

The Ilo Smelter Modernization Project. The new smelter will use an Isasmelt furnace and two rotatory furnaces to skim matte from slag in the fusion stage, the converter stage will be done in four Peirce Smith converters 15 feet of diameter by 35 feet long, three of which will be refurbished and one will be new; also, a new anode plant, a new acid plant and a new oxygen plant will be installed, as well as other auxiliary facilities.

Processing capacity will be 1.2 million tons of concentrated copper per year. Levels of SO₂ collection will reach 95%, a level which exceeds the environmental legislation in force. The final product of the new smelter will be anodes instead of the blister currently produced.

In 2004, Fluor started developing the engineering and procurement, and has reached 66% progress. Purchase orders were placed for the main pieces of equipment taking the longest time for manufacturing. Also starting in the third quarter, Fluor will start the Project's construction management. Site preparation for the new plants has already started and is 70% complete. Demolition, reinforcement and foundation work for the new anode plant is 35% complete. Work at the anodes plant is expected to conclude in the third quarter 2005.

Towards the end of 2004, contractors were chosen for the Ocean Water Intake and for Underground Services. Construction is expected to conclude in June 2006, with commissioning and startup commencing one month later. The new Smelter should become operational in November 2006 to allow us meeting our Environmental Conformance and Management Program (PAMA) ahead of the January 2007 deadline.

EXPLORATION

During 2004, the Company completed the final phase of Los Chancas Project diamond drilling program with a total of 10,400 meters. Second phase of metallurgical test was also completed during the year. Process for estimation of probable and proved mineral reserves has begun and pre-feasibility studies will soon start. Analysis at this point indicate resources amounting to 200 million tons with values of 1.0% copper, 0.07% Mo, and 0.12 Au grams per ton.

We are exploring a porphyry copper system in the south of Peru, which is in its evaluation stage. We have completed a diamond drilling program of 21,792 meters and plan to continue an additional program of 20,000 meters in order to determine the existing resource.

No drilling program was executed in the Tantahuatay Project. All efforts were oriented to social issues and

community environment. Resources would be 27.1 million tons with an average of 0.89 Au grams per ton and 13.0 Ag grams per ton. A drilling program of 2,500 m. has been planned for 2005. SPCC has a 44.245% share in the Tantahuatay Project.

As part of the comprehensive exploration plans within the Peruvian territory for 2005, a program of 15,000 meters of diamond drilling will be executed in different exploration prospects, considering porphyry copper systems and epithermal gold systems.

We actually have in Peru direct control of 131,831.59 hectares of mining properties.

In Chile, during 2004, the Company initiated exploration work on the acquired mining properties executing diamond drilling programs in two prospects located in the III Region, which are being explored for copper-gold. We will continue our exploration program extending our work to the I Region.

The Company owns 35,258 hectares of mining rights within the I and III Regions in Chile.

COMMUNITY OUTREACH

Southern Peru is a major economic engine in Peru's

southern area and is particularly involved in the sustainable development and wellbeing of the people of Tacna and Moquegua, where it promotes and directly conducts social investment initiatives in the neighboring communities. These initiatives take place in jointly managed efforts with various public agencies and the people themselves. SPCC is also deeply committed to fulfill its social responsibility principles. Its social responsibility philosophy directs the Company's community outreach to the geographical environment in its role as facilitator of socioeconomic development. Southern Peru is a good corporate, social and environmentally responsible neighbor, an approach that was fulfilled in its co-participatory projects.

In 2004, SPCC carried out the following main projects:

- Water management. Phase V of the Chilligua Canal concluded in Torata Valley in Moquegua. Small irrigation infrastructure improvements were made in four valley areas. The Water Users Board in Torata received our logistic and technical support. In Candarave, Tacna, we built the Marisol Water Divide to benefit the Cairani, Huanuara, Candarave and Quilahuani districts. In Higerani we improved the canals and installed advanced irrigation systems.
- Agriculture: In Candarave we assisted potato and garlic seed areas, continued enhancing alfalfa fields by im-

proving water use, and promoted planting of oat for cattle feed. In Tarata, construction of a nursery is under way to support fruit growing, and we are also providing training for other local produce. In Locumba, Sama and Ite valleys, works focused on irrigation infrastructure and business management training. In Huaytire, a new study on pasture productivity will determine the convenience of introducing cultivated grasses. To determine the condition of pastures, an agristologic census evaluated the extension and strength of pastures.

- Livestock: We continued to provide support to sheep breeding, sustainable vicuna breeding, enhanced cattle livestock raising, and dairy processing. A cattle artificial insemination and stabling program was launched. In Torata, we started a veterinarian assistance plan. In Suches Huaytire we continued improving alpaca breeding. In Tacalaya, Candarave, we started alpaca breeding and control of sarcocystosis in domestic camelids. In Higerani, Ilabaya, Tacna, we started a guinea pig breeder's pilot program. The communities engaged in these activities are provided ongoing technical assistance in health and animal husbandry. Arondaya, in Cuajone, started a program to support subsistence animal husbandry to improve camelid, sheep and goat farming by providing veterinarian training to young local residents.



State of the art GPS system in use at drilling