

**MINERA MICHILLA S.A.**  
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 29<sup>TH</sup> AUGUST 2006)

**MINERA MICHILLA S.A.**

BALANCE SHEET AT JUNE 30, 2006

(In thousands of U.S. dollars - ThUS\$)

<b>ASSETS</b>	<b>ThUS\$</b>
<b>CURRENT ASSETS:</b>	
Cash and banks	177
Time deposits	37,554
Marketable securities	5,212
Trade debtors	21,599
Sundry debtors	519
Accounts receivable from related companies	277
Refundable taxes	1,952
Inventories	16,604
Prepaid expenses	913
Deferred taxes	567
Other current assets	13
Total current assets	<u>85,387</u>
<b>FIXED ASSETS:</b>	
Mining properties	13,622
Buildings and infrastructure	67,436
Machinery and equipment	73,397
Other fixed assets	102,334
Fixed asset technical revaluation	4,104
Accumulated depreciation and amortization	<u>(199,515)</u>
Total fixed assets - net	<u>61,378</u>
<b>OTHER ASSETS:</b>	
Investments in other companies	294
Long-term debtors	425
Deferred taxes	111
Others	215
Total other assets	<u>1,045</u>
<b>TOTAL ASSETS</b>	<u><u>147,810</u></u>

The accompanying notes are an integral part of this financial statement.

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**LIABILITIES AND SHAREHOLDERS' EQUITY**

ThUS\$

**CURRENT LIABILITIES:**

Accounts payable	1,801
Sundry creditors	1,077
Due to related companies	386
Accruals	24,554
Withholdings	852
Income tax payable	3,217

Total current liabilities 31,887

**LONG-TERM LIABILITIES:**

Sundry creditors	865
Accruals	6,725

Total long-term liabilities 7,590

**SHAREHOLDERS' EQUITY:**

Paid-in capital	78,422
Reserve for fixed asset technical revaluation	219
Retained earnings	4,409
Income for the period	25,283

Total shareholders' equity 108,333

**TOTAL LIABILITIES** 147,810

**TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY**

147,810

**MINERA MICHILLA S.A.**

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

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	ThUS\$
OPERATING REVENUE	107,660
OPERATING COSTS	<u>(70,163)</u>
OPERATING MARGIN	37,497
ADMINISTRATIVE AND SELLING EXPENSES	<u>(6,944)</u>
OPERATING PROFIT	<u>30,553</u>
OTHER INCOME (EXPENSE):	
Financial income	516
Other non-operating income	203
Financial expenses	(142)
Other non-operating expenses	(333)
Exchange difference	<u>690</u>
OTHER INCOME	<u>934</u>
INCOME BEFORE INCOME TAXES	31,487
INCOME TAX	<u>(6,204)</u>
NET INCOME FOR THE PERIOD	<u><u>25,283</u></u>

The accompanying notes are an integral part of this financial statement.

**MINERA MICHILLA S.A.**

STATEMENT OF CASH FLOW  
FOR THE PERIOD ENDED JUNE 30, 2006  
(In thousands of U.S. dollars - ThUS\$)

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	ThUS\$
<b>CONCILIATION OF NET OPERATING CASH FLOW AND INCOME FOR THE PERIOD</b>	
Net income for the period	25,283
Charges to income that do not represent cash flow:	
Depreciation	4,043
Amortization	3,371
Write-offs and accruals	2,866
Exchange differences	(690)
Other charges to income that do not represent cash flow	(157)
Changes in assets that affect the cash flows:	
Increase in trade debtors	(15,261)
Decrease in inventories	2,245
Decrease in deferred taxes	75
Decrease in other assets	3,632
Changes in liabilities that affect the cash flows:	
Increase in accounts payable and sundry creditors	8,571
Net increase of value added tax and similar payable	349
Decrease in deferred taxes	(111)
Net cash provided by operating activities	<u>34,216</u>
<b>CASH FLOWS FROM INVESTMENT ACTIVITIES:</b>	
Purchase of fixed assets	(6,455)
Other loans to related companies	<u>(12)</u>
Net cash used in investment activities	<u>(6,467)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	27,749
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>15,194</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>42,943</u></u>

The accompanying notes are an integral part of this financial statement.

## MINERA MICHILLA S.A.

### NOTES TO THE FINANCIAL STATEMENTS

(In thousands of U.S. dollars - ThUS\$)

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#### 1. NATURE OF THE OPERATIONS OF THE COMPANY

The corporate purpose of the Company is the exploration, development, exploitation, production, commercialization of minerals, concentrates, precipitates, cathodes and copper bars and bars of non-ferrous metals, and products and sub-products obtained there from; and the exploitation of mining properties, including all the stages of the mining industry.

According to the requirements of Law N°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 for the period ended 30 June 2006, have been prepared in accordance with accounting principles generally accepted in Chile.

**b. Basis of preparation** – The official accounting records of the Company are maintained in US dollars. Transactions in Chilean pesos have been translated into US dollars at the exchange rates prevailing on the date of the transaction.

Assets and liabilities in Chilean pesos were translated into US dollars at the current end of period exchange rate of Ch\$539.44 to US\$1.

**c. Time deposits** - Time deposits are stated at the original investment amount plus accrued interest at the close of the reporting period.

**d. Marketable securities** – Marketable securities include investments in fixed income mutual funds, which are stated at the period-end value of the respective unit.

**e. Estimate for uncollectible accounts** – Considering the age and risk of its accounts receivable, the Company has decided not to constitute an estimate for uncollectible accounts.

**f. Inventory** – Inventory is valued in accordance with the following criteria:

- Finished products and products in process are stated at monthly average production cost.
- Materials and supplies are stated at weighted average acquisition cost.

The cost of inventories does not exceed its estimated net realizable value.

**g. Fixed assets** – Fixed assets are presented at acquisition or revaluation cost. Depreciation has been calculated based on the straight-line method, over the estimated useful life of the assets, except for values disbursed for mining properties that are amortized based on production, considering proven and probable mineral reserves.

The cost of the mine development stages correspond to:

- Exploring and drilling ore deposits in perspective.  
Costs for locating mineralized areas, and determining their possible commercial exploitation are debited to construction in progress. Once results are concluded and analyzed, they are charged to income if not feasible.
- Mine pre-operation expenses  
Expenses incurred from the moment the Company determines that the exploitation of an ore deposit is feasible until the moment of start-up, are capitalized and amortized in relation with mineral production.
- Development expenses of ore deposits being exploited.  
The expenses for maintaining production volumes are charged to costs when incurred.

Mining licenses paid for mining properties that are not under operation are amortized during the year.

Assets acquired under Finance Lease (Note 6) are not legally owned by the Company and therefore, it cannot freely dispose of these assets until it exercises the purchase option.

**h. Investments in other companies** – Investments in other companies are stated at cost and represent principally the contribution to Minera Pampa Fénix S.C.M.. The Company owns 90% of this mining company. The non-consolidation of the aforementioned subsidiary does not affect the interpretation of the current financial statements, as its assets, liabilities, results and cash flows are not significant.

**i. Personnel vacation** - The periodic cost of personnel vacations is recognized as an expense in the financial statements on an accrual basis.

**j. Income tax and deferred taxes** - The Company determines provisions for the first category income tax and specific mining tax, based on the Net Taxable Income and Operating Taxable Income, respectively, determined in accordance with the Income Tax Law.

Deferred taxes on temporary differences, tax losses and other events which create differences between the accounting and tax base of assets and liabilities, are recorded according to Technical Bulletin N°60 of the Chilean Institute of Accountants and its complements and modifications.

**k. Severance indemnity** – The Company has accrued severance indemnity at the present value of the projected cost of the benefit, applying a 6.5% annual discount rate.

**l. Mine closure** - The Company provides for mine closure and abandonment of installations cost at the present value considering a discount rate of 6.5% and pursuant to the policies of its Parent Company Antofagasta PLC, and legal environmental obligations subscribed with government organizations.

**m. Operating revenue** – These include product sales and the result of future contracts that ensure sale prices. Income from sales are recorded when the risk and product ownership are substantially transferred to the buyer.

**n. Derivative contracts** - The Company has entered into derivative contracts to cover the variation in the price of copper. As these contracts were defined as coverage of expected transactions, unrealized result has been deferred, as established by Technical Bulletin N°57 of the Chilean Institute of Accountants.

**o. Statement of cash flow** - In the statement of cash flow, the Company has considered as cash equivalent all readily disposable financial investments maturing within 90 days, including mutual fund units.

### 3. TIME DEPOSITS

The detail is as follows:

	<b>Currency</b>	ThUS\$
Time deposit overseas	US\$	13,518
Time deposit - local	US\$	<u>24,036</u>
Total		<u><u>37,554</u></u>

#### 4. TRADE DEBTORS

The distribution of this item broken down by geographical area, is as follows:

	ThUS\$
Europe	15,025
Asia Pacific	2,477
North America	4,092
Latin America	<u>5</u>
Total	<u><u>21,599</u></u>

#### 5. INVENTORIES

The detail of inventories at the end of the period is as follows:

	ThUS\$
Products in process	8,822
Supplies and materials	4,455
Finished products	<u>3,327</u>
Total	<u><u>16,604</u></u>

## 6. PROPERTY, PLANT AND EQUIPMENT

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

	ThUS\$
Mining properties	<u>13,622</u>
Buildings and infrastructure	<u>67,436</u>
Machinery and equipment	<u>73,397</u>
Investments in development and prospecting	82,971
Furniture and fixtures, equipment and belongings	3,920
Works in progress	8,753
Leased assets	5,359
Other fixed assets	<u>1,331</u>
Total other fixed assets	102,334
Fixed asset technical revaluation	<u>4,104</u>
Total fixed assets - gross	<u>260,893</u>
Accumulated depreciation	(115,206)
Depreciation for the period	(4,043)
Increased value of accumulated depreciation as a result of technical revaluation of fixed assets	(4,104)
Accumulated amortization	(72,791)
Amortization for the period	<u>(3,371)</u>
Total accumulated depreciation and amortization	<u>(199,515)</u>
Total fixed assets - net	<u><u>61,378</u></u>

7. SHORT AND LONG TERM SUNDRY CREDITORS

The detail of these balances are as follows:

**Short-term:**

	ThCh\$
Leasing obligations	1,153
Deferred interest	<u>(76)</u>
Total	<u><u>1,077</u></u>

**Long-term:**

Leasing obligations	889
Deferred interest	<u>(24)</u>
Total	<u><u>865</u></u>

The leasing obligations correspond to machinery and equipment financing. They are expressed in US dollars, and accrue an average annual interest of 4.68%.

The long-term balance matures in equal and successive monthly installments up to May 10, 2008.

8. BALANCES AND TRANSACTIONS WITH RELATED COMPANIES

a. Accounts receivable from and payable to related companies

	<b>Relationship</b>	ThUS\$
<b>Receivables – short-term:</b>		
Minera El Tesoro	Indirect	252
Antofagasta Minerals S.A.	Shareholder	8
Minera Los Pelambres	Indirect	16
Antofagasta (Chile) and Bolivia Railway Plc.	Indirect	<u>1</u>
Total		<u><u>277</u></u>
<b>Payables – short-term:</b>		
Antofagasta Minerals S.A.	Shareholder	152
Antofagasta (Chile) and Bolivia Railway Plc.	Indirect	<u>234</u>
Total		<u><u>386</u></u>

The balances receivable and payable are stated in Chilean pesos and do not accrue interest or indexation.

b. The main transactions with related companies are as follows:

Entity	Relationship	Transaction	Amount of the transaction ThUS\$	Effect on results Charge (credit) ThUS\$
Antofagasta Minerals S.A.	Shareholder	Administrative services	600	600
		Expense refunds	216	216
		Rental income	50	(50)
Antofagasta (Chile) and Bolivia Railway Plc.	Indirect	Transport services	592	592
		Recovery of expenses	2	
Minera Los Pelambres	Indirect	Rental income	100	(100)
Madeco S.A.	Indirect	Copper sales	701	(333)
		Purchase of materials	21	
Minera El Tesoro	Indirect	Sale of materials	131	(131)
Cía. Inv. Adriático S.A.	Indirect	Office rent	12	12
Banco de Chile	Indirect	Investment in time deposits	12,871	(33)

## 9. ACCRUALS

The detail of the accruals at period-end is as follows:

<b>Short-term</b>	ThUS\$
Monthly expenses accrual	6,050
Sundry US dollar accrual	2,837
Staff vacations accrual	749
Futures market accrual	13,291
Withholdings payable	<u>1,627</u>
Total	<u><u>24,554</u></u>
<b>Long-term</b>	ThUS\$
Mine closure	1,336
Severance indemnities	<u>5,389</u>
Total	<u><u>6,725</u></u>

10. INCOME TAXES AND DEFERRED TAXES

**a. Refundable taxes**

The balance of this item at period-end is as follows:

	ThUS\$
VAT recoverable	1,924
Mining Patents	<u>28</u>
Total	<u><u>1,952</u></u>

**a. Income Tax**

The First Category Income Tax provision at 30 June 2006 was of ThUS\$5,463 calculated in conformity with the Income Law. The specific mining tax provision was for ThUS\$597.

The calculated Income Tax provision is presented in income tax payable in current liabilities, net of monthly provisional payments, training credits, donation credits, and other credits.

	ThUS\$
Income Tax Accruals	(5,528)
Royalty Tax Accruals	(597)
Monthly Provisional Payments	2,392
Monthly Provisional Royalty Payments	489
Sence Training Expenses	<u>27</u>
Total	<u><u>(3,217)</u></u>

**c. Deferred taxes**

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

	<u>Assets</u>		<u>Liabilities</u>
	<u>Short term</u> ThUS\$	<u>Long term</u> ThUS\$	<u>Long term</u> ThUS\$
<b>Temporary differences</b>			
Inventories	220		
Fixed asset depreciation			2,074
Vacation provision	127		
Provision for mine closure costs		1,119	
Provision for leasing and others	220	497	
Others		476	
	<hr/>	<hr/>	<hr/>
Total deferred taxes	567	2,092	2,074
Complementary accounts - net of accumulated amortization			(93)
	<hr/>	<hr/>	<hr/>
Total	<u>567</u>	<u>2,092</u>	<u>1,981</u>

The deferred taxes are presented in the balance sheet as shown below:

	ThUS\$
Current deferred tax assets	567
Current deferred tax liabilities	<hr/>
Total current assets	<u>567</u>
Long term deferred tax assets	2,092
Long term deferred tax liabilities	<hr/> (1,981)
Total net long term asset	<u>111</u>

The composition of the credit to income for income tax, after the effect of deferred taxes is recognized, is as follows:

	ThUS\$
<b>Current tax expense</b>	
Special tax Article 21 Income tax law	(65)
Current tax	(5,463)
Specific mining tax	(597)
Difference 2006 Income Tax	(128)
<b>Deferred taxes</b>	
Effect for variations in assets and liabilities due to deferred taxes	109
Effect for amortization of complementary accounts and others	(31)
Effect for Royalty tax	(29)
	<hr/>
Total net charge to income	<u>(6,204)</u>

## 11. SHAREHOLDERS' EQUITY

The following are the equity movements during the period:

	Paid-in capital	Reserve for negative goodwill technical revaluation	Retained earnings	Interim Dividend	Net Income for the period	Total
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Balance at 1 January 2006	78,422	219		(7,325)	11,734	83,050
Transfer 2005 income			11,734		(11,734)	
Final dividend			(7,325)	7,325		
Net income for the period					25,283	25,283
	<hr/>					
Balance at 30 June 2006	<u>78,422</u>	<u>219</u>	<u>4,409</u>		<u>25,283</u>	<u>108,333</u>

At the General Shareholders' Meeting held on April 26, 2006, it was unanimously agreed to approve and ratify the April 25, 2005 Board of Director's decision to distribute against 2005 earnings an interim dividend of US\$7,325,070.51, at US\$0.279375935 per share, which was paid to the shareholders from May 2, 2005 onward.

## 12. OTHER NON-OPERATING INCOME AND EXPENSES

### a. Other non-operating income:

	ThUS\$
Rental income	192
Other income	11
	<hr/>
Total	203
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### b. Other non-operating expenses:

	ThUS\$
Adjustment sulfate inventory tonnage	331
Other expenses	2
	<hr/>
Total	333
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## 13. FUTURE OPERATIONS AND OPTIONS

The Company holds the following hedging contracts:

### a. Outstanding positions at June 30, 2006:

At June 30, 2006, the Company holds Min-Max options for MT 3,900, with MT 650 maturing each month from July to December 2006. These options have a floor of US\$1.334 per pound of fine copper during the second semester.

#### Min-Max option contracts

Product	N° of cont.	Date		Tons		US\$/Ton.		Liquidation US\$/Ton.	Provision for 30-06-2006 loss ThUS\$	Fair value contract versus market ThUS\$
		Maturity	Liquidation	Min	Max	Put	Call			
Copper	2	31/07/06	03/08/06	650	650	2,646.00	2,940.00	7,712.10	(3,102)	
Copper	2	31/08/06	03/09/06	650	650	2,646.00	2,940.00	7,712.10		(3,102)
Copper	2	30/09/06	03/10/06	650	650	2,646.00	2,940.00	7,712.10		(3,102)
Copper	2	31/10/06	03/11/06	650	650	2,646.00	2,940.00	7,712.10		(3,102)
Copper	2	30/11/06	03/12/06	650	650	2,646.00	2,940.00	7,712.10		(3,102)
Copper	2	31/12/06	03/01/07	650	650	2,646.00	2,940.00	7,712.10		(3,102)
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								Total	(3,102)	(15,510)
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This type of operation does not pay premium, therefore there is no cost to be amortized.

**b. Result of operations realized during the period:**

	<b>Income</b> ThUS\$	<b>Loss</b> ThUS\$	<b>Total</b> ThUS\$
Options	<u>                    </u>	<u>(57,188)</u>	<u>(57,188)</u>
Total	<u>          -          </u>	<u>(57,188)</u>	<u>(57,188)</u>

The result of these operations is presented net in revenue in the statement of income.

14. SUBSEQUENT EVENTS

Between July 1, 2006 and the date of issue of these financial statements, there have been no subsequent events that could materially affect the balances or the interpretation of these financial statements.

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