

MINERA LOS PELAMBRES
UNAUDITED FINANCIAL STATEMENTS
FOR THE FULL YEAR ENDED 31 DECEMBER 2006

(TRANSLATION FROM SPANISH VERSION TO BE
FILED WITH SUPERINTENDENCIA DE VALORES Y SEGUROS
DE CHILE 30TH MARCH 2007)

MINERA LOS PELAMBRES

BALANCE SHEET AT DECEMBER 31, 2006
(In thousands of United States Dollars - ThUS\$)

	ThUS\$
ASSETS	
CURRENT ASSETS:	
Cash at bank and in hand	356
Time deposits	474,350
Marketable securities	10,600
Trade debtors - net	319,425
Sundry debtors	33,798
Notes receivable	84
Account receivable from related companies	4
Inventories - net	46,589
Refundable taxes	6,746
Prepaid expenses	11,670
Deferred taxes	23,184
Other current assets	91
	<hr/>
Total current assets	926,897
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FIXED ASSETS:	
Land	8,234
Constructions and infrastructure	844,148
Machinery and equipment	666,459
Other fixed assets	465,898
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Subtotal	1,984,739
Accumulated depreciation	(479,959)
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Total fixed assets - net	1,504,780
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OTHER ASSETS:	
Intangibles - net	141,461
Other	10,787
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Total other assets	152,248
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TOTAL ASSETS	2,583,925
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The accompanying notes are an integral part of this financial statement

	ThUS\$
LIABILITIES AND SHAREHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Bank loans: short-term portion of long- term debt	82,498
Accounts payable	93,356
Sundry creditors	8
Account payable to related companies	1,574
Accruals	21,010
Withholdings	38,014
Income tax payable	110,711
Other	684
	<u>347,855</u>
LONG-TERM LIABILITIES:	
Bank loans	234,775
Account payable to related companies	165
Accruals	12,075
Deferred taxes	138,775
	<u>385,790</u>
SHAREHOLDERS' EQUITY:	
Paid-in capital	373,820
Retained earnings:	
Retained earnings	1,081,748
Interim dividends	(1,450,000)
Net income for the year	1,844,712
	<u>1,850,280</u>
Total shareholders' equity, net	<u>1,850,280</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u><u>2,583,925</u></u>

MINERA LOS PELAMBRES

STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 2006 (In thousands of United States Dollars - ThUS\$)

	ThUS\$
REVENUES	2,726,880
OPERATING COSTS	<u>(403,715)</u>
OPERATING MARGIN	2,323,165
ADMINISTRATIVE AND SELLING EXPENSES	<u>(77,121)</u>
OPERATING INCOME	<u>2,246,044</u>
OTHER INCOME (EXPENSES):	
Other income	808
Financial income	36,125
Financial expenses	(21,890)
Other expenses	(2,029)
Exchange differences	<u>4,794</u>
Other income - net	<u>17,808</u>
INCOME BEFORE INCOME TAX	2,263,852
INCOME TAX	<u>(419,140)</u>
NET INCOME FOR THE YEAR	<u><u>1,844,712</u></u>

The accompanying notes are an integral part of this financial statement

MINERA LOS PELAMBRES

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2006 (In thousands of United States Dollars - US\$)

	ThUS\$
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Net income for the year	1,844,712
Charges (credits) to income not representing cash flows:	
Depreciation and amortization	72,207
Mark to Market	99,846
Accruals and other long-term	1,745
Accrued interest	1,056
Write off of fixed assets	53
Loss (profit) on sale of fixed assets	(609)
Exchange differences	(4,794)
Other	960
(Increase) decrease in current assets:	
Trade debtors	(193,050)
Sundry debtors	14,757
Notes receivable	(84)
Account receivable from related companies	25
Inventories	1,440
Refundable taxes	(1,761)
Prepaid expenses	(5,378)
Other assets	(4,541)
Increase (decrease) in current liabilities:	
Accounts payable	34,861
Accounts payable to related companies	467
Accruals	(4,592)
Withholdings	17,663
Income tax payable	23,345
Unearned income	(1,488)
Net cash provided by operating activities	<u>1,896,840</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Additions to fixed assets - net	(442,250)
Sale of fixed assets	<u>1,426</u>
Net cash used in investing activities	<u>(440,824)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Payment of dividends	(1,450,000)
Loan repayment	<u>(81,442)</u>
Net cash used in financing activities	<u>(1,531,442)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(75,426)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>560,732</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>485,306</u></u>

The accompanying notes are an integral part of this financial statement

MINERA LOS PELAMBRES

NOTES TO THE FINANCIAL STATEMENTS

(In thousands of U.S. 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. Basis of presentation – The financial statements as of December 31, 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 amounts have been converted into United States dollar amounts using the exchange rate reported by Central Bank of Chile on the date of the 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\$532.39 at year-end.

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 year end.

d. Marketable securities - Marketable securities are mutual fund units and foreign investment funds, valued at redemption value of units at year-end.

e. Inventories - In-process and finished mineral inventories are stated at weighted average cost in conformity with the method of full absorption of fixed manufacturing overhead, that includes 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 December 31, 2006, this item is presented net of a provision for obsolescence of ThUS\$2,602.

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

f. Prepaid expenses – Prepaid expenses mainly include the prepaid 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 production technical units, for assets subject to depreciation in accordance with proper technical indicators. For other fixed assets, depreciation is calculated using the straight-line method over the estimated useful life of the assets.

Mining assets are stated at acquisition and/or incorporation cost, and are amortized on the basis of extraction of proven and probable ore reserves.

Prestripping and preparation and development of the mine relates to the prestripping cost accumulated during the project's construction period and/or its capitalizable expansions or optimizations, and to other geological and mining development costs incurred during the pre-operating stage, including planning, engineering, support equipment, maintenance, and supply costs, etc. necessary to dispose of waste and prepare the pit for exploitation. It is amortized based on extraction of proven and probable 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 managements and support units incurred during project development. Costs involved in obtaining project financing in the pre-operating phase are also included. These costs are being amortized from a financial standpoint based on extraction of current proven and provable ore reserves.

i. Vacations – The annual 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 Bulletins N°60 and complements of the Chilean Institute of Accountants.

k. Severance indemnities - The Company accrues the severance indemnity liability at net present value for those employees whose individual employment contract envisages payment of severance indemnity and Board of Director decisions in the case of non-union employees. The severance indemnity liability is shown under long-term liabilities under the “Accruals” item.

l. Mine closure - The Company provides for mine closure cost and abandonment of installations at net present value pursuant to corporation policies and legal environment obligations entered into with government offices. 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. Sales - 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 year end, revenues are adjusted on a “mark to market” basis, when this value is less than the amount provisionally booked, considering to that end contract clauses on dates for calculating final prices, and using the conservative criterion of adjusting provisional prices to month-end market values. Also, estimated losses have been provided for in the arbitration of the invoiced quantities.

3. TIME DEPOSITS

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

	Currency	2006 ThUS\$
Foreign time deposits	US\$	391,588
Local time deposits	Ch\$	44,869
Local financial investments	US\$	10,016
Local financial investments	Ch\$	<u>27,877</u>
Total time deposits		<u><u>474,350</u></u>

4. MARKETABLE SECURITIES

The detail of investments in marketable securities, mainly mutual funds, is as follows:

	Currency	2006 ThUS\$
Local mutual funds	Ch\$	<u>10,600</u>
Total investments in mutual funds		<u><u>10,600</u></u>

5. TRADE DEBTORS - NET

The detail of trade receivables, broken down by geographical destination, is as follows:

	2006 ThUS\$
Foreign debtors	
Europe	145,132
Asia Pacific	9,803
Asia Pacific - related parties (*)	222,443
Latin America	83
North America	13,803
Mark to market estimate and metal content adjustment	<u>(114,595)</u>
Total foreign debtors	<u>276,669</u>
Local debtors	<u>42,756</u>
Total	<u><u>319,425</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 - NET

The detail of inventories is as follows:

	2006 ThUS\$
Finished products	4,995
Products in process	18,039
Materials	26,157
Provision for obsolescence of materials	<u>(2,602)</u>
Total	<u><u>46,589</u></u>

7. FIXED ASSETS

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

	2006 ThUS\$
Land	<u>8,234</u>
Constructions and infrastructure:	
Buildings and constructions	614,378
Infrastructure	214,925
Installations	<u>14,845</u>
Total constructions and infrastructure	<u>844,148</u>
Machinery and equipment:	
Machinery and equipment	548,462
Furniture and fixtures	3,617
Information technology and communication equipment	17,892
Mobile equipment	96,209
Vehicles	<u>279</u>
Total machinery and equipment	<u>666,459</u>
Other fixed assets:	
El Mauro Dam works in progress	339,278
Projects in progress	68,929
Mining properties	12,643
Prestripping	44,824
Fixed assets for disposal	<u>224</u>
Total other fixed assets	<u>465,898</u>
Total fixed assets, gross	<u>1,984,739</u>
Accumulated depreciation of constructions and infrastructure	(203,711)
Amortization of mining properties and prestripping	(12,902)
Accumulated depreciation of machinery and equipment	<u>(263,346)</u>
Total accumulated depreciation and amortization	<u>(479,959)</u>
Total fixed assets – net	<u><u>1,504,780</u></u>

8. INTANGIBLES - NET

As described in Note 2h, these are mainly pre-operating costs incurred prior to the operation and El Mauro Dam costs, and other minor intangible costs, as follows:

	2006 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	8,822
Preoperating costs initial El Mauro Dam studies	<u>5,138</u>
Total intangibles	182,020
Accumulated amortization	<u>(40,559)</u>
Total intangibles - net	<u><u>141,461</u></u>

9. BANK LOANS

The Company has financing from international institutions agreed in US dollars.

This outstanding debt was fully refinanced in 2004 by a syndicate of foreign banks headed by Citibank and duly approved and registered with Chile's Central Bank. This loan will be repaid in 12 semi-annual installments, which mature every June 15 and every December 15 of each year, starting on June 15, 2005.

This refinancing allowed to improve the interest rate spreads and the restrictions imposed in the previous loan, which resulted in a considerable saving in finance costs for the Company.

This refinancing meant paying an up-front commission of ThUS\$2,070, which has been deferred and is being amortized over the term of the new loan.

2006:

Financial institutions	Interest rate %	Short-term ThUS\$	Long-term ThUS\$
Citibank and others	5.6150	77,432	230,000
BBVA Bank Bhif	6.3050	<u>5,066</u>	<u>4,775</u>
Total		<u><u>82,498</u></u>	<u><u>234,775</u></u>

10. ACCOUNTS PAYABLE

The detail of this item is as follows:

	2006 ThUS\$
Invoices payable	64,167
Withholdings from contractors	11,313
Insurance policies payable	17,484
Other	<u>392</u>
Total	<u><u>93,356</u></u>

11. ACCRUALS

The detail of this item as at December 31, 2006 is as follows:

	2006 ThUS\$
Short-term:	
Contractors	3,366
Personnel benefits	4,941
Major maintenance	8,886
Sundry	<u>3,817</u>
Total	<u><u>21,010</u></u>
	2006 ThUS\$
Long-term:	
Severance indemnity	9,707
Mine closure costs	<u>2,368</u>
Total	<u><u>12,075</u></u>

12. INCOME AND DEFERRED TAXES

Refundable taxes include the following:

	2006 ThUS\$
Current assets:	
Specific tax on petroleum products	332
Value added tax	<u>6,414</u>
Total short-term	<u><u>6,746</u></u>
Other assets (long term):	
Additional tax for advisory services	<u>4,623</u>
Total long-term	<u><u>4,623</u></u>

The long-term recoverable tax is included in Others under Other long-term assets.

a. First category income tax and specific mining tax

The provision for first category income tax at December 31, 2006 was 17% of the net taxable income of ThUS\$2,279,847, calculated as provided for in the Chilean Income Tax Law. The provision for the specific mining tax, applicable from 2006, was 4% of the net operating taxable income of ThUS\$2,283,034.

The provisions for income and specific mining tax are presented in Income tax payable in current liabilities net of monthly provisional payments, training credits, donations and credits for purchases of fixed assets.

	2006 ThUS\$
Income tax provision	(387,574)
Specific mining tax provision	(91,321)
Monthly provisional payments	321,883
Specific mining tax credit	45,661
Technical consulting services additional tax	352
Recoverable training expenses	136
Credits from donations	122
Credits from purchases of fixed assets	<u>30</u>
Income and specific mining tax payable	<u><u>(110,711)</u></u>

b. Deferred taxes

At December 31, 2006, the detail of accumulated deferred tax balances was as follows:

	Deferred taxes			
	2006			
	Asset		Liability	
	Short-term	Long-term	Short-term	Long-term
	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Provision for price and quantity variations	19,481			
Provision for uncollectible accounts	155			
Provision for vacations	458			
Provision for maintenance	1,510			
Provision for obsolete materials	594			
Severance indemnity		1,603		
Provision for mine closure		862		459
Refinancing costs			59	176
Indirect manufacturing expense			1,218	
Indirect manufacturing charges			271	
Depreciation of fixed assets				109,344
Preoperational expenses				29,078
Specific mining tax	2,605	501	175	3,211
Others	104	527		
	<u>24,907</u>	<u>3,493</u>	<u>1,723</u>	<u>142,268</u>
Total deferred taxes	<u>24,907</u>	<u>3,493</u>	<u>1,723</u>	<u>142,268</u>

The net asset of ThUS\$23,184 for short-term deferred taxes is presented in current assets.

The net liability of ThUS\$138,775 for long-term deferred taxes is presented in long-term liabilities.

The composition of the charge to income for income tax for the year is as follows:

	2006
	ThUS\$
Current tax expense:	
Provision for income tax for the year	(387,574)
Deficit of 2005 income tax provision	(973)
Provision for specific mining tax	(45,660)
Deferred taxes:	
Changes in deferred taxes during the year	13,550
Deferred taxes for specific mining tax	<u>1,517</u>
Total charge to income	<u>(419,140)</u>

13. SHAREHOLDERS' EQUITY

- a. The following are the equity movements during 2006:

Items	Paid-in capital ThUS\$	Retained earnings ThUS\$	Total ThUS\$
Balance at January 1, 2006	373,820	1,081,748	1,455,568
Interim dividends		(1,450,000)	(1,450,000)
Net income for the year		1,844,712	1,844,712
Balance at December 31, 2006	<u>373,820</u>	<u>1,476,460</u>	<u>1,850,280</u>

- b. After the above equity movements, shareholdings of the subscribed and paid-in capital are as follows at December 31, 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.	<u>32,912,319</u>	<u>32,912</u>	<u>8.80</u>
Total	<u>373,819,680</u>	<u>373,820</u>	<u>100.00</u>

- c. At the ordinary meeting No. 107 held on May 24, 2006, No. 109 held on August 31, 2006 and No. 112 held on November 30, 2006, the Board of Directors approved the interim dividends of ThUS\$470,000, ThUS\$600,000 and ThUS\$380,000, respectively, paid to the Company's shareholders.

14. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

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 are shareholders of the Company, with the other enterprises being related to the Company through common owners.

2006:

Related party	Transaction description	Transaction amount	Effect on income charge (credit)	Asset	Liability
		ThUS\$	ThUS\$	ThUS\$	ThUS\$
Antofagasta Minerals S.A.	Administrative services received	2,410	2,017		1,037
	Technical support received	1,517	1,273		128
	Recovery of expenses	646	528		194
	Office rentals	3	3		3
	Expense collection	39	(39)	4	
Minera Michilla S.A.	Rental of offices in Santiago	201	201		17
	Expenses collection	2	(2)		
Madeco S.A.	Purchase of materials for projects	2,556	357		195
Banco de Chile	Financial expenses and other	13,278	3		
Minera El Tesoro	Expenses collection	171	(171)		
Other related	Recovery of expenses and others	2	2		
LP Investment Co. Ltd.	20% withholding on disallowed expenses	31	31		
Nippon LP Resources BV	20% withholding on disallowed expenses	15	15		
MM LP Holding BV	20% withholding on disallowed expenses	9	9		
Total short-term				4	1,574
Antofagasta Minerals S.A.	Water rights				165
Total long-term					165

15. OTHER INCOME AND EXPENSES

The detail of other income and expenses is as follows:

	2006 THUS\$
Other income:	
Profit on sale of assets	609
Other	199
	<hr/>
Total	808
	<hr/> <hr/>
Other expense:	
Write-off of deferred charges	1,645
Provision for write off of housing loans	210
Write-off of projects	31
Other	143
	<hr/>
Total	2,029
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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, except for:

Plaintiff	: Sociedad Agrícola y Comercial Mauro Ltda.
Defendant	: Arnoldo Muñoz Navarrete and Minera Los Pelambres
Lawsuit	: 690/02, Twelfth Civil Court of Santiago
Matter	: Nullification of purchase agreement due to forgery of signatures and recovery of sold property.
Status	: Main book: Evidentiary stage closed and judge is considering his ruling. Record of Precautionary Measures: On 12.14.05 Preliminary, precautionary measure prohibiting acts and contracts from being entered into was granted.
Amount	: The purchase agreement being requested for nullification is the one prior to the acquisition of the El Mauro property by the Company. Should the case be lost, the second purchase agreement would also be nullified. The property is recorded in the accounting records at a book value of ThUS\$3,300.

Plaintiff	: Sociedad Agrícola Ganadera y Forestal Tipay.
Defendants	: Minera Los Pelambres
Lawsuit	: 2206-2006. 27th Civil Court.
Matter	: Lawsuit for water rights in Fundo El Mauro. On 04/04/06: Parties submitted evidence. The notification is pending.
Amount	: If the decision is favorable, MLP should sue Soc. Agrícola y Ganadera Forestal Tipay, within a 10-day term, in order to recognize against this company the existence of water rights registered in Fundo Mauro. The unfavorable result of this lawsuit does not imply the loss of the Company's water rights, but the obligation of suing the aforementioned company.
Plaintiff	: Sociedad Agrícola Ganadera y Forestal Tipay and others
Defendants	: CONAMA (Chilean National Environmental Commission), CONAMA's Board of Directors and 4 th Region's COREMA (Regional Environmental Commission)
Lawsuit	: 15.333-2006. 3th Civil Court of Santiago
Matter	: Public Annulment Lawsuit, Environmental Qualification Resolution RCA 38/ 299/ 300 regarding Integral Development Project. Minera Los Pelambres has become a party in this lawsuit, as it is directly affected by the possible adverse judgment.
Status	: Evidence to be notified.
Amount	: If the claim is accepted in a definitive court ruling in all instances, the annulment declaration of this resolution would basically affect the development of El Mauro project, which has a progress level of 66% at December 31, 2006. The Company has invested resources in this project at that date in the order of ThUS\$ 339,278.
Plaintiff	: Comité Agua Potable Rural de Caimanes, Comité Defensa Valle del Pupio, Canal Comuneros Caimanes El Llano, Junta de Vecinos de Caimanes, Junta de Vecinos de Pupio.
Defendants	: Water Board.
Lawsuit	: 12.004-5, Santiago Court of Appeal.
Matter	: Reclamation recourse, Resolution DGA 1791 which authorized the El Mauro Tailings Dam in accordance with Article 294 of the Water Code.
Status	: On November 3, 2006, the Santiago Court of Appeal issued a ruling in favor of the recourse filed by the plaintiffs, repealing only the Water Board permit for building the dam. The same court rejected the request to cease operations filed by the plaintiffs. The Company prepared and presented a cassation recourse to file with the Chilean Supreme Court.

Amount : It is unlikely that future production would be lost, if the Supreme Court upholds the Court of Appeals ruling that repeals the construction permit. At December 31, 2006, at a 66% completion stage, the Company has invested in this project an amount in the order of ThUS\$ 339,278.

Note: : The Company intervened as party in the reclamation recourse since the recourse's outcome would affect it as the objected permit gives the go-ahead to the construction of the El Mauro Tailings Dam.

Plaintiff : Sociedad Agrícola Ganadera y Forestal Tipay.

Defendants : Water Board.

Lawsuit : 11.915-5, Santiago Court of Appeal.

Matter : Reclamation recourse, Resolution DGA 1791 which authorized the El Mauro Tailings Dam in accordance with Article 294 of the Water Code.

Status : On November 3, 2006, the Santiago Court of Appeal issued a ruling in favor of the recourse filed by the plaintiffs, repealing only the Water Board permit for building the dam. The same court rejected the request to cease operations filed by the plaintiffs. The Company prepared and presented a cassation recourse to file with the Chilean Supreme Court.

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Note: : The Company intervened as party in the reclamation recourse since the recourse's outcome would affect it as the objected permit gives the go-ahead to the construction of the El Mauro Tailings Dam.

Petitioner : Comité de Agua Potable Rural de Caimanes.

File : Lawsuit No. 2100-90.

Matter : Administrative request with the Water Board due to enforcement of the decision of Santiago Court, Case number 12.004-05.

Status : On February 2, 2007 Minera Los Pelambres filed explanations and requested a communication letter from Sernageomin so that this entity informs about the insecurity that would result from the paralization of the construction work.

Amount : It is unlikely that future production would be lost, if the Supreme Court upholds the Court of Appeals ruling that repeals the construction permit. At December 31, 2006, at a 66% completion stage, the Company has invested in this project an amount in the order of ThUS\$ 339,278.

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 No. 4 of article 298 of the Civil Code in cases number 690-02, as mentioned above. This measure has not been registered by the plaintiff in the corresponding Real Estate Registrar.

Deferred Customs Duties

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

Deferred customs duties	2006
	ThUS\$
Due in	
2007	<u>684</u>
Total benefits under Law N° 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 Water Board of the Chilean Ministry of Public Works as collateral for any possible costs incurred in an possible abandonment of the construction and operation of the Los Quillayes tailing dam. Such bonds are in force until July 3, 2009.
- The Company has issued performance bonds through banks for ThUS\$4,877 in favor of the Water Board of the Chilean Ministry of Public Works as collateral for any possible costs incurred in an possible abandonment of the construction and operation of the El Mauro tailing dam. Such bonds are in force until October 26, 2009.
- The Company has issued bank guarantees in favor of the Water Board of the Chilean Ministry of Public Works, 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\$606 as a requirement for river flows modification permits.

Guarantees Received:

- To date, performance bonds and letters of credits, issued by foreign or local banks in favor of the Company, have been provided by contractors and suppliers for an approximate total amount of ThUS\$53,929 to guarantee compliance with contracts and in the case of equipment its quality and performance.

IV. RESTRICTIONS TO OPERATIONS OR LIMITS

The new bank loan 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 and lien guarantees, which were released during 2005.

V. MINERAL SALE AGREEMENTS

The mineral sale agreements correspond to the contracts entered into with domestic and foreign clients, valued at the selling prices in force at year-end. Such prices are agreed on FOB or CIF terms, as appropriate, and are negotiated annually. The agreements have a 3-years average term and there are no clauses, which establish fines for non-compliance, as they establish options with respect to the volume of mineral they effectively dispatch yearly.

The sale agreements of minerals in accordance with the agreed contracts amount to:

Year	ThUS\$
2007	1,683,000
2008	1,540,000

17. SUBSEQUENT EVENTS

Between January 1, 2007 and the date when these financial statements are issued, there have been no subsequent events that could materially affect them.

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