

MINERA LOS PELAMBRES
UNAUDITED FINANCIAL STATEMENTS
FOR THE FIRST HALF ENDED 30 JUNE 2006

(TRANSLATION FROM SPANISH VERSION
FILED WITH SUPERINTENDENCIA DE VALORES Y SEGUROS
DE CHILE ON 29TH AUGUST 2006)

MINERA LOS PELAMBRES

BALANCE SHEET AT JUNE 30, 2006
(In thousands of United States dollars - ThUS\$)

	ThUS\$
ASSETS	
CURRENT ASSETS:	
Cash and banks	293
Time deposits	463,393
Marketable securities	9,710
Trade accounts receivable, net	443,206
Other receivables	48,275
Due from related companies	17
Inventories, net	51,839
Recoverable taxes	7,306
Prepaid expenses	4,290
Deferred taxes	1,394
Other current assets	209
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Total current assets	1,029,932
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FIXED ASSETS:	
Land	8,234
Construction and infrastructure	820,662
Machinery and equipment	528,331
Other fixed assets	409,722
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Subtotal	1,766,949
Accumulated depreciation	(446,909)
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Total fixed assets, net	1,320,040
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OTHER ASSETS:	
Intangibles, net	142,158
Others	8,363
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Total other assets	150,521
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TOTAL ASSETS	<u><u>2,500,493</u></u>

The accompanying notes are an integral part of this financial statement

	ThUS\$
LIABILITIES AND SHAREHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Banks loans short-term portion of long term debt	82,563
Accounts payable	46,046
Sundry creditors	8
Due to related companies	1,318
Accruals	19,704
Withholdings	45,109
Income tax payable	54,318
Others	684
	<u>249,750</u>
Total current liabilities	<u>249,750</u>
LONG-TERM LIABILITIES:	
Bank loans	275,496
Due to related companies	165
Accruals	13,039
Deferred taxes	133,780
	<u>422,480</u>
Total long-term liabilities	<u>422,480</u>
SHAREHOLDERS' EQUITY	
Paid-in capital	373,820
Retained earnings:	
Retained earnings	1,081,748
Interim dividends	(470,000)
Net income for the period	842,695
	<u>1,828,263</u>
Total shareholders' equity, net	<u>1,828,263</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u><u>2,500,493</u></u>

MINERA LOS PELAMBRES

STATEMENT OF INCOME FOR THE PERIOD ENDED JUNE 30, 2006 (In thousands of United States dollars - ThUS\$)

	ThUS\$
REVENUES	1,243,789
OPERATING COSTS	<u>(180,862)</u>
OPERATING MARGIN	1,062,927
ADMINISTRATIVE AND SELLING EXPENSES	<u>(34,542)</u>
OPERATING INCOME	<u>1,028,385</u>
OTHER INCOME (EXPENSES):	
Other income	144
Financial income	17,462
Financial expenses	(10,848)
Other expenses	(830)
Exchange differences	<u>(667)</u>
Other expenses, net	<u>5,261</u>
INCOME BEFORE INCOME TAX	1,033,646
INCOME TAX	<u>(190,951)</u>
NET INCOME FOR THE PERIOD	<u><u>842,695</u></u>

The accompanying notes are an integral part of this financial statement

MINERA LOS PELAMBRES

STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED JUNE 30, 2006 (In thousands of United States dollars - ThUS\$)

	ThUS\$
CASH FLOWS FROM OPERATING ACTIVITIES	
Net income for the period	842,695
Charges (credits) to income not representing cash flows:	
Depreciation and amortization	33,190
Accrued interest	1,121
Write-off of fixed assets	53
Loss on sales of fixed assets	(102)
Exchange differences	667
Others	(9)
Decrease (increase) in current assets:	
Trade debtors	(216,985)
Sundry debtors	280
Due from related companies	12
Inventories	(4,468)
Recoverable taxes	(2,321)
Prepaid expenses	2,002
Other current assets	(191)
Increase (decrease) in current liabilities:	
Accounts payable	8,221
Due to related companies	211
Accruals	(5,406)
Withholdings	24,758
Income tax payable	(18,870)
Unearned income	(1,488)
Net cash provided by operating activities	<u>663,370</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Additions to fixed assets	(240,728)
Sale of fixed assets	743
Net cash used in investing activities	<u>(239,985)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Payment of dividends	(470,000)
Loan repayment	(40,721)
Net cash used in financing activities	<u>(510,721)</u>
TOTAL NEGATIVE CASH FLOWS FOR THE PERIOD	(87,336)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>560,732</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>473,396</u></u>

The accompanying notes are an integral part of this financial statement

MINERA LOS PELAMBRES

NOTES TO THE FINANCIAL STATEMENTS AT JUNE 30, 2006

(In thousands of United States Dollars - ThUS\$)

1. INCORPORATION OF THE COMPANY

Minera Los Pelambres is a contractual mining enterprise that started operations on June 4, 1996. The corporate purpose is exploring, developing and exploiting its mining properties, principally for the purpose of producing and selling copper concentrate, and of performing all the business activities associated with the mining industry.

According to the requirements of Law 20,026 on the Specific Mining Tax published in the Official Gazette of 16/06/2005, and the relevant regulations issued by the Superintendence of Securities and Insurance ("SVS") through its Exempt Resolutions 549 of 23/09/2005 and 39 of 3/02/2006, the Company shall deliver its Quarterly and Audited Annual Financial Statements, and an Annual Report, to the SVS, in the manner and at the time stipulated in such Resolutions. Thus, as a company receiving foreign investments earmarked for developing mining projects, it claimed the rights stipulated in new article 11 Ter of Decree-Law 600 of 1974, setting an invariable 4% rate for the aforementioned Specific Mining Tax for a period of 12 years.

By express provision of the above regulations issued by the SVS, the Financial Statements and Annual Report delivered for operations and transactions taking place as of January 1, 2006, will not be compared with the 2005 fiscal year, this year only, because 2006 is the first year in which the above tax is in force.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. General - The financial statements as of June 30, 2006 have been prepared in accordance with accounting principles generally accepted in Chile.

b. Basis of preparation - The Company keeps its official accounting records in United States dollars (hereinafter US\$) as a result of a special authorization from the Chilean Internal Revenue Service.

Therefore, Chilean peso transactions have been converted into US\$ amounts using the observed exchange rate on the date of each transaction. Asset and liability balances for accounts recorded in local currency have been converted to United States dollar amounts using the exchange rate of Ch\$539.44 at June 30, 2006.

c. Time deposits - Time deposits are stated at original investment amount plus accrued interest at the close of the reporting period. Also included are other instruments entered into with local financial institutions under resale agreements, which are stated at cost plus accrued interest at period end.

d. Marketable securities - Marketable securities are mutual fund units valued at redemption value at the close of the financial statements.

e. Inventories - In-process and processed ore inventories are stated at weighted average cost in conformity with the method of full absorption of fixed manufacturing overhead, that is including indirect manufacturing overhead and depreciation of fixed assets related to Company production units.

Raw and other materials, as well as supplies and spare parts in the warehouse, are stated at average purchase cost. At June 30, 2006, this item is stated net of an obsolescence allowance of ThUS\$2,601.

The cost of inventories does not exceed their net realizable value.

f. Prepaid expenses - Prepaid expenses mainly include the unexpired portion of insurance policies taken-out to cover operating, transportation, civil liability, air and harbor handling risks, with premiums including brokerage commissions.

g. Fixed assets - Fixed assets are stated at purchase cost. Depreciation has been calculated based on the technical production units, for assets subject to depreciation in accordance with adequate technical indicators. For other fixed assets, depreciation is calculated using the straight-line method over the estimated useful life of the assets.

Mining properties are stated at acquisition and/or incorporation cost, as appropriate, and are amortized on the basis of the extraction of proven and provable ore reserves.

Prestripping relates to the preparation and development of the mine accumulated cost during the project's construction period and/or its capitalizable expansions or optimizations, and to other geological and mining development costs incurred during the preoperating stage, including planning, engineering, support equipment, maintenance, and supply costs, etc. necessary to dispose of barren rock and prepare the pit for exploitation. It is amortized based on extraction of proven and provable ore reserves.

h. Intangibles - These are mainly pre-operating costs, including original feasibility studies and others, aimed at enlarging production capacity, as well as costs associated with management and support units incurred during project development. Costs involved in obtaining project financing in the pre-operating phase are also included. These costs are amortized from a financial standpoint on the basis of the extraction of proven and provable ore reserves.

i. Vacations - The periodic cost of employee vacations is charged to results on the accrual basis.

j. Income taxes and deferred taxes - The Company calculates its first category income and specific mining tax provisions based on Net Taxable Income and Operating Taxable Income respectively, calculating them as provided for in the Chilean Income Tax and Specific Mining Tax Law.

The effects of deferred taxes for temporary differences, tax losses and other items that create differences between the tax and accounting bases of assets and liabilities are recorded following the standards set by Technical Bulletin N°60 and complements of the Chilean Institute of Accountants.

k. Severance indemnities - The Company accrues the severance indemnity liability at present value based on the collective bargaining contracts and the Board of Directors decisions in the case of non-union employees. The severance indemnity liability is presented in long-term liabilities under the “Accruals” item.

l. Mine closure - The Company provides for mine closure and abandonment of installations cost at present value pursuant to the policies established by its parent company Antofagasta plc and legal environment obligations entered into with government agencies. Such accruals are presented in long-term liabilities under the “Accruals” item.

m. Cash equivalents - For purposes of the statement of cash flows, cash includes time deposits and readily realizable financial investments maturing within 90 days, including fixed-income mutual fund units.

n. Revenue - Copper concentrate sales are recognized at shipping dates, net of treatment and refining charges, and valued in conformity with contract clauses used in invoicing, which carry a provisional price. At the period end, revenues are adjusted on a “mark to market” basis, when this value is less than the amount provisionally booked, considering for that purpose contract clauses regarding dates for calculating final prices, and using the conservative criterion of adjusting provisional prices to month-end market values. In addition, provision has been made for estimated losses in the arbitration of invoiced amounts.

3. TIME DEPOSITS

The detail of time deposits and financial investments is as follows:

		ThUS\$
Time deposits abroad	US\$	<u>459,686</u>
Local financial investments	Ch\$	<u>3,707</u>
Total time deposits		<u><u>463,393</u></u>

4. MARKETABLE SECURITIES

The detail of investments in mutual fund is as follows:

	Currency	ThUS\$
Local mutual funds	Ch\$	<u>9,710</u>
Total investment in mutual funds		<u><u>9,710</u></u>

5. TRADE ACCOUNTS RECEIVABLE

The balance of trade accounts receivable, broken down by geographical area, is as follows:

	ThUS\$
Foreign clients	
Europe	126,408
Asia Pacific	66,763
Asia Pacific – related (*)	185,181
North America	13,646
Latin America	6,932
Mark to market estimation	<u>(1,870)</u>
Total foreign receivables	<u>397,060</u>
Local receivables	<u>46,146</u>
Total	<u><u>443,206</u></u>

(*) Invoicing for sale of product to foreign customers either directly or indirectly related to Company shareholders, Nippon LP Resources B.V. and MM LP Holding B.V.

6. INVENTORIES

The detail of inventories is as follows:

	ThUS\$
Finished products	1,710
Work in progress	27,359
Raw materials	25,371
Provision for obsolescence of materials	<u>(2,601)</u>
Total	<u><u>51,839</u></u>

7. FIXED ASSETS

Fixed assets are stated as indicated in Note 2g. The detail is as follows:

	ThUS\$
Land	<u>8,234</u>
Constructions and infrastructure:	
Buildings and construction	591,551
Infrastructure	214,879
Installations	<u>14,232</u>
Total constructions and infrastructure	<u>820,662</u>
Machinery and equipment:	
Machinery and equipment	424,365
Furniture and fixtures	3,543
Information technology and communication equipment	17,839
Mobile equipment	82,305
Vehicles	<u>279</u>
Total machinery and equipment	<u>528,331</u>
Other fixed assets:	
Ongoing works El Mauro dam	217,732
Ongoing projects	134,299
Mining claims	12,643
Prestripping	44,824
Fixed assets for disposal	<u>224</u>
Total other fixed assets	<u>409,722</u>
Total fixed assets, gross	<u>1,766,949</u>
Accumulated depreciation of buildings and infrastructure	(190,563)
Amortization claims and prestripping	(11,799)
Accumulated depreciation of machinery and equipment	<u>(244,547)</u>
Total depreciation and accumulated amortization	<u>(446,909)</u>
Total fixed assets, net	<u><u>1,320,040</u></u>

8. INTANGIBLES

As described in Note 2h, intangibles are mainly pre-operating costs incurred prior to the start of operations, El Mauro Dam cost, and other minor intangible costs as follows:

	ThUS\$
Cost of initial studies transferred from Minera El Chacay	8,487
Costs of support management prior to construction stage	8,204
Preoperating costs of construction stage	137,912
Costs of start-up, balance of construction	4,957
Preoperating gains and losses	8,500
Easements, water rights, software, trade marks, patents and other rights	6,394
Preoperating costs initial El Mauro Dam Studies	<u>5,138</u>
Total intangibles	179,592
Accumulated amortization	<u>(37,434)</u>
Total intangibles - net	<u><u>142,158</u></u>

9. BANK LOANS

The Company has obtained financing from international lending institutions in United States dollars.

On December 15, 2004, the Company made a prepayment of capital for ThUS\$50,775 along with the normal capital and interest installment. The outstanding balance of the debt, amounting to ThUS\$460,000, was fully refinanced by foreign syndicated banks led by the Citibank, and duly approved and registered at the Chilean Central Bank. This loan will be repaid in 12 semi-annual installments, which mature every June 15 and December 15 of each year, starting on June 15, 2005.

This refinancing improved the prior loan's interest rate spreads and restrictions, resulting in significant savings of financial charges for the Company.

This refinancing resulted in the payment of an up-front commission for ThUS\$2,070 which has been deferred and is being amortized over the term of the new credit.

Balances of Loans at June 30, 2006:

Financial institutions	Interest Rate %	Short term ThUS\$	Long term ThUS\$
Citibank and others	5.6775	77,483	268,333
BBVA Banco Bhif	5.3750	<u>5,080</u>	<u>7,163</u>
Total		<u><u>82,563</u></u>	<u><u>275,496</u></u>

10. ACCOUNTS PAYABLE

A detail of this item is as follows:

	ThUS\$
Invoices payable	37,436
Withholdings from contractors	7,140
Insurance policies payable	1,087
Others	<u>383</u>
Total	<u><u>46,046</u></u>

11. ACCRUALS

The detail of this item at June 30, 2006 is as follows:

	ThUS\$
Short-term:	
Contractors	3,119
Major maintenance	7,776
Personnel benefits	5,710
Sundry	<u>3,099</u>
Total short term	<u><u>19,704</u></u>
Long-term:	
Severance indemnities	8,124
Mine closure costs	<u>4,915</u>
Total long term	<u><u>13,039</u></u>

12. INCOME AND DEFERRED TAXES

a. Recoverable taxes include the following:

	ThUS\$
Current assets:	
Specific tax on petroleum products	268
Value added tax	6,945
Other refundable taxes	<u>93</u>
Total short term	<u><u>7,306</u></u>
Other assets:	
Additional tax for advisory services	<u>3,867</u>
Total long term	<u><u>3,867</u></u>

The long-term refundable tax is included in the item Others in Others long term assets.

b. First category Income tax and specific mining tax

The First Category Income Tax provision at June 30, 2006 was 17% of net taxable income of ThUS\$990.452, calculated in conformity with the Income Tax Law. The provision for the specific mining tax was 4% of the net operating taxable income of ThUS\$ 993.706.

The provision for income and specific mining tax calculated is presented in Income tax payable in current liabilities net of monthly provisional payments, training credits, donations and others credits.

	ThUS\$
Income tax provision	(168,377)
Specific mining tax provision	(39,748)
Monthly provisional payments	133,335
Specific mining tax credit	19,874
Technical consulting services additional tax	481
Refundable training expenses	44
Credits for donations	<u>73</u>
Income tax payable	<u><u>(54,318)</u></u>

c. Deferred taxes

At June 30, 2006, the detail of accumulated balances for deferred taxes is as follows:

	Deferred taxes			
	Asset		Liability	
	Short term	Long term	Short term	Long term
	US\$	US\$	US\$	US\$
Provision for changes in quantity	318			
Allowance for uncollectible accounts	202			
Provision for vacations	358			
Provision for maintenance	1,322			
Provision for obsolete supplies	442			
Severance indemnity		1,291		
Provision for mine closure, net		836		
Refinancing costs				205
Indirect manufacturing expense			883	
Indirect manufacturing charges			420	
Fixed assets				103,880
Preoperational expenses, net				29,582
Deferred mining taxes	107	517	135	2,779
Others	83	488		466
	<u>2,832</u>	<u>3,132</u>	<u>1,438</u>	<u>136,912</u>
Total deferred taxes	<u>2,832</u>	<u>3,132</u>	<u>1,438</u>	<u>136,912</u>

The net asset of ThUS\$ 1,394 for short-term deferred taxes is presented in current assets. The net liability of ThUS\$133,780 for long-term deferred taxes is presented in long-term liabilities.

The composition of the charge to income for income tax and specific mining tax for the period is as follows:

	ThUS\$
Current tax expense:	
Provision for income tax of the period	(168,377)
Deficit of 2005 income tax provision	(972)
Provision for specific mining tax	(39,748)
Specific mining tax credit	19,874
Deferred taxes:	
Changes in deferred taxes during the period	(1,235)
Deferred taxes for specific mining tax	(493)
Total charge to income	<u>(190,951)</u>

13. SHAREHOLDERS' EQUITY

- a. The following summarizes the shareholder's equity movements for the period:

Concepts	Paid-in capital ThUS\$	Retained earnings ThUS\$	Total ThUS\$
Balances at January 1, 2006	373,820	1,081,748	1,455,568
Interim dividends		(470,000)	(470,000)
Net income for the period		842,695	842,695
Balances at June 30, 2006	373,820	1,454,443	1,828,263

- b. Shareholdings of the subscribed and paid-in capital are as follows at June 30, 2006:

Shareholders	Number of shares	Subscribed and paid-in capital	
		ThUS\$	%
LP Investment Co. Ltd.	191,379,489	191,380	51.20
Nippon LP Resources BV	93,454,920	93,455	25.00
MM LP Holding BV	56,072,952	56,073	15.00
Antofagasta Minerals S.A.	32,912,319	32,912	8.80
Total	373,819,680	373,820	100.00

- c. At the ordinary meeting No. 107 held on May 24, 2006, the Board of Directors approved the interim dividend of ThUS\$470,000 paid to the shareholders.

14. BALANCES AND TRANSACTIONS WITH RELATED COMPANIES

The following is a detail of balances and transactions with related parties. Antofagasta Minerals S.A., LP Investment Co. Ltd., Nippon LP Resources BV, and MM LP Holding BV, of the related companies detailed are shareholders of the Company. The others companies are related to the Company through common ownership.

The detail at June 30, 2006:

Related party	Transaction description	Transaction amount	Effect on income charge (credit)	Assets	Liabilities
		ThUS\$	ThUS\$	ThUS\$	ThUS\$
Antofagasta Minerals S.A.	Administrative services received	2,199	1,830		1,040
	Technical support received	759	637		1
	Recovery of expenses	371	296		261
	Expense collection	22	(18)		
Minera Michilla S.A.	Rental of offices in Santiago	100	100		16
Madeco S.A.	Purchase of materials	120	120		
Banco de Chile	Financial expenses	13,276	2		
Other related parties	Expense collection	2			
Minera El Tesoro	Expense collection	100	(84)	17	
LP Investment Co. Ltd.	20% withholding on disallowed exp.	31	31		
Nippon LP Resources BV	20% withholding on disallowed exp.	15	15		
MM LP Holding BV	20% withholding on disallowed exp.	9	9		
Total short-term				<u>17</u>	<u>1,318</u>
Antofagasta Minerals S.A.	Water rights				<u>165</u>
Total long-term				<u>-</u>	<u>165</u>

15. OTHER NON-OPERATING INCOME AND EXPENSES

The detail of other non-operating income and expenses is as follows:

	ThUS\$
Non-operating income:	
Profit on sale of assets	102
Other income	42
	<hr/>
Total	144
	<hr/> <hr/>
Non-operating expenses:	
Deferred charge	658
Provision for write-off of housing loans	94
Write-off of projects	31
Other expenses	47
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Total	830
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16. CONTINGENCIES, GUARANTEES AND ENCUMBRANCES

I. Lawsuits:

The Company's Management is aware of legal disputes in which Minera Los Pelambres is either the main or subsidiary defendant, or the plaintiff, which to the best of its knowledge do not significantly affect these financial statements.

II. Encumbrances:

The Company's assets are not subject to any mortgages, encumbrances or prohibitions, except for:

- Precautionary measure prohibiting acts and contracts from being entered into under N°4 of article 298 of the Civil Code, still not registered in the respective Land, Mines and Industrial Property Registry.

Deferred customs duties:

The Company estimates that it will pay 100% of deferred customs duties expiring in 2007.

Due in	Deferred customs duties ThUS\$
2007	<u>684</u>
Total benefits under Law No. 18,634	<u><u>684</u></u>

III. OTHER GUARANTEES**Guarantees Provided:**

- The Company has issued performance bonds through banks for ThUS\$12,655 in favor of the Chilean Ministry of Public Works as collateral for any possible costs incurred in an eventual abandonment of the construction and operation of the Los Quillayes tailing dam. Such bonds mature on July 3, 2009.
- The Company has issued performance bonds through banks for ThUS\$4,877 in favor of the Chilean Ministry of Public Works as collateral for any possible costs incurred in an eventual abandonment of the construction and operation of El Mauro tailing dam. Such bonds mature on October 26, 2009.
- The Company has issued, bank guarantees in favour of the Chilean Ministry of Public Works, water department, to guarantee the reposition costs for any possible abandonment of tailings dams system and re-circulation of water of the El Mauro tailing dam project for UF17,526, equivalent to ThUS\$590 as a requirement for river flows modification permits.

Guarantees Received:

- At this time, the Company holds performance bonds and letters of credit, issued by foreign or local banks in favor of the Company, provided by contractors and suppliers for ThUS\$63,022 as a guarantee of compliance with contracts and as collateral for equipment quality and performance.

IV. RESTRICTIONS ON OPERATIONS OR LIMITS

The new bank credit contract resulting from the refinancing mentioned in Note 9 significantly reduces the restrictions regarding indebtedness, dividend distribution and hedging operations, and fully eliminates restrictions regarding mortgage guarantees, which are being released.

V. MINERAL SALES AGREEMENTS

The mineral sale agreements correspond to contracts signed with local and foreign customers, valued at the current selling prices at period - end. Such prices are agreed based on FOB and CIF, as appropriate, which are annually negotiated. The average term of agreements is 3 years and there are no clauses that establish non-compliance fines, as they establish options with respect to amounts of mineral that are effectively dispatched every year.

The mineral sales agreements in accordance with the contracts amount to:

Years	ThUS\$
2006	1,300,000
2007	1,600,000
2008	1,350,000

17. SUBSEQUENT EVENTS

Between July 1, 2006 and the date when these financial statements are issued, there have been no subsequent events that could materially affect them.

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