

**MINERA MICHILLA S.A.**  
UNAUDITED FINANCIAL STATEMENTS  
FOR THE FIRST HALF ENDED 30 JUNE 2007 AND 2006

(TRANSLATION FROM SPANISH VERSION  
FILED WITH SUPERINTENDENCIA DE VALORES Y SEGUROS  
DE CHILE 29<sup>TH</sup> AUGUST 2007)

**MINERA MICHILLA S.A.**BALANCE SHEETS AT JUNE 30, 2007 AND 2006  
(In thousands of US dollars -ThUS\$)

<b>ASSETS</b>	<b>June 30, 2007</b> ThUS\$	<b>June 30, 2006</b> ThUS\$
<b>CURRENT ASSETS</b>		
Cash at bank and in hand	114	177
Time deposits	23,593	37,554
Marketable securities	7,507	5,212
Trade debtors	27,385	21,599
Sundry debtors	2,571	519
Accounts receivable from related companies	520	277
Refundable taxes	2,198	1,952
Inventories	17,070	16,604
Prepaid expenses	329	913
Deferred taxes	580	567
Other current assets	13	13
Total current assets	<u>81,880</u>	<u>85,387</u>
<b>FIXED ASSETS:</b>		
Mining properties	13,622	13,622
Construction and infrastructure	73,377	67,436
Machinery and equipment	76,223	73,397
Other fixed assets	98,288	102,334
Technical revaluation of fixed assets	4,104	4,104
Accumulated depreciation and amortization	<u>(216,568)</u>	<u>(199,515)</u>
Total fixed assets net	<u>49,046</u>	<u>61,378</u>
<b>OTHERS:</b>		
Investments in other companies	287	294
Long term debtors		425
Deferred taxes	600	111
Others	71	215
Total other assets	<u>958</u>	<u>1,045</u>
<b>TOTAL ASSETS</b>	<u><u>131,884</u></u>	<u><u>147,810</u></u>

The accompanying notes form an integral part of these financial statements

<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>June 30, 2007</b> ThUS\$	<b>June 30, 2006</b> ThUS\$
<b>CURRENT LIABILITIES:</b>		
Accounts payable	2,443	1,801
Sundry creditors	600	1,077
Accounts payable to related companies	2,254	386
Accruals and withholdings	20,205	25,406
Income tax	9,015	3,217
Total current liabilities	<u>34,517</u>	<u>31,887</u>
<b>LONG TERM LIABILITIES:</b>		
Sundry creditors		865
Accruals	7,841	6,725
Total long term liabilities	<u>7,841</u>	<u>7,590</u>
<b>SHAREHOLDERS' EQUITY:</b>		
Paid-in capital	78,422	78,422
Reserve for fixed asset technical revaluation	219	219
Retained earnings		4,409
Interim dividends	(65,000)	
Net income for the period	75,885	25,283
Total shareholders' equity	<u>89,526</u>	<u>108,333</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u><u>131,884</u></u>	<u><u>147,810</u></u>

**MINERA MICHILLA S.A.**

## STATEMENTS OF INCOME

FOR THE SIX MONTH PERIODS ENDED JUNE 30, 2007 AND 2006

(In thousands of US dollars -ThUS\$)

	<b>June 30, 2007</b> ThUS\$	<b>June 30, 2006</b> ThUS\$
OPERATING REVENUE	170,550	107,660
OPERATING COSTS	<u>(74,082)</u>	<u>(70,163)</u>
OPERATING MARGIN	96,468	37,497
ADMINISTRATIVE AND SELLING EXPENSES	<u>(7,497)</u>	<u>(6,944)</u>
OPERATING INCOME	<u>88,971</u>	<u>30,553</u>
OTHER INCOME (EXPENSES):		
Financial income	2,156	516
Other income	1,887	203
Financial expenses	(102)	(142)
Other expenses	(32)	(333)
Exchange differences	<u>610</u>	<u>690</u>
OTHER INCOME	<u>4,519</u>	<u>934</u>
INCOME BEFORE INCOME TAX	93,490	31,487
INCOME TAX	<u>(17,605)</u>	<u>(6,204)</u>
NET INCOME FOR THE PERIOD	<u><u>75,885</u></u>	<u><u>25,283</u></u>

The accompanying notes form an integral part of these financial statements

**MINERA MICHILLA S.A.**

## STATEMENTS OF CASH FLOWS

FOR THE SIX MONTH PERIODS ENDED JUNE 30, 2007 AND 2006

(In thousands of US dollars -ThUS\$)

	<b>June 30, 2007</b>	<b>June 30, 2006</b>
	ThUS\$	ThUS\$
RECONCILIATION BETWEEN NET CASH FLOW FROM		
OPERATING ACTIVITIES AND NET INCOME FOR THE PERIOD:		
Net income for the period	75,885	25,283
Charges (credits) to income that do not represent cash flows:		
Depreciation	6,405	4,043
Amortization	3,017	3,371
Write-offs and accruals	1,017	2,866
Exchange differences	(610)	(690)
Other credits to income that do not represent cash flows	(304)	(157)
Variation of assets affecting cash flow:		
Increase in trade debtors	(11,870)	(15,261)
Decrease in inventories	1,006	2,245
Decrease in deferred taxes	77	75
Decrease (increase) in other assets	(7,550)	3,632
Variation of liabilities affecting cash flow:		
Increase in accounts payable and sundry creditors	4,070	8,571
Net increase (decrease) in value added tax and other similar taxes payables	(219)	349
Increase (decrease) in deferred taxes	343	(111)
Net cash provided by operating activities	<u>71,267</u>	<u>34,216</u>
CASH FLOW FROM INVESTMENT ACTIVITIES:		
Purchase of fixed assets	(3,920)	(6,455)
Other loans to related companies	(248)	(12)
Net cash used in investment activities	<u>(4,168)</u>	<u>(6,467)</u>
CASH FLOW FROM FINANCING ACTIVITIES:		
Dividend payments	(105,429)	
Net cash used in investment activities	<u>(105,429)</u>	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(38,330)	27,749
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>69,544</u>	<u>15,194</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>31,214</u></u>	<u><u>42,943</u></u>

The accompanying notes form an integral part of these financial statements

## MINERA MICHILLA S.A.

### NOTES TO THE FINANCIAL STATEMENTS

(In thousands of US dollars – ThUS\$)

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

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 03/02/2006, 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.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

**a. Basis of presentation** - The financial statements at June 30, 2007 and 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 exchange rate current at period end of \$526.86 for US\$1 (June 30, 2006: \$539.44 per US\$1).

**c. Time deposits** - Time deposits are stated at original investment amount plus accrued interest at the close of the 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 allowance for uncollectible accounts.

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

- Finished products and products in process are stated at the 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 for the period has been calculated based on the straight-line method, over the estimated useful lives of the assets, except for values disbursed for mining concessions that are amortized based on production, considering economically workable ore reserves.

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

According to the 2007 – 2009 business plan approved by the Board of Directors in October 2006, supported by highly certain mining reserves, in January 2007 the Company modified the remaining useful life of its fixed assets, to distribute their depreciation over the same period. This modification implied a ThUS\$1,785 higher depreciation charge at June 2007.

The costs of the mine development stages correspond to:

- Exploring and prospective drilling of ore deposits.

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.

**h. Mining licenses** - Mining licenses paid for mining properties that are not under operation are amortized during the period.

**i. Investments in other companies** – Investments in other companies are stated at cost and represent principally the contribution in 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.

**j. Vacations** – The annual cost of personnel vacations is recognized as an expense in the financial statements on an accrual basis.

**k. 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 creating 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.

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

**m. Mine closure** - The Company provides mine closure and abandonment of installations cost at net present value considering a discount rate of 6.5% and pursuant to Corporate policies and legal environmental obligations subscribed with government organizations.

**n. Operating revenue** – These include product sales and the result of future contracts that determine sale prices. Sales revenue is recorded when the risk and product ownership are substantially transferred to the buyer.

**o. 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, the unrealized result has been deferred, as established by Technical Bulletin N°57 of the Chilean Institute of Accounts.

**p. Statements of cash flows** - In the statement of cash flows, the Company has considered as cash equivalent all readily disposable financial investments maturing within 90 days, including time deposits and mutual fund units.

**q. Reclassifications** – Some items in the Financial Statements at June 30, 2006 have been reclassified for reasons of uniformity.

### 3. TIME DEPOSITS

The detail is as follows:

	Currency	June 30, 2007 ThUS\$	June 30, 2006 ThUS\$
Time deposits overseas	US\$	18,553	13,518
Time deposits local	US\$	<u>5,040</u>	<u>24,036</u>
Total		<u><u>23,593</u></u>	<u><u>37,554</u></u>

4. TRADE DEBTORS

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

	<b>June 30, 2007</b> ThUS\$	<b>June 30, 2006</b> ThUS\$
Europe	21,546	15,025
Asia Pacific	5,834	2,477
North America		4,092
Latin America	5	5
	<hr/>	<hr/>
Total	<u>27,385</u>	<u>21,599</u>

5. INVENTORIES

The detail of inventories at the respective period-ends is as follows:

	<b>June 30, 2007</b> ThUS\$	<b>June 30, 2006</b> ThUS\$
Products in process	10,092	8,822
Supplies and materials	3,816	4,455
Finished products	3,162	3,327
	<hr/>	<hr/>
Total	<u>17,070</u>	<u>16,604</u>

## 6. FIXED ASSETS

Fixed assets are stated as indicated in Notes 2g and 2h. The detail is as follows:

	<b>June 30, 2007</b> ThUS\$	<b>June 30, 2006</b> ThUS\$
Mining properties	<u>13,622</u>	<u>13,622</u>
Construction and infrastructure	<u>73,377</u>	<u>67,436</u>
Machinery and equipment	<u>76,223</u>	<u>73,397</u>
Investments in development and prospecting	85,551	82,971
Furniture and fixtures, equipment	3,914	3,920
Works in progress	5,073	8,753
Leased assets	3,000	5,359
Other fixed assets	<u>750</u>	<u>1,331</u>
Total other fixed assets	98,288	102,334
Fixed asset technical revaluation	<u>4,104</u>	<u>4,104</u>
Total fixed assets - gross	<u>265,614</u>	<u>260,893</u>
Accumulated depreciation	(123,534)	(115,206)
Depreciation for the period	(6,405)	(4,043)
Increased value of accumulated depreciation as a result of technical revaluation of fixed assets	(4,104)	(4,104)
Accumulated amortization	(79,508)	(72,791)
Amortization for the period	<u>(3,017)</u>	<u>(3,371)</u>
Total accumulated depreciation	<u>(216,568)</u>	<u>(199,515)</u>
Total fixed assets - net	<u><u>49,046</u></u>	<u><u>61,378</u></u>

## 7. SHORT AND LONG TERM SUNDRY CREDITORS

The detail of this item is as follows:

<b>Short term:</b>	<b>June 30, 2007</b> ThUS\$	<b>June 30, 2006</b> ThUS\$
Leasing obligations	612	1,153
Deferred interest	(12)	(76)
	<u>600</u>	<u>1,077</u>
<b>Total</b>	<b><u>600</u></b>	<b><u>1,077</u></b>
<b>Long-term:</b>		
Leasing obligations		889
Deferred interest		(24)
		<u>865</u>
<b>Total</b>		<b><u>865</u></b>

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

## 8. BALANCES AND TRANSACTIONS WITH RELATED COMPANIES

a. Accounts receivable from/payable to related companies:

	<b>Relationship</b>	<b>June 30, 2007</b> ThUS\$	<b>June 30, 2006</b> ThUS\$
<b>Receivables - short-term:</b>			
Minera El Tesoro	Indirect		252
Antofagasta Minerals S.A.	Shareholder	320	8
Madeco S.A.	Indirect	182	
Minera Los Pelambres	Indirect	17	16
Antofagasta Railway agencia en Chile	Indirect	1	1
		<u>520</u>	<u>277</u>
<b>Total</b>		<b><u>520</u></b>	<b><u>277</u></b>
<b>Payables - short-term:</b>			
Antofagasta Minerals S.A.	Shareholder	18	152
Antofagasta Railway agencia en Chile	Indirect	209	234
Minera Los Pelambres	Indirect	16	
Madeco S.A.	Indirect	48	
Minera El Tesoro	Indirect	1,963	
		<u>2,254</u>	<u>386</u>
<b>Total</b>		<b><u>2,254</u></b>	<b><u>386</u></b>

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		Effect on income Charge (credit)	
			June 30 2007	June 30 2006	June 30 2007	June 30 2006
			ThUS\$	ThUS\$	ThUS\$	ThUS\$
Antofagasta Minerals S.A.	Shareholder	Administrative services	600	600	600	600
		Expense refunds	26	216	26	216
		Recovery of expenses	547			
		Rental income	51	50	(51)	(50)
Antofagasta Railway Agencia en Chile	Indirect	Transport services	364	592	364	592
		Recovery of expenses	4	2		
Minera Los Pelambres	Indirect	Rental income	102	100	(102)	(100)
		Administrative services	14		(14)	
Madedo S.A.	Indirect	Copper sales	975	701	(472)	(333)
		Purchase of materials	31	21		
Minera El Tesoro	Indirect	Sale of materials	235	131		
		Purchase of materials	2,151		2,151	
		Sea Terminal service	664		(664)	
		Miscellaneous	1			
Cía. Inv. Adriático S.A.	Indirect	Office rent		12		12
Banco de Chile	Indirect	Investment in time deposits	4,105	12,871	(73)	(33)

## 9. ACCRUALS AND WITHHOLDINGS

The detail for this item at each period-end is as follows:

	June 30, 2007 ThUS\$	June 30, 2006 ThUS\$
Monthly expenses accrual	4,947	6,050
Sundry US dollar accrual	8,723	4,464
Extraordinay bonus accrual	2,117	
Staff vacations accrual	829	749
Futures market accrual	595	13,291
Withholdings payable	2,994	852
<b>Total</b>	<b>20,205</b>	<b>25,406</b>
<b>Long term:</b>		
Mine closure	1,562	1,336
Severance indemnities	6,279	5,389
<b>Total</b>	<b>7,841</b>	<b>6,725</b>

10. INCOME TAX AND DEFERRED TAXES

**a. Refundable taxes**

The balance at each period-end is as follows:

	<b>June 30, 2007</b> ThUS\$	<b>June 30, 2006</b> ThUS\$
VAT recoverable	2,168	1,924
Mine licenses	30	28
	<u>2,198</u>	<u>1,952</u>
Total	<u>2,198</u>	<u>1,952</u>

**b. Income tax**

The First Category Income Tax provision at June 30, 2007, was ThUS\$15,853 (ThUS\$5,463 in 2006), calculated in conformity with the Income Tax Law.

The specific mining tax provision was ThUS\$1,765 (ThUS\$597 in June, 2006).

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

	<b>June 30, 2007</b> ThUS\$	<b>June 30, 2006</b> ThUS\$
Income tax accrual	(15,853)	(5,463)
Special Tax Law Art. 21 accrual	(4)	(65)
Specific mining tax accrual	(1,765)	(597)
Provisional monthly payments	6,368	2,392
Provisional monthly specific mining tax payments	2,234	489
Sence training expenses	5	27
	<u>(9,015)</u>	<u>(3,217)</u>
Total	<u>(9,015)</u>	<u>(3,217)</u>

### c. Deferred taxes

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

	June 30, 2007			June 30, 2006		
	Assets		Liabilities	Assets		Liabilities
	Short term	Long term	Long term	Short term	Long term	Long term
Temporary differences	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
Inventories	308			220		
Fixed asset depreciation			1,400			2,074
Vacation provision	141			127		
Provision for mine closure costs		1,273			1,119	
Provision for leasing and others	131	152		220	497	
Others		544			476	
Total deferred taxes	580	1,969	1,400	567	2,092	2,074
Complementary accounts - net of accumulated amortization			(31)			(93)
Total	580	1,969	1,369	567	2,092	1,981

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

	June 30, 2007 ThUS\$	June 30, 2006 ThUS\$
Current deferred tax assets	580	567
Total current assets	580	567
Long term deferred tax assets	1,969	2,092
Long term deferred tax liabilities	(1,369)	(1,981)
Total net long term asset	600	111



In Board Meeting N° 294 of August 28, 2006, the Board of Directors agreed unanimously to distribute an interim dividend of US\$50 million, at US\$1.906984613 per share, charged to the net income from 2006, which was paid to the shareholders as of September 5, 2006.

In the Ordinary General Shareholders Meeting held on April 27, 2007, the shareholders in attendance unanimously agreed to approve and ratify the Board of Directors April 23, 2007 decision to pay a US\$50 million dividend with charge to 2006 net income, at US\$1.906984613 per share, which was paid to the shareholders beginning on September 5, 2006, b) approve a dividend payment with charge to 2006 retained earnings of US\$4,408,701.35, at US\$0.168146513 per share, and c) approve a dividend payment of US\$36,020,536.37, at US\$1.373812172 per share, with charge to 2006 earnings, which must be placed at the shareholders disposal from April 30, 2007 onward.

As a result, the dividends paid by the Company to the shareholders with charge to 2006 income amount to US\$86,020,536.37 and with charge to retained earnings US\$4,408,701.35.

In Board Meeting N° 302 on May 28, 2007, it was unanimously agreed to distribute an interim dividend of US\$65 million, at US\$2.479079997 per share, against 2007 earnings, which was paid to the shareholders from June 10, 2007 onward.

## 12. OTHER INCOME AND EXPENSES

### a. Other income:

	<b>June 30, 2007</b> ThUS\$	<b>June 30, 2006</b> ThUS\$
Rental income	191	192
Gain on sale of fixed assets	11	
Sea Terminal service	322	
Recovery of written off debtor	1,352	
Other income	11	11
	<u>1,887</u>	<u>203</u>
Total	<u>1,887</u>	<u>203</u>

### b. Other expenses:

	<b>June 30, 2007</b> ThUS\$	<b>June 30, 2006</b> ThUS\$
Adjustment sulfate inventory tonnage		331
Other expenses	32	2
	<u>32</u>	<u>333</u>
Total	<u>32</u>	<u>333</u>

### 13. FUTURE OPERATIONS AND OPTIONS

The Company holds the following hedge contracts at each period-end:

#### a. Outstanding positions at June 30, 2007:

At June 30, 2007, the Company holds Min-Max options for 9,400 MT, with monthly maturities, from July to December, 2007. These options have a floor of US\$2.89 per pound of fine copper, and a cap of US\$3.69 per pound of fine copper during the second half of the year.

At June 30, 2007, the Company has Future Contracts for 8,400 MT, with 1,400 tons maturing every month, from July to December 2007. The average price of these contracts is US\$ 3.08 per pound of fine copper.

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

At June 30, 2006, the Company holds Min-Max options for 3,900 MT, with 3,350 MT maturing each month, from July to December, 2006. These options have a floor of US\$1,202 per pound of fine copper and a cap of US\$ 1,334 per pound of fine copper during the second half of the year.

This type of operation does not pay a premium; therefore, there is no amortization cost.

#### c. Result of operations performed during the period:

<b>June 30, 2007</b>	<b>Gain</b> ThUS\$	<b>Loss</b> ThUS\$	<b>Total</b> ThUS\$
Fixed price	1,997	(2,104)	(106)
Options	<u>1,054</u>	<u>(815)</u>	<u>239</u>
Total	<u><u>3,051</u></u>	<u><u>(2,919)</u></u>	<u><u>132</u></u>
<b>June 30, 2006</b>	<b>Gain</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></u>	<u><u>(57,188)</u></u>	<u><u>(57,188)</u></u>

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

14. SUBSEQUENT EVENTS

Between July 01, 2007, and the date of issue of these financial statements (August 29, 2007), there have been no subsequent events that could significantly affect the balances or interpretation of these financial statements.

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