and silver.

Segment information is included in our review of Results of Operations and also in Note 19 of our Consolidated Combined Financial Statements.

Inflation and Devaluation of the Peruvian Nuevo Sol and the Mexican Peso

Our functional currency is the U.S. dollar. Portions of our operating costs are denominated in Peruvian nuevos soles and Mexican pesos. Since our revenues are primarily denominated in U.S. dollars, when inflation/deflation in Peru or Mexico is not offset by a change in the exchange rate of the nuevo sol or the peso, respectively, to the dollar, our financial position, results of operations and cash flows could be adversely affected to the extent that the inflation/devaluation effects are passed onto us by our suppliers or reflected in our wage adjustments. In addition, the dollar value of our net monetary assets denominated in nuevos soles or pesos can be affected by devaluation of the nuevo sol or the peso, resulting in a remeasurement loss in our financial statements. Recent inflation and devaluation rates are provided in the table below.

	Year Ended December 31,		
	2005	2004	2003
Peru			
Peruvian inflation rate	1.5%	3.5%	2.5%
Nuevo sol/dollar (change in exchange rate year to year)	4.5%	(5.2)%	(1.5)%
Mexico			
Mexican inflation rate	3.3%	5.2%	4.0%
Peso/dollar (change in exchange rate year to year)	(4.9)%	0.3%	9.0%

Expansion and Modernization Program

Excluding capitalized stripping, we made capital expenditures of $470.6 million, $228.3 million and $64.9 million in 2005, 2004 and 2003, respectively, and we expect to make capital expenditures, of approximately $412.0 million in 2006 excluding capitalized interest. In general, the capital expenditures and projects described below are intended to contribute to further vertical integration of our operations by increasing the capacity for production of refined metal products.

During 2004 and 2003, Minera México s capital expenditures were curtailed due to liquidity constraints imposed by Minera México s lenders. In late 2004 and during 2005, Minera México s rate of capital expenditures increased significantly.

The table below sets forth our capital expenditures for the years ended December 31, 2005, 2004 and 2003:

	Year Ended December 31,		
	2005	2004	2003
	(dollars in millions)		
Projects			
Ilo smelter modernization	$ 234.6	$ 65.6	$ 6.3
La Caridad SX/EW plant	8.1		
Toquepala crushing, conveying system for leachable material	32.8	40.4	2.2
San Martín Unit, Santa Bárbara Unit, Charcas Unit and Nueva Rosita Unit	27.8	1.3	0.8
La Caridad copper smelter, sulfuric acid plant and copper refinery	10.2	4.1	1.8
Toquepala concentrator expansion	0.6	0.7	1.7
Cananea SX/EW plant	2.3	2.5	0.8
New copper filter at Toquepala	2.2	1.5	

PLS dams at Huanaquera	9.1	1.5	
Total project expenditures	327.7	117.6	13.6
Replacement capital expenditures:			
Mexico	100.3	48.7	11.7
Peru	42.6	62.0	39.6
Total replacement expenditures	142.9	110.7	51.3
Total capital expenditures	$ 470.6	$ 228.3	$ 64.9

The above table does not include capitalized stripping of $116.4 million, $92.8 million and $79.7 million for the years 2005, 2004 and 2003, respectively. Set forth below are descriptions of some of our current projects and expected capital expenditures.

Ilo Smelter Modernization: Our largest outstanding short-term capital investment project is the Ilo smelter modernization. The project is part of our Environmental Compliance and Management Program (known by its Spanish acronym, PAMA), which was approved by the Peruvian government in 1997. The project will modernize the smelter and is targeted to capture no less than 92% of sulfur dioxide emissions, in compliance with Peru s environmental requirements. The project is moving ahead on schedule with detailed engineering completed and construction work in process in order to be completed by the end of 2006. The anode casting wheel part of this project is being hot tested and starting in the first quarter of 2006 we will replace Ilo blister production with anodes. This will allow us to directly feed the refinery and eliminate the current cost of re-melting blister into anode form. The budget approved for this project is $500 million, including $389 million expended through December 31, 2005. We have budgeted $87.5 million for this project in 2006 excluding capitalized interest.

Toquepala Leach Dump Project: To improve cost containment and production efficiency, in 2003 we started a project at Toquepala to install a crushing, conveying and spreading system at the leach dumps. The approved budget for this project is $81 million, with $75.5 million expended through December 31, 2005. The new system is expected to improve recovery at our leaching facilities and will largely eliminate costly truck haulage in the process. The project is 94% complete at December 31, 2005. The primary crusher was placed in operation in August 2005. The overland conveyors 1, 2 and 3, and the grasshoppers 30 and 31 were put in the production line. The conveying reached its rated capacity of 6,500 ton/hr. in September 2005. The construction of the ramp will continue until final completion of the project, expected in August 2006.

Cananea SX/EW Plant: We intend to increase our Cananea unit s production of electrolytic copper by building a new SX/EW plant, (SXEW III). The plant will produce electrolytic copper cathodes of ASTM grade 1 or LME grade A. The project includes the installation of storage for deliverables required for operation of the plant and the installation of an emergency power plant and a fire protection system. The project is currently underway. In its first stage, it is expected to produce 10,500 tons of additional copper by the end of 2007. Studies for a 22,900 ton subsequent expansion of the SX/EW plant are also underway. As the Cananea mine has the largest quantity of our copper reserves we are studying several possibilities for expanding it to a scale that fully maximizes its potential. The approved budget for this project, including the subsequent 22,900 tons expansion, is $90 million, of which $2.3 million has been expended through December 2005.

Nueva Rosita Coal Plant: We commenced projects to increase the production at our Nueva Rosita unit in Coahuila, Mexico. These projects include an upgrade of our Pasta de Conchos mine and re-engineering and modernization of our coking plant.

The Pasta de Conchos mine s project includes the open pit development in the east and west zones to increase coal production from 250,000 to 1,000,000 tons per year and has a capital budget of $40.1 million of which $15.2 million was expended through 2005.

The coking plant project includes the re-engineering and modernization of 21 ovens, with this re-engineering we expect to increase efficiency in the system to control emissions during the discharging of the ovens and provide for continuous operation. This project has a capital budget of $12 million of which $8.7 million was expended through 2005. The expected completion date of the re-engineering part of this project is March 2006. The modernization is forecast to be completed in 2009.

Other Expenditures: Increasing the height of dams at Quebrada Honda for tailings impoundment is now under engineering study. The auxiliary dams constructed before will serve as initial dams to increase the impoundment volume at Quebrada Honda. The capital

cost budget for this project will be ready after completion of the engineering studies, which is expected in the third quarter 2006.

The new PLS dams project at Huanaquera is for construction of new pregnant solution collection dams for the Toquepala leaching facility. At year end 2005 this project has reached approximately 47% progress. The budget for this project is $32.5 million, $10.6 million of which was expended as of December 31, 2005.

In order to reduce operation and maintenance costs and comply with environmental requirements, we replaced the disc filters at the Toquepala concentrator with a new vertical press filter. The project was completed in 2005 at a cost of $3.7 million.

Proposed Projects: We have a number of projects that we believe may develop in the future. We evaluate new projects on the basis of expected return, environmental needs, required investment and estimated production, among other considerations.

Brownfield projects are development projects on existing properties, generally taking two to three years to complete. Below is a brief description of each of the brownfield projects that we believe we may pursue in the future. Information in the table below, including descriptions and investments are estimates only. The estimated completion time for each of these projects is approximately two years, once started. We cannot assure that it will undertake any of these projects or that the information in the table below will be accurate for any project we undertake.

Projects	Description	Location	Estimated Investment (in millions)(1)
Concentrator	Additional 7,000,000 tons per year of sulfide ore processed	Cananea (Mexico)	$80 - $100
SX/EW Plant	Additional 22,000 tons per year of copper cathode	La Caridad (Mexico)	$110 - $130
Rod Plant	Additional 150,000 tons per year of copper rod	La Caridad (Mexico)	$25 - $35
Zinc Refinery	Additional 50,000 tons per year of refined zinc	San Luis Potosí (Mexico)	$100 - $120

(1) Excluding capitalized interest.

In addition, in December 2005 we announced our plans for a 450 Megawatt power generation plant in Mexico to supply our own facilities. We anticipate that the project, which is currently out for bids, will be built and managed by an independent power company and our obligation will be the supply of coal from our reserves and an agreement to use the power output. We expect this plant will give us the ability to substantially reduce and control our power cost, as we will supply coal from our mines. We believe we will be able to reduce the swings caused by the variation in the international price of energy, a major element of our operating cost. The project, expected to be finished in 2008, will create nearly 900 permanent jobs, 3,000 jobs during the construction stage, and will exceed Mexican and international environmental standards. We also have additional projects that we are considering and may pursue.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of our combined financial condition and results of operations, as well as quantitative and qualitative disclosures about market risks, are based upon our consolidated combined financial statements, which have been prepared in accordance with U.S. GAAP.

Preparation of these consolidated combined financial statements requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. 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: carrying value of the ore reserves that are the basis for future cash flows estimates and units-of-production depreciation and amortization calculations; revenue recognition; capitalized mine stripping costs and leachable material; and asset retirement obligations. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

Ore Reserves: For purposes of our long-term planning, our management uses metal price assumptions of $0.90 per pound for copper and $4.50 per pound for molybdenum. These prices are intended to approximate average prices over the long term. Ore reserves based on these prices are the basis for our internal planning, including the preparation of the mine plans for our mines. Our management uses these price assumptions, as it believes these prices reflect the full price cycle of the metals market.

However, pursuant to SEC guidance, the reserves information in this report is calculated using average metals prices over the most recent three years, except as otherwise stated. We refer to these three-year average metals prices as current average prices. Our current average prices for copper are calculated using prices quoted by COMEX, and our current average prices for molybdenum are calculated according to *Platt s Metals Week*. Unless otherwise stated, reserves estimates in this report use $1.261 per pound for copper and $17.817 per pound for molybdenum, both current average prices as of December 31, 2005. The current average prices for copper and molybdenum were $0.939 and $8.425, respectively, as of December 31, 2004 and $0.751 and $3.81, respectively, as of December 31, 2003.

Certain financial information is based on reserve estimates calculated on the basis of current average prices. These items include the amount of mine stripping that is capitalized, units of production amortization of capitalized mine stripping and amortization of intangible assets. For our Peruvian mines, commencing in 2003, and for our Mexican operations commencing in 2005 we have used reserve estimates based on current average metals prices as of the most recent year then ended to determine these items. In the case of prior periods we have used reserves estimates based on a price assumption of $ 0.90 per pound of copper and $ 4.50 per pound of molybdenum.

Capitalized Mine Stripping Costs and Leachable Material: In carrying out our mining operations, we are required to remove waste material to access mineral deposits. Because the concentration of mineral deposits is not evenly distributed throughout the ore body, there are periods during the life of the mine in which we mine more waste as compared to ore produced, and periods during which we mine less waste as compared to ore produced. These mining costs are commonly referred to as stripping costs.

For each of our existing mines in the production stage, our mine engineers have calculated a life-of-mine stripping ratio that represents our estimate of the total amount of waste to be removed at each mine divided by the estimated total proven and probable reserves at such mine. The mine stripping ratios are used to determine the amount of mine production costs to be charged against earnings. In periods when the actual ratio of waste to mineral ore extracted exceeds the life-of-mine stripping ratios, we capitalize production costs associated with mining operations in proportion to the excess waste mined. Such capitalized costs are included in net capitalized mine stripping, and are amortized to operations using the units of production method. This charge to operations for the amortization of deferred stripping costs could differ materially between reporting periods to the extent that there were material changes in the value of proven and probable reserves. Copper resources contained in piles of leachable materials that have been extracted from the mines are not included in the determination of units of production amortization. Conversely, in periods when the actual ratio of waste to mineral ore mined is less than the life-of-mine stripping ratio, we reduce the net capitalized mine stripping asset proportionally with a charge to amortization expense. During periods we are stripping at the higher rates, increased mining costs associated with the higher

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tonnages are incurred. Costs of this nature are necessary in a mining operation to ensure the availability of mineable ore in future periods. The deferred stripping accounting method has been generally accepted in the mining industry where mining operations have diverse grades and waste-to-mineral ore ratios; however, industry practice does vary.

At the March 17, 2005 meeting of the Emerging Issues Task Force (EITF), the EITF reached a consensus that stripping costs incurred during the production phase of a mine are variable production costs that should be included in the costs of the inventory produced (extracted) during the period that the stripping costs are incurred. The EITF noted that the consensus does not address the accounting for stripping costs incurred during the pre-production phase of a mine. The consensus with respect to this issue was ratified by the FASB on March 30, 2005, and will be effective for the first reporting period in fiscal years beginning after December 15, 2005, with early adoption permitted. In its June 15-16, 2005 meeting, the EITF also approved a modification to the transition provisions. On January 1, 2006 we adopted this consensus by reversing $499.5 million of net cumulative capitalized stripping cost and capitalized leach inventory as of December 31, 2005 and recording a net charge of $322.9 million to retained earnings after recognition of workers participation and tax benefit of $176.6 million. In addition, near-term future operating income could be negatively impacted on the extent that costs previously capitalized are expensed.

If we were to have expensed all production stripping costs and capitalized leaching costs associated with our mining operations as incurred, net operating cost would have increased by $43.0 million, $56.3 million and $53.9 million for the years ended December 31, 2005, 2004 and 2003, respectively.

We further discuss capitalized mine stripping costs and leachable material in Notes 2 and 5 to our Consolidated Combined Financial Statements included herein.

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

We further discuss Asset Retirement Obligation in Note 9 to our consolidated combined financial statements included herein.

Revenue Recognition: For certain of our sales of copper and molybdenum products, customers are given the option to select a monthly average LME or COMEX price (as is the case for sales of copper products) or the molybdenum oxide proprietary market price estimate of Platt s *Metals Week* (as is the case for sales of molybdenum products), generally ranging between one and three months subsequent to shipment. In such cases, revenue is recorded at a provisional price at the time of shipment. The provisionally priced copper sales are adjusted to reflect forward copper prices based on LME or COMEX prices at the end of each month until a final adjustment is made to the price of the shipments upon settlement with customers pursuant to the terms of the contract. In the case of molybdenum sales, for

which there are no published forward prices, the provisionally priced sales are adjusted to reflect the market prices at the end of each month until a final adjustment is made to the price of the shipments upon settlement with customers pursuant to the terms of the contract.

The following are the provisionally priced copper and molybdenum sales outstanding at December 31, 2005, 2004 and 2003:

Provisionally Priced Sales	Year Ended December 31, 2005	2004	2003
Copper			
Millions of pounds	163.7	179.7	51.1
Priced at (per pound)	$ 2.04	$ 1.46	$ 1.08
Molybdenum			
Millions of pounds	6.1	6.3	3.7
Priced at (per pound)	$ 25.00	$ 32.38	$ 7.60

Provisional sales adjustments included in accounts receivable and net sales were as follows at December 31, 2005, 2004 and 2003:

Provisional Sales Adjustments	Year Ended December 31, 2005	2004	2003
		(dollars in millions)	
Copper	$ 7.9	$ 15.9	$ 8.4
Molybdenum	(39.2)	69.2	6.9
Total	$ (31.3)	$ 85.1	$ 15.3

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

Results of Operations

The following table highlights key combined financial and operating results for each of the years in the three-year period ended December 31, 2005.

Statement of Earnings Data	Year Ended December 31, 2005	2004	2003
		(dollars in millions)	
Net sales	$ 4,112.6	$ 3,096.7	$ 1,576.6
Cost of sales (exclusive of depreciation, amortization and depletion)	(1,635.4)	(1,334.3)	(992.4)
Selling, general and administrative	(81.1)	(71.8)	(63.5)
Depreciation, amortization and depletion	(277.2)	(192.6)	(177.1)
Exploration	(24.4)	(15.6)	(17.9)
Operating income	2,094.5	1,482.4	325.7
Interest expense	(108.9)	(106.5)	(117.0)
Interest capitalized	22.5	10.7	5.6
Interest income	30.8	8.3	5.2
Loss on debt prepayments	(10.6)	(16.5)	(5.8)
Loss on derivative instruments	(22.3)	(1.4)	
Gain on disposal of properties		53.5	
Other income (expense)	(3.7)	(9.7)	(4.2)
Income taxes	(589.7)	(433.7)	(120.1)
Minority interest	(12.5)	(4.7)	(4.3)
Cumulative effect of change in accounting Principle, net of income tax			(1.5)

Net earnings	$ 1,400.1	$ 982.4	$ 83.5

The table below outlines the average published market metals prices (rounded to the nearest cent) for our metals for each of the years ended December 31, 2005, 2004 and 2003.

Average Market Metals Prices

	Year Ended December 31,			% Change	
	2005	2004	2003	2004 to 2005	2003 to 2004
Copper price ($ per pound - LME)	$ 1.67	$ 1.30	$ 0.81	28.5%	60.5%
Copper price ($ per pound - COMEX)	$ 1.68	$ 1.29	$ 0.81	30.2%	59.3%
Molybdenum price ($ per pound) (1)	$ 31.05	$ 15.95	$ 5.21	94.7%	206.1%
Zinc price ($ per pound - LME)	$ 0.63	$ 0.48	$ 0.38	31.3%	26.3%
Silver price ($ per ounce - COMEX)	$ 7.32	$ 6.68	$ 4.89	9.6%	36.6%

(1) Platt s Metals Week Dealer Oxide.

Segment Sales Information

The following table presents the volume of sales by segment of copper and our significant byproducts, for each of the three years ended December 31, 2005.

Copper sales (million pounds)	Year Ended December 31, 2005	2004	2003
Peruvian operations	825.3	864.4	827.1
Mexican open-pit	768.8	680.6	625.5
Mexican IMMSA unit	93.1	53.9	49.1
Intersegment elimination	(147.2)	(34.4)	(45.6)
Total copper sales	1,540.0	1,564.5	1,456.1

Byproduct sales (million pounds, except silver - million ounces)	Year Ended December 31, 2005	2004	2003
Peruvian operations:			
Molybdenum contained in concentrate	23.4	23.5	20.0
Silver	4.2	4.6	4.2
Mexican open-pit operations:			
Molybdenum contained in concentrate	8.8	8.1	7.6
Zinc-refined and in concentrate	108.9	101.1	90.1
Silver	7.2	7.5	8.5
IMMSA unit			
Zinc-refined and in concentrate	288.7	269.1	274.8
Silver	11.5	12.6	12.1
Intersegment elimination			
Zinc	(103.5)	(103.6)	(95.5)
Silver	(3.1)	(4.5)	(5.3)
Total byproduct sales			
Molybdenum contained in concentrate	32.2	31.6	27.6
Zinc-refined and in concentrate	294.1	266.6	269.4
Silver	19.8	20.2	19.5

Results of operations for the Year Ended December 31, 2005 Compared to Year Ended December 31, 2004.

Net sales

Our sales in 2005 were $4,112.6 million, compared with $3,096.7 million in 2004, an increase of $1,015.9 million or 32.8%. The increase was attributable to significant

increases in metal prices in 2005, particularly for copper, which rose approximately 30%, and molybdenum, which rose 94.7%. Sales volumes for copper declined by 24.5 million pounds in 2005 a decrease of 1.6% compared with 2004. This decrease in copper sales volume, as well as a decrease in the volume of silver sold, was to a large part offset by increases in the volume of molybdenum and zinc sales.

The table below presents information regarding the volume of our copper sales products.

	Year Ended December 31,	
Copper sales (million pounds)	**2005**	**2004**
Refined	818.2	790.6
Blister	109.4	93.9
Concentrates	20.0	107.8
SX/EW	261.7	239.1
Rod	330.7	333.1
Total	1,540.0	1,564.5

Mine copper production was 1,521.0 million pounds in 2005, a decrease of 3.9% from 2004. This decrease of 61.9 million pounds included a decrease of 87.6 million pounds from the Peruvian open pit operations and 5.0 million pounds in the Mexican underground mines, which were partially offset by an increase of 30.7 million pounds from the Mexican open pit mines.

The decrease of 87.6 million pounds in the Peruvian mines was the result of lower ore grades at the Cuajone and Toquepala mines and lower PLS grade in the SX/EW operation. The decrease of 5.0 million pounds in the Mexican underground mines was due to lower ore grades. The increase of 30.7 million pounds in production from the Mexican open pit mines was principally due to higher throughput in La Caridad mine and higher recovery and an increase in SX-EW production due to higher quantities of PLS treated and higher power efficiency.

Molybdenum production increased from 31.7 million pounds in 2004 to 32.6 million pounds in 2005. This 2.8% increase in production was mainly the result of an increase in the Mexican production, due to higher recoveries.

Mine zinc production amounted to 316.6 million pounds in 2005, an increase of 21.6 million pounds or 7.3% over the 2004 period. The increase was due to the resumption of production at IMMSA s Santa Eulalia unit. Santa Eulalia s operations were suspended from 2000 through 2004 as the facilities were being modernized. The work at the Santa Eulalia mine was delayed due to liquidity issues of Minera Mexico in some years prior to 2004. Increased 2005 production from Santa Eulalia amounted to 27.6 million pounds. Grade decreases at our other zinc mines reduced somewhat the increase from Santa Eulalia. In January 2006 an electrical fire at a power sub-station at the San Luis Potosi zinc refinery shut down operations. After evaluating the damage, we expect to restore 50% of the production in the second quarter of 2006 and the remaining 50% at the end of the third quarter. In the interim we are selling zinc concentrates. Due to a shortage of zinc concentrate, the Company is able to receive favorable terms on these sales and expect that the overall return will be favorable. In addition, insurance coverage is expected to cover the cost of repairs, equipment replacement and any loss on production.

Copper made up 66.6% of net sales in 2005 compared with 68.1% in 2004. Sales of byproducts in 2005 totaled $1,373.6 million compared with $987.8 million in 2004, an increase of 39.1%. The increase is principally attributable to significantly increased sales of molybdenum, resulting from the 94.7% increase in the average market price for molybdenum in 2005 compared with 2004. In addition to increased metal prices, increased mine production was also a factor in increasing our byproduct sales in 2005, molybdenum production for 2005 was 32.6 million pounds compared with 31.7 million pounds in 2004, an increase of 3%. The table below provides the sales of our byproducts as a percentage of our total net sales.

Byproduct Sales as a Percentage of Total Net Sales	Year Ended December 31, 2005	2004
Molybdenum	22.5%	20.9%
Zinc	4.3	4.1
Silver	3.5	4.1
Other byproducts	3.1	2.8
Total	33.4%	31.9%

Cost of sales (exclusive of depreciation, amortization and depletion)

Our cost of sales (exclusive of depreciation, amortization and depletion) in 2005 was $1,635.4 million, compared with $1,334.3 in 2004, an increase of $301.1 million, or 22.6%. The principal elements of the cost of sales increase are a $72.5 million increase in the cost of purchased electric power and fuel, an increase of $27.2 million for mining royalties, and a $125.6 million increase in worker s participation, including an adjustment of $36.3 million, related to a change in the method of calculating the amount of the statutory worker s participation for the Mexican workers, see Liquidity and Capital Resources for a discussion of this matter. In addition, the higher value of copper in 2005 increased our cost of sales by $16.2 million over 2004, as we supplemented our copper production with copper acquired from third parties.

During 2005, in response to an industry wide shortage of mine truck tires we put in place a tire rationalization program to optimize our tire usage. The program, which includes; road maintenance improvements; closer tire maintenance monitoring, including temperature and pressure checks; and stricter truck handling procedures; was in place for 2005 and resulted in an 18% reduction in tire consumption when compared to 2004. While we expect the supply deficit to be resolved by mid-2007, we continue to monitor the supply situation for this vital commodity and expect to satisfy our needs through prudent consumption practices and the development of alternative supply sources, if necessary.

We expect that cost of sales will increase in 2006 and the near future years as a result of our adoption, on January 1, 2006, of the EITF s, consensus related to mine stripping costs. See Critical Accounting and Estimates Capitalized Mine Stripping and Leachable Material.

Selling, general and administrative

Our selling, general and administrative expense in 2005 was $81.1 million, compared with $71.8 million in 2004, an increase of $9.3 million. Our higher selling, general and administrative expense in 2005 was principally a result of higher legal, auditing and consulting fees related in part to the acquisition of Minera Mexico, to the issuance of new debt, and to the cost associated with compliance with the Sarbanes-Oxley Act. In addition, the Peruvian tax on bank transfers was $1.4 million higher in 2005.

Depreciation, amortization and depletion

Our depreciation, amortization and depletion expense in 2005 was $277.2 million, compared with $192.6 million in 2004, an increase of $84.6 million. The increase was principally the result of the increase in the amortization of capitalized mine stripping costs and leachable materials of $37.0 million and an increase in depreciation related to replacement capital expenditures.

Exploration

Exploration expense in 2005 was $24.4 million, compared with $15.6 million in 2004, an increase of $8.8 million. The increase was principally as a result of the drilling and cross path activities at the Tia Maria project in Peru, $3.7 million, and $1.7 million and $1.2 million drilling costs in IMMSA and Cananea, respectively.

Interest expense

Interest expense in 2005 was $108.9 million compared with $106.5 million in 2004, an increase of $2.4 million. Our currently paid interest expense decreased in 2005 principally as a result of a reduction of our debt outstanding. However, included in 2005 there was $15.0 million for the write-off of previously capitalized debt issuance cost for financings prepaid in such years. With respect to our financing programs reference is made to Liquidity and Capital Resources for a further discussion of this matter.

Capitalized interest

Capitalized interest in 2005 was $22.5 million, compared with $10.7 million in 2004, an increase of $11.8 million. This increase is mainly due to the Ilo smelter modernization and the Toquepala crushing, conveying system for leachable material projects, on which capitalized interest increased by $6.4 million and $2.2 million, respectively in 2005.

Interest income

Interest income in 2005 was $30.8 million, compared with $8.3 million in 2004, an increase of $22.5 million. Our interest income increased principally as a result of higher interest rates on short term securities and significantly higher invested balances.

Loss on derivative instruments

Loss on derivative instruments in 2005 was $22.3 million, compared with $1.4 million in 2004, an increase of $20.9 million. In 2005, we recorded $23.5 million of loss in copper swaps and a gain of $1.2 million in interest rate swaps. In 2004 we recorded a loss of $1.4 million of interest rate swap.

Loss on debt prepayments

Loss on debt prepayments in 2005 was $10.6 million, compared with $16.5 million in 2004, a decrease of $5.9 million. In 2005 we paid a penalty of $2.0 million for the prepayment of $199 million of Peruvian bonds and a premium of $8.6 million in the Yankee bonds repurchase. In 2004, we incurred $12.8 million of prepayment fees and prepayment interest differential and $3.7 million for a debt restructuring charge.

Gain on disposal of property

Gain on disposal of property in 2004 was $53.5. This amount includes gain from the sale of non-core property of our Mexican operation.

Other expense

Other expense in 2005 was $3.7 million, compared with $9.7 million in 2004 a decrease of $6.0 million. Included in other expense are fees and other costs incurred in conjunction with the acquisition of Minera Mexico and were $3.3 million and $5.8 million in 2005 and 2004, respectively.

Income taxes

Income taxes in 2005 were $589.7 million, compared with $433.7 million in 2004, an increase of $156.0 million and include $576.3 million and $420.2 million of Peruvian and Mexican income taxes, $13.4 million and $13.5 million for US Federal and state taxes for 2005 and 2004, respectively. US income taxes are primarily attributable to investment income as well as limitations on use of foreign tax credits in determining the alternative minimum tax.

The increase of $156.0 million or 36.0% was primarily due to $581.5 million of higher pretax income. The effective tax rate for 2005 was 29.4%, compared with 30.4% in 2004.

Included in the 2005 tax provision is a refund of $43.4 million received by Minera Mexico for asset-based taxes (minimum income tax) paid in prior years. Without the benefit of this credit the Company s effective tax rate for the 2005 year would increase to 31.6%

Minority interest

Minority interest in 2005 was $12.5 million compared with $4.7 million in 2004, an increase of $7.8 million or 166.0%. This increase is due to higher earnings in the period.

Net earnings

Our net earnings in 2005 were $1,400.2 million, compared with $982.4 million in 2004, an increase of $417.8 million or 42.5%. Net earnings increased as a result of the factors described above.

Segment Operating Income Information 2005 vs. 2004:

Peruvian open-pit operations

			Change	
	2005	2004	Value	%
Net sales	$ 2,179.9	$ 1,715.9	$ 464.0	27.0%
Operating costs and expenses	(879.4)	(788.8)	(90.6)	11.5%
Operating income	$ 1,300.5	$ 927.1	$ 373.4	40.3%

Net sales at our Peruvian operations in 2005 were $2,179.9 million, compared with $1,715.9 million in 2004, an increase of $464.0 million. This increase was principally due to significant increases in the price of copper and molybdenum. Copper sales volume decreased by 39.0 million pounds in 2005 principally as a result of lower production at Toquepala and Cuajone due to lower ore grade and a decrease in SX/EW production due to lower PLS grades.

Operating costs and expenses at our Peruvian operations in 2005 were $879.4 million, compared with $788.8 in 2004, an increase of $90.6 million principally due to higher cost of sales. The increase in cost of sales (exclusive of depreciation, amortization and depletion) of $83.8 was principally the result of the higher cost of fuel, workers participation provision and Peruvian royalty charges.

Fuel costs, a key component of our costs, were higher by $31.4 million in 2005. Our cost for workers participation increased $27.6 million in 2005. This cost is calculated based on 8% of our Peruvian operations pre-tax earnings and increased as our profits increase. A Peruvian royalty provision which was instituted in June 2004 added $22.7 million to our cost in 2005.

Operating income in 2005 was $1,300.5 million, compared with $927.1 million in 2004, an increase of $373.4 million. The operating income increased as a result of the factors described above.

Mexican open-pit operations.

	2005	2004	Change Value	Change %
Net sales	$ 1,769.6	$ 1,189.7	$ 579.9	48.7%
Operating costs and expenses	(1,054.2)	(665.9)	(388.3)	58.3%
Operating income	$ 715.4	$ 523.8	$ 191.6	36.6%

Net sales from our Mexican open-pit operations in 2005 were $1,769.6 million, compared with $1,189.7 million in 2004, an increase of $579.9 million or 48.7%. The increase in net sales was principally a result of significant increases in the price of copper and molybdenum and increased sales volume.

Operating cost and expenses at our Mexican open-pit operations in 2005 was $1,054.2 million compared with $665.9 million in 2004, an increase of $388.3 million or 58.3%. This increase was principally the result of higher cost of sales and higher depreciation, amortization and depletion in 2005. The increase in cost of sales of $288.4 million was principally the result of higher sales volumes, increased fuel and purchased electric power cost, increased maintenance cost, higher purchased metal costs, higher exchange losses, and increased workers participation. Production and sales volume increases added to our 2005 costs, as did an increase of $104.0 million for purchased metals from third parties. Our cost for workers participation, including an adjustment of $36.3 million, increased $106.1 million in 2005. This cost is calculated based on 10% of pretax earnings and increases as our profits increase. Fuel and purchased electric power cost were higher by $31.4 million in 2005. Maintenance cost was also higher by $38.9 million in 2005. In addition, an exchange loss of $18.5 million was reported in 2005 as a result of the appreciation of the peso against the U.S. dollar during the year. The increase in depreciation, amortization and depletion of $85.7 million in 2005 was principally due to the amortization of capitalized mine stripping and leachable cost.

Operating income in 2005 was $715.4 million, compared with $523.8 million in 2004, an increase of $191.6 million or 36.6%. The operating income increased as a result of the factors described above.

IMMSA unit.

	2005	2004	Change Value	Change %
Net sales	$ 448.7	$ 317.1	$ 131.6	41.5%
Operating costs and expenses	(380.3)	(272.9)	(107.4)	39.4%
Operating income	$ 68.4	$ 44.2	$ 24.2	54.8%

Net sales at our IMMSA unit in 2005 were $448.7 million, compared with $317.1 million in 2004, an increase of $131.6 million or 41.5%. The increase was due to higher sales prices in 2005 for copper, zinc and silver. In addition, an increase in sales volume of copper and zinc added to the 2005 sales increase. Zinc from our reopened Santa Eulalia mine added 22.7 million pounds to 2005 zinc sales.

Operating costs and expenses at our IMMSA unit were $380.3 million in 2005, compared with $272.9 million in 2004, an increase of $107.4 million or 39.4%. This increase was principally the result of increased sales volumes for copper and zinc, the higher cost of fuel and purchased electric power, higher volume of metal purchased from third parties and an increase in the cost of contractor services. In 2005, cost of sales (exclusive of depreciation, amortization and depletion) increased $99.7 million, principally as a result of higher production and sales volumes for

copper and zinc, which included an increase of $64.6 million for purchased metals from third parties.

Our fuel and purchased electric power costs, a key component of our costs, were higher by $10.9 million in 2005. In addition, the cost of contractor services, principally for our coal operations, increased by $13.0 million in 2005.

Operating income in 2005 was $68.4 million, compared with $44.2 million in 2004, an increase of $24.2 million or 54.8%. The operating income increased as a result of the factors described above.

Intersegment Eliminations and Adjustments

The net sales, operating costs and expenses and operating income displayed above will not be directly equal to amounts in our consolidated combined statement of earnings because the adjustments of intersegment operating revenues and expenses must be taken into account. Please see Note 19 to the financial statements.

Results of Operations for the Year Ended December 31, 2004 compared with Year Ended December 31, 2003

Net sales

Our net sales in 2004 were $3,096.7 million, compared with $1,576.6 in 2003, an increase of $1,520.1 million or 96.4%. The increase was principally attributed to significant increases in metals prices in 2004, particularly those of copper, for which our average sales prices rose 67.9%, and molybdenum, for which our sales prices rose 286.3%. In addition to increased metals prices, increased mine production was also an important factor in increasing our net sales in 2004. Copper production for 2004 was 718,007 tons, compared with 665,916 tons in 2003, an increase of 7.8%.

The table below presents information regarding the volume of our copper sales for each of the years ended December 31, 2004 and 2003.

Copper sales (million pounds)	**Year Ended December 31, 2004**	**2003**
Refined	790.6	846.1
Blister	93.9	90.2
Concentrates	107.8	82.0
SX/EW	239.1	280.4
Rod	333.1	157.4
Total	1,564.5	1,456.1

All four of our open-pit copper mines recorded increased output in 2004 compared with 2003. The Cananea mine recorded the most significant increase of 20.7%, equivalent to 29,003 additional tons of copper, primarily due to a 29.3% increase in mill throughput. The Toquepala mine registered the second highest production percentage increase of 6.8%, contributing an additional 12,849 tons of copper. The increase in production at the Toquepala mine was primarily attributable to a higher ore grade of 0.817% in 2004 compared with 0.749% in 2003. The

Cuajone and La Caridad mines also delivered higher production output with Cuajone contributing an additional 9,861 tons and La Caridad contributing an additional 3,454 tons in 2004 compared with 2003. Cuajone s additional output was primarily as a result of higher ore grades, while La Caridad s higher output was as a result of increased production despite marginally lower ore grades. Copper made up 68.1% of our net sales in 2004 compared with 74.7% in 2003.

Our sales of byproducts in 2004 totaled $987.8 million, compared with $396.1 million in 2003, an increase of $591.7 or 149.4%. The increase was principally attributable to significantly increased sales of molybdenum, resulting from the 286.3% increase in our

average sales price for molybdenum in 2004 compared with 2003. The table below provides the sales of our byproducts as a percentage of our total net sales for 2004 and 2003.

	Year Ended December 31,	
Byproduct Sales as a Percentage of Total Net Sales	**2004**	**2003**
Molybdenum	20.9%	9.1%
Zinc	4.1	6.4
Silver	4.1	6.0
Gold and other metals	2.8	3.8
Total	31.9%	25.3%

Cost of sales (exclusive of depreciation, amortization and depletion)

Our cost of sales in 2004 was $1,334.3 million, compared with $992.4 million in 2003, an increase of $341.9 million or 34.5%. Our higher cost of sales was principally due to increased production in 2004. As discussed above, copper mine production for 2004 increased 7.4% with all four of our open-pit copper mines registering increased output in 2004 compared with 2003. Cost of sales (exclusive of depreciation, amortization and depletion) also increased as a result of increases in the prices of certain inputs, including power, maintenance expenses and certain replacement parts. Cost of sales (exclusive of depreciation, amortization and depletion) additionally increased in 2004 as a result of an increase in the volume and cost of the copper concentrate we purchased from third parties in 2004. We purchase concentrate from third parties in order to produce additional copper rods for which we receive premium pricing, as well as to meet our commitments to customers. The cost of this purchased copper, acquired at prevailing market prices, was $69.9 million in 2004, compared with $25.0 million in 2003. The increase in the cost of purchased copper resulted from the increased volume purchased and from the increase in the price of copper.

Other factors contributing to the increased costs in 2004 included a provision of $17.6 million for the recently enacted mining royalty charge in Peru. This mining royalty charge will be 1% to 3% based on sales applicable to the value of concentrates produced in the Toquepala and Cuajone mines.

We expect that cost of sales will increase in the near future years as a result of the recently issued Emerging Issues Task Force, or EITF, consensus, which we describe above under Critical Accounting Policies and Estimates Capitalized Mine Stripping Costs and Leachable Material.

Selling, general and administrative

Selling, general and administrative expense in 2004 was $71.8 million, compared with $63.6 million in 2003, an increase of $8.2 million or 12.9%. Our higher selling, general and administrative expense in 2004 was principally as a result of $13.8 million in management fees paid to Grupo México. The increase in management fees payable to Grupo México is largely attributable to the transfer of some corporate staff from Minera México to Grupo México. Such management fees, which were not payable in 2003, were partially offset by a payroll reduction of $2.7 million and a reduction in lease expenses of $2.6 million. Management fees include corporate, legal, accounting, finance, and commercial and similar costs.

Depreciation, amortization and depletion

Depreciation, amortization and depletion expense in 2004 was $192.6 million, compared with $177.1 million in 2003, an increase of $15.5 million or 8.8%. Depreciation, amortization and depletion expense increased principally as a result of the increase in the amortization of capitalized mine stripping costs and leachable materials of $10.6 million. The increase was also as a result of an increase in maintenance capital expenditures. In addition, the depreciation expense increased $6.2 million as a result of a larger amount of capital expenditures incurred in 2004. Our total capital expenditures in 2004 were

$228.3 million compared with $64.9 million in 2003. Our average depreciation rate was approximately 3% for 2004. We expect amortization will decrease in the future as a result of the aforementioned EITF consensus.

Exploration

Exploration expense in 2004 was $15.6 million, compared with $17.9 million in 2003, a decrease of $2.3 million or 12.8%. In 2003 exploration expense included the acquisition of exploration properties in Chile for $3.7 million. There was no similar acquisition in 2004. Excluding these costs, exploration expense increased as a result of exploration and drilling activity in Mexico.

Interest expense

Interest expense in 2004 was $106.5 million, compared with $117.0 million in 2003, a decrease of $10.5 million or 9.0%. Interest expense decreased in 2004 compared with 2003 principally as a result of a reduction in the amount of debt outstanding. In addition, in the last quarter in 2004, we refinanced a portion of outstanding debt at a reduced interest rate in connection with our new $600 million credit facility.

Capitalized interest

Capitalized interest in 2004 was $10.7 million, compared with $5.6 million in 2003, an increase of $5.1 million, or 92%. Capitalized interest increased principally as a result of an increase in our capital expenditures from $64.9 million in 2003 to $228.3 million in 2004.

Interest income

Interest income in 2004 was $8.3 million, compared with $5.2 million in 2003, an increase of $3.1 million or 60.6%. Despite decreases in prevailing interest rates, our interest income increased in 2004 compared with 2003, principally due to increased levels of cash invested, principally in short-term securities.

Loss on debt prepayments

The loss on debt prepayments in 2004 was $16.5 million, compared with $5.8 million in 2003, an increase of $10.7 million or 182.3%. Loss on debt prepayments increased in 2004 compared with 2003 as a result of our increased financing activity. In 2004 we incurred $12.8 million of prepayment fees and prepayment interest differential and $3.7 million for a debt restructuring charge. In 2003 we incurred debt refinancing expenses of $5.8 million, including prepayment fees and the write-off of debt issuance costs.

Gain on disposal of properties

Gain on disposal of properties in 2004 was $53.5 million. This gain is a result of the sale of non-core assets in 2004 by Minera México.

Other expense

Other expense in 2004 was $9.7 million, compared with $4.2 million in 2003, an increase of $5.5 million or 132.1%. Other expense increased principally due to fees paid to third parties in connection with the acquisition of Minera Mexico.

Income taxes

Income taxes in 2004 were $433.7 million, compared with $120.1 million in 2003, and include $420.2 million and $113.8 million of Peruvian and Mexican income taxes, $13.5 million and $6.3 million for US federal and state taxes for 2004 and 2003, respectively.

The increase of $313.6 million or 261.1% was primarily due to a $1,211.4 million increase in pre-tax income. Such increase was partially offset by the effect of the changes in our permanent differences from 2004 to 2003. Our effective tax rates were 30.4% in 2004 based on pre-tax income of $1,420.9 million and 57.3% in 2003 based on pre-tax income of $209.5 million. See Note 7 to the Consolidated Combined Financial Statements.

Minority interest

Minority interest in 2004 was $4.7 million, compared with $4.3 million in 2003, an increase of $0.4 million or 10.9%. Minority interest increased due to improved after-tax earnings. This increase was partially offset by the reduction of certain minority interests upon the purchase of such interests by Minera México in 2004.

Net earnings

Net earnings in 2004 were $982.4 million, compared with $83.5 million in 2003, an increase of $898.9 million or 1,076%. Net earnings increased as a result of the factors described above.

Segment Operating Income Information 2004 vs. 2003:

Peruvian operations

	2004	2003	Change Value	Change %
Net sales	$ 1,715.9	$ 798.4	$ 917.5	114.9%
Operating costs and expenses	(788.8)	(581.6)	(207.2)	35.6%
Operating income	$ 927.1	$ 216.8	$ 710.3	327.6%

Net sales at our Peruvian operations in 2004 were $1,715.9 million, compared with $798.4 million in 2003, an increase of $917.5 million or 114.9%. This increase in net sales was principally due to significant increases in the price of copper and molybdenum. In addition, copper sales volume increased by 37.3 million pounds in 2004 as production increased at both the Toquepala and Cuajone mines. Increased throughput at the Toquepala mill and better recoveries and higher ore grades treated at both mills increased copper production by 28,340 tons. This increase was partially offset by decrease of 5,631 tons in SX/EW copper production caused by lower PLS grades. The volume of sales of molybdenum and silver, the principal byproducts of our Peruvian operations, also increased in 2004. We anticipate a reduction in the volume of 2005 copper production of approximately 8% at our Peruvian operations as a result of an expected decline in ore grade at our Cuajone mine.

Operating costs and expenses at our Peruvian operations in 2004 were $788.8 million, compared with $581.6 million in 2003, an increase of $207.2 million or 35.6%. The increase was a result of higher sales volume, higher cost of fuel and power, an increase in the workers participation provision, a new Peruvian royalty charge and increased depreciation, amortization and depletion.

Sales of copper from our Peruvian mines in 2004 increased by 21.6 million pounds compared with 2003 and sales of copper processed up from purchased third party material increased by 15.7 million pounds. We pay prevailing market prices for this purchased material, which were significantly higher in 2004. Cost of copper purchased from third parties increased to $49.7 million in 2004 from $6.1 million in 2003. Power and fuel costs, a key component of our costs, were significantly higher in 2004. Our provision for workers participation increased by $67.5 million in 2004. This cost is calculated based on 8% of our Peruvian operations pre-tax earnings and increases as our profits increase. A provision for a new Peruvian royalty added $17.6 million to our costs in 2004. This Peruvian royalty was put in place in mid-year 2004 and will continue to affect our 2005

results. In addition, depreciation, amortization and depletion increased by $4.2 million in 2004, principally due to capitalization and depreciation of new projects. In addition, our Peruvian operation paid management fees of $7.0 million to Grupo México in 2004 and 2003.

Operating income in 2004 was $927.1 million compared with $216.8 million in 2003, an increase of $710.3 million or 327.6%. The operating income increased as a result of the factors described above.

Mexican open-pit operations

	2004	2003	Change Value	Change %
Net sales	$ 1,189.7	$ 649.3	$ 540.4	83.2%
Operating costs and expenses	(665.9)	(548.6)	(117.3)	21.4%
Operating income	$ 523.8	$ 100.7	$ 423.1	420.2%

Net sales from our Mexican open-pit operations in 2004 were $1,189.7 million, compared with $649.3 million in 2003, an increase of $540.4 million or 83.2%. The increase in net sales was principally a result of significant increases in the price of copper and molybdenum and increased sales volume. Copper sales volume increased by 55.1 million pounds in 2004 compared with 2003 as production at both open-pit mines increased. The Cananea mine recorded the most significant increase, 20.7%, equivalent to 29,003 additional tons of copper, primarily due to a 29.3% increase in mill throughput. The La Caridad mine increased production of copper in 2004 by 3,454 tons, primarily because of higher mill recoveries.

Operating costs and expenses at our Mexican open-pit operations in 2004 were $665.9 million, compared with $548.6 million in 2003, an increase of $117.3 million or 21.4%. The increase was principally the result of higher sales volumes, increased fuel and power costs, and increased cost and consumption of other production inputs and increased maintenance activity. In 2004, sales of copper produced and sales of copper processed from third party material increased. Copper purchased from third parties increased by $37.0 million in 2004. Copper purchased from IMMSA in 2004 amounted to $87.5 million. In addition, a devaluation of the Mexican Peso caused an increase of $17.8 million in 2004 s reported exchange loss. Our Mexican open-pit operation paid management fees of $4.5 million to Grupo México in 2004 and 2003.

Operating income in 2004 was $523.8 million, compared with $100.7 million in 2003, an increase of $423.1 million or 420.2%. The operating income increased as a result of the factors described above.

IMMSA unit

	2004	2003	Change Value	Change %
Net sales	$ 317.1	$ 230.9	$ 86.2	37.3%
Operating costs and expenses	(272.9)	(218.9)	(54.0)	24.7%
Operating income	$ 44.2	$ 12.0	$ 32.2	268.3%

Net sales at our IMMSA unit in 2004 were $317.1 million, compared with $230.9 million in 2003, an increase of $86.2 million or 37.3%. This increase was due to higher sales prices in 2004 for copper, zinc and silver, its principal products. In addition, an increase in sales volume of copper and silver added to the 2004 sales increase.

Operating costs and expenses at our IMMSA unit were $272.9 million in 2004, compared with $218.9 million in 2003, an increase of $54.0 million or 24.7%. This increase was the result of increased sales volume of copper and silver and increases in power and fuel and other operating costs, and contractor services. Cost of copper purchased from third parties increased to $89.6 million in 2004 from $22.8 million in 2003. 2004 purchases include $11.1 million from our Mexican open-pit operations. In addition, a devaluation of the Mexican Peso caused an increase in the reported exchange loss of $2.1 million in 2004. Our IMMSA unit paid management fees of $2.3 million to Grupo México in 2004 and 2003.

Operating income in 2004 was $44.2 million, compared with $12.0 million in 2003, an increase of $32.2 million or 268.3%. The operating income increased as a result of the factors described above.

Intersegment Eliminations and Adjustments

The net sales, operating costs and expenses and operating income displayed above will not be directly equal to amounts in our consolidated combined statement of earnings because the adjustments of intersegment operating revenues and expenses must be taken into account. Please see Note 19 to the financial statements.

Liquidity and Capital Resources

The following discussion relates to our liquidity and capital resources for each of the years in the three year period ended December 31, 2005.

Liquidity

(in millions)	Year Ended December 31, 2005	2004	2003
Net cash provided from operating activities	$ 1,644.2	$ 1,172.4	$ 64.8
Net cash used for investing activities	(425.4)	(219.5)	(59.7)
Net cash (used for) provided from financing activities	(1,055.6)	(540.6)	185.6

Cash Flows from Operating Activities

Net cash provided from operating activities was $1,644.2 million, $1,172.4 million and $64.8 million in 2005, 2004 and 2003, respectively. The increases in 2005 and 2004 were for the most part the result of higher net earnings in both years, which were the result of improved prices for our products and for copper and molybdenum in particular.

In 2005, our earnings were $1,400.1 million, approximately 85.2% of the net operating cash flow. Significant non-cash items deducted from, or added to, our earnings included, depreciation, amortization and depletion of $277.2 million, which positively increased operating cash flow; and

capitalized mine stripping and leachable material of $116.4 million and a deferred tax benefit of $42.3 million, which reduced operating cash flow. Additionally, changes in working capital balances added a further $89.1 million to our net cash from operating activities.

In 2004, our earnings were $982.4 million, approximately 83.8% of the net operating cash flow. Significant non-cash items deducted from, or added to, our earnings included, depreciation, amortization and depletion of $192.6 million and a deferred tax provision of $54.4 million, which positively increased our operating cash flow; and capitalized mine stripping and leachable material of $92.8 million which decreased our operating cash flow. In addition, $53.5 million a gain from the sale of non-core Mexican properties is deducted from earning to arrive at operating cash flow, the contribution of these funds is included in investing cash flows. Changes in working capital assets and liabilities increased net operating cash flow by $70.2 million. Some of these working capital accounts included some rather large changes in 2004, the growth of accounts receivable reduced operating cash flow by $261.3 million, which was the result of the improvement in metal prices from the beginning of 2004 to the end. LME and COMEX

copper prices increased by 49 cents and 48 cents during 2004, respectively, in addition the price for molybdenum increased by $10.80 per pound during 2004. Improving operating cash flow was the build up of payables and accruals during 2004, largely as a result of increased worker participation and income tax provisions driven by higher earnings, payment of which carries over into the next year.

In 2003, our earnings were $83.5 million, approximately 128.8% of net operating cash flow. Depreciation, amortization and depletion amounted to a $177.1 million add back and capitalized mine stripping and leachable material amounted to a $79.7 deduction to reach operating cash flow. In addition, working capital changes decreased operating cash flow by $143.8 million.

Cash Flows from Investing Activities

Net cash used for investing activities was $425.4 million in 2005 compared to $219.5 million in 2004. We made capital expenditures in an aggregate amount of $470.6 million in 2005, including $234.5 million for the Ilo, Peru smelter modernization project, $32.8 million for the Toquepala crushing, conveyor system for leachable material, $9.1 million for the Toquepala leach dump project and $194.2 million principally for equipment replacements and upgrades, of which $148.7 million was for our Mexican operations. Cash flow provided by investing activities in 2005 was from the sale of marketable securities of $45.3 million.

Net cash used for investing activities was $219.5 million in 2004 compared to $59.7 million in 2003. We made capital expenditures of $228.3 million in 2004, including $65.6 million for the Ilo smelter modernization project, $40.4 million for the Toquepala leach dump project and $122.2 million for equipment replacements and upgrades. During 2004, we purchased marketable securities for $69.4 million. Cash flow provided by investing activities in 2004 was primarily due to the sale of marketable securities of $24.1 million, and proceeds from the sale of non-core properties, principally in Mexico, for $60 million.

Net cash used for investing activities was $59.7 million in 2003. Capital expenditures in 2003 amounted to $64.9 million which was principally used for equipment replacements and upgrades. During 2003 Minera Mexico s capital expenditures were curtailed due to liquidity restraints imposed by its lenders.

Cash Flows from Financing Activities

For the year ended December 31, 2005, cash used for financing activities amounted to $1,055.6 million. New financings undertaken in 2005 resulted not only in improved terms for our debt but also reduced our debt burden by $158.2 million. In addition, we distributed $853.9 million to our shareholders in 2005 and $5.3 million to our remaining minority interest investors. In October, 2005, we purchased an additional 6.4 million shares of Minera Mexico, representing 0.8133% of the outstanding shares, for $30.3 million.

For the year ended December 31, 2004, cash used for financing activities amounted to $540.6 million mainly as a result of a net debt repayment of $340.9 million and dividends paid of $191.4 million.

For the year ended December 31, 2003, cash provided from financing activities amounted to $185.6 million mainly as a result of a net capital stock increase of $93.7 million related to Minera México, cash previously restricted as collateral of $88 million was received back as part of the repayment of debt and proceeds of $50.0 million received from the issuance of our corporate bonds. Reducing cash provided from financing activities were dividends paid to stockholders of $45.4 million.

Other Liquidity Considerations

In June 2004, the Peruvian Congress enacted legislation imposing a royalty charge to be paid by mining companies in favor of the regional governments and communities where mining resources are located. Under the new law, we are subject to a 1% to 3% charge, based on sales, applicable to the value of the concentrates produced at our Toquepala and Cuajone mines. We made a provision of $40.3 million and $17.6 million in 2005 and 2004 respectively, for this new charge, which went into effect as of June 25, 2004. During 2005 we made payments of $47.4 million related to this charge. In addition, the Constitutional Tribunal stated that this charge applied to all concessions held in the mining industry. We believe that this interpretation is incorrect and intend to protest an imposition of the royalty charge on our SX/EW production, which is operating under a tax stability agreement (Guaranty and promotional Measures for Investment Contract). Provisions made by the Company for the royalty charge do not include approximately $5.9 million of additional potential liability relating to its SX/EW production from June 30, 2004 through December 31, 2005. It is anticipated that the royalty charge will have an adverse effect on our operating income and cash flow.

On January 26, 2006, the Board of Directors approved a dividend of $2.75 per share, totaling $404.9 million, to be paid on March 3, 2006.

While our combined financial results show a positive cash position over the past three years, our Minera México subsidiary, which we acquired on April 1, 2005, has faced challenges to its liquidity as a result of low metals prices in previous years. These challenges resulted in its noncompliance with certain debt covenants in 2001 and 2002. In April 2003 Minera México restructured certain of its indebtedness, entering into a common agreement among Minera México, Minera México s principal subsidiaries (as guarantors) and the holders of such indebtedness. Minera México paid amounts owing under this agreement with proceeds from a new credit facility established in October 2004. See Financing below.

In May 2005, the Mexican Supreme Court rendered a decision that changed the method of computing the amount of statutory workers profit sharing required to be paid by some Mexican companies, including our Minera México subsidiary. The Supreme Court s ruling in effect prohibited the application of net operating loss carryforwards in computing the income used as the base for determining the workers profit sharing amounts. We recognized in our 2005 results of operations a charge of $36.3 million for workers profit participation related to 2004. In addition, the ruling may affect our future results of operations and liquidity to the extent we pay higher workers profit sharing amounts.

Financing

At December 31, 2005, we had outstanding borrowings of $1,178.3 million (before deduction of $6.3 million of debt discount valuation accounts), compared with $1,330.3 million at December 31, 2004. At December 31, 2005, our outstanding debt as a percentage of total capitalization (the total of debt, minority interest and stockholders equity) was 26.0%, compared with 32.0% at December 31, 2004. At December 31, 2005, our cash and marketable securities amounted to $876.0 million, compared with $756.0 million at December 31, 2004.

Below we describe our outstanding long-term indebtedness, as well as certain financial covenants that affect us. See Note 10 of the Consolidated Combined Financial Statements for a further description of our long-term indebtedness.

On July 27, 2005 SCC issued $200 million 6.375% Notes due 2015 and $600 million 7.5% Notes due 2035. The notes are senior unsecured obligations of the Company. The net proceeds from the issuance and sale of the notes were used to repay outstanding indebtedness of our Peruvian and Mexican Operations, under its $200 million and $600 million ($480 million outstanding) credit facilities, respectively, and the balance will be used for general corporate purposes. SCC filed a Registration Statement on Form S-4 with respect to these Notes on October 28, 2005. On January 3, 2006 the Company completed an exchange offer for $200 million, 6.375% Notes due 2015 and $600 million, 7.5% Notes due 2035. In the exchange offer, $197.4 million of the 6.375% old notes due 2015 were tendered in exchange for an equivalent amount of new notes and an aggregate of $595.5 million of the 7.5% old

notes due 2035 were tendered in exchange for an equivalent amount of new notes. The new notes have been registered under the U.S. securities law. The indentures relating to the notes contain certain covenants, including limitations on liens, limitations on sale and leaseback transactions, rights of the holders of the notes upon the occurrence of a change of control triggering event, limitations on subsidiary indebtedness and limitations on consolidations, mergers, sales or conveyances. All of these limitations and restrictions are subject to a number of significant exceptions, and some of these covenants will cease to be applicable before the notes mature if the notes attain an investment grade rating. At December 31, 2005, we are in compliance with these covenants.

In January 2005, the Company signed a $200 million credit facility with a group of banks led by Citibank, N.A. Proceeds of this credit facility were used to prepay $199 million the outstanding bonds of the Company s Peruvian bond program. On July 28, 2005, a portion of the proceeds from the July 27, 2005 financing, noted above, were used to repay this facility.

In 1998, Minera México issued $500 million of unsecured debt, which we refer to as its Yankee bonds. The Yankee bonds were offered in two series: Series A for $375 million, with an interest rate of 8.25% and a 2008 maturity, and Series B for $125 million, with an interest rate of 9.25% and a 2028 maturity date. During 2005, the Company repurchased $143.0 million of the Series A bonds. The bonds contain a covenant requiring Minera Mexico to maintain a ratio of EBITDA to interest expense of not less than 2.5 to 1.0, as such terms are defined by the bonds. At December 31, 2005, Minera Mexico is in compliance with this covenant.

In 1999, the Company established a $100 million credit facility with Mitsui & Co. The facility has a 15-year term with an interest rate of Japanese LIBO plus 1.25% (Japanese LIBO for this loan was 4.67% at December 31, 2005). The facility is collateralized by the assignment of copper sales receivables of 31,000 tons of copper per year and requires an escrow account to fund scheduled payments. The facility requires that we maintain a minimum stockholders equity of $750 million and a ratio of debt to equity no greater than 0.5 to 1.0, all as such terms are defined by the facility. Reduction of Grupo México s direct or indirect voting interest in our Company to less than a majority would constitute an event of default under the facility. At December 31, 2005, we are in compliance with these covenants.

On October 29, 2004, Minera Mexico borrowed $600 million pursuant to a facility with a final maturity date in 2009. The credit facility bore interest at LIBOR plus 200 basis points. The proceeds from the credit facility were used to repay in full the amounts outstanding under a common agreement with holders of Minera Mexico s secured export notes and other financial institutions. The loan was secured by a pledge of Minera Mexico s principal properties and was guaranteed by its principal subsidiaries. In 2005, the Company prepaid the total amount of this financing, using in part proceeds from the July 27, 2005 Note issuance.

While we recently prepaid all amounts outstanding under our Peruvian bond program, we are authorized by Peru s *Comisión Nacional Supervisora de Empresas y Valores* (CONASEV) to issue additional bonds.

We expect that we will meet our cash requirements for 2006 and beyond from internally generated funds, cash on hand and from additional external financing if required.

Capital Expenditure Programs

A discussion of our capital programs is an important part of understanding our liquidity and capital resources. For information regarding our capital expenditure programs, see the Discussion under the caption Expansion and Modernization Program of this section.

Contractual Obligations

The following table summarizes our significant contractual obligations as of December 31, 2005:

		Payments due by Period					
	Total	2006	2007	2008	2009	2010	2011 and Thereafter
				(dollars in millions)			
Long-term debt	$ 1,178.3	$ 10.0	$ 10.0	$ 183.3	10.0	$ 10.0	$ 955.0
Interest on debt	1,782.6	88.3	87.6	87.1	72.1	71.6	1,375.9
Purchase obligations:							
Commitment to purchase energy	1,625.7	144.2	134.7	134.7	134.7	134.7	942.7
Capital purchase obligations	183.3	87.5	95.8				
Total	$ 4,769.9	$ 330.0	$ 328.1	$ 405.1	$ 216.8	$ 216.3	$ 3,273.6

Interest on debt calculated at rates in effect at December 31, 2005. Please refer to Note 10-Financings of our Consolidated Combined Financial Statements for a description of our long-term debt arrangements and credit facilities.

We have a commitment to purchase power for our Peruvian operations from Energía del Sur, S.A. until 2017. Amounts indicated on the above table are based on power costs in 2005, which are subject to change as energy generation costs change and our forecasted power requirements through the life of the agreements change.

Pursuant to our PAMA we have committed to bring our operations into compliance with environmental standards established by the government of Peru. The capital purchase obligation in the above table is for the estimated cost of completing the Ilo smelter modernization, our remaining obligation under our PAMA.

For an additional discussion on this matter see Environmental matters-Peruvian operations , in Note 13-Commitments and Contingencies of the Consolidated Combined Financial Statements.

Quantitative and Qualitative Disclosure about Market Risk

A portion of our outstanding debt bears interest at variable rates and accordingly is sensitive to changes in interest rates. Interest rate changes would also result in gains or losses in the market value of our fixed rate debt portfolio due to differences in market interest rates and the rates at the inception of the debt agreements. Based upon our indebtedness at December 31, 2005, a change in interest rates of 1 percent (or 100 basis points) would impact net income and cash flows by $0.8 million annually.

We are also exposed to market risk associated with changes in foreign currency exchange rates as certain costs incurred are in currencies other than our functional currency. To manage the volatility related to the risk, we may enter into forward exchange contracts, currency swaps or other currency hedging arrangements. We have only had limited involvement with derivative instruments and do not use them for trading purposes.

We are subject to market risks arising from the volatility of copper and other metal prices. Assuming that expected metal production and sales are achieved, that tax rates are unchanged, and giving no effects to potential hedging programs metal price sensitivity factors would indicate estimated change in net earnings resulting from metal price changes in 2006 as provided in the table below.

	Copper	Molybdenum	Zinc	Silver
Change in metal prices (per pound except silver per ounce)	$ 0.01	$ 1.00	$ 0.01	$ 1.00
Change in net earnings (in millions)	$ 8.7	$ 14.4	$ 1.8	$ 11.4

We have occasionally used derivative instruments to manage our exposure to changes in commodity prices. However, at December 31, 2005, we hold no derivative instruments.

Impact of New Accounting Standards

For a description of the impact of new accounting standards, see Note 2, Summary of Significant Accounting Policies Impact of new accounting standards, to our Consolidated Combined Financial Statements.

Non-GAAP Information Reconciliation

We provide a reconciliation of operating cash cost to GAAP cost of sales in millions of dollars and cents per pound in the table below.

	2005		2004		2003	
	$ million	$ per unit	$ million	$ per unit	$ million	$ per unit
Cost of sales (including depreciation, amortization and depletion) GAAP	$ 1,912.6	$ 1.266	$ 1,526.9	$ 0.969	$ 1,169.4	$ 0.814
Add:						
Selling, general and administrative expenses	81.1	0.054	71.8	0.046		