

**MINERA LOS PELAMBRES**  
AUDITED FINANCIAL STATEMENTS  
FOR THE FULL YEAR ENDED 31 DECEMBER 2007 AND 2006

(TRANSLATION FROM SPANISH VERSION TO BE  
FILED WITH SUPERINTENDENCIA DE VALORES Y SEGUROS  
DE CHILE 28<sup>TH</sup> MARCH 2008)

# **MINERA LOS PELAMBRES**

Financial statements for the years ended  
December 31, 2007 and 2006 and independent  
Auditor's report

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of  
Minera Los Pelambres

We have audited the accompanying balance sheets of Minera Los Pelambres as of December 31, 2007, and 2006 and the related statements of income and of cash flows for the years then ended. These financial statements (including the related notes) are the responsibility of the management of Minera Los Pelambres. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Chile. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Minera Los Pelambres at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in Chile.

As indicated in Note 16, the Company has been unable to complete certain construction works of El Mauro Dam. The Company and its legal advisors expect that this situation will be favorably resolved by the first quarter of 2009.

The accompanying financial statements have been translated into English solely for the convenience of readers outside Chile.



February 1, 2008

## MINERA LOS PELAMBRES

BALANCE SHEETS AT DECEMBER 31, 2007 AND 2006  
(In thousands of United States Dollars - ThUS\$)

	<b>2007</b>	<b>2006</b>
	ThUS\$	ThUS\$
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash at bank and in hand	722	356
Time deposits	59,557	474,350
Marketable securities	103,907	10,600
Trade debtors - net	290,623	319,425
Sundry debtors	20,135	33,798
Notes receivable	326	84
Account receivable from related companies	4	4
Inventories - net	74,585	46,589
Refundable taxes	77,634	6,746
Prepaid expenses	11,909	12,015
Deferred taxes	15,506	23,184
Other current assets	18	91
	<hr/>	<hr/>
Total current assets	654,926	927,242
	<hr/>	<hr/>
<b>FIXED ASSETS:</b>		
Land	8,234	8,234
Constructions and infrastructure	856,146	844,148
Machinery and equipment	718,660	666,459
Other fixed assets	691,386	465,898
	<hr/>	<hr/>
Subtotal	2,274,426	1,984,739
Accumulated depreciation	(520,704)	(479,959)
	<hr/>	<hr/>
Total fixed assets - net	1,753,722	1,504,780
	<hr/>	<hr/>
<b>OTHER ASSETS:</b>		
Intangibles - net	133,850	141,461
Other	14,530	10,442
	<hr/>	<hr/>
Total other assets	148,380	151,903
	<hr/>	<hr/>
<b>TOTAL ASSETS</b>	<b>2,557,028</b>	<b>2,583,925</b>
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The accompanying notes are an integral part of these financial statements

	<b>2007</b>	<b>2006</b>
	ThUS\$	ThUS\$
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Bank loans: short-term portion of long- term debt	82,032	82,498
Accounts payable	100,119	93,356
Sundry creditors	73	8
Account payable to related companies	1,253	1,574
Accruals	21,484	21,010
Withholdings	44,089	38,014
Income tax payable		110,711
Other		684
	<u>249,050</u>	<u>347,855</u>
<b>LONG-TERM LIABILITIES:</b>		
Bank loans	153,333	234,775
Account payable to related companies	165	165
Accruals	15,725	12,075
Deferred taxes	153,492	138,775
	<u>322,715</u>	<u>385,790</u>
<b>SHAREHOLDERS' EQUITY:</b>		
Paid-in capital	373,820	373,820
Retained earnings:		
Retained earnings	1,476,460	1,081,748
Net income for the year	1,741,392	1,844,712
Interim dividends	(1,606,409)	(1,450,000)
	<u>1,985,263</u>	<u>1,850,280</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u><u>2,557,028</u></u>	<u><u>2,583,925</u></u>

## MINERA LOS PELAMBRES

### STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006 (In thousands of United States Dollars - ThUS\$)

	2007 ThUS\$	2006 ThUS\$
REVENUES	2,656,846	2,726,880
OPERATING COSTS	<u>(470,893)</u>	<u>(403,715)</u>
OPERATING MARGIN	2,185,953	2,323,165
ADMINISTRATIVE AND SELLING EXPENSES	<u>(92,875)</u>	<u>(77,121)</u>
OPERATING INCOME	<u>2,093,078</u>	<u>2,246,044</u>
OTHER INCOME (EXPENSES):		
Other income	7,827	808
Financial income	29,897	36,125
Financial expenses	(18,102)	(21,890)
Other expenses	(2,345)	(2,029)
Exchange differences	<u>30,445</u>	<u>4,794</u>
Other income - net	<u>47,722</u>	<u>17,808</u>
INCOME BEFORE INCOME TAX	2,140,800	2,263,852
INCOME TAX	<u>(399,408)</u>	<u>(419,140)</u>
NET INCOME FOR THE YEAR	<u><u>1,741,392</u></u>	<u><u>1,844,712</u></u>

The accompanying notes are an integral part of these financial statements

**MINERA LOS PELAMBRES**STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006  
(In thousands of United States Dollars - US\$)

	<b>2007</b>	<b>2006</b>
	ThUS\$	ThUS\$
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Net income for the year	1,741,392	1,844,712
Charges (credits) to income not representing cash flows:		
Depreciation and amortization	78,711	72,207
Mark to Market	(41,051)	99,846
Provision for finalization (Final liquidations)	(1,286)	
Obsolescence accrual	6,599	
Accruals and other long-term	(168)	2,090
Accrued interest	590	1,056
Fixed asset write offs	195	53
Profit on sale of fixed assets	(7,132)	(609)
Exchange differences	(30,445)	(4,794)
Other	(231)	960
(Increase) decrease in current assets:		
Trade debtors	72,363	(193,050)
Sundry debtors	14,194	14,757
Notes receivable	(242)	(84)
Account receivable from related companies		25
Inventories	(34,595)	1,440
Refundable taxes	(42,198)	(1,761)
Prepaid expenses	106	(5,723)
Other assets	(542)	(4,541)
Increase (decrease) in current liabilities:		
Accounts payable	(9,623)	34,861
Accounts payable to related companies	(321)	467
Accruals	(582)	(4,592)
Withholdings	6,075	17,663
Income tax payable	(88,316)	23,345
Unearned income	(684)	(1,488)
Net cash provided by operating activities	<u>1,662,809</u>	<u>1,896,840</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Additions to fixed assets - net	(303,379)	(442,250)
Sale of fixed assets	7,301	1,426
Net cash used in investing activities	<u>(296,078)</u>	<u>(440,824)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payment of dividends	(1,606,409)	(1,450,000)
Loan repayment	(81,442)	(81,442)
Net cash used in financing activities	<u>(1,687,851)</u>	<u>(1,531,442)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(321,120)	(75,426)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>485,306</u>	<u>560,732</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u><u>164,186</u></u>	<u><u>485,306</u></u>

The accompanying notes are an integral part of these financial statements

# MINERA LOS PELAMBRES

## NOTES TO THE FINANCIAL STATEMENTS

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

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### 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 6/16/2005, and the relevant regulations issued by the Superintendence of Securities and Insurance ("SVS") through its Exempt Resolutions 549 of 9/23/2005 and 39 of 2/3/2006, 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.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**a. Basis of presentation** - The financial statements as of December 31, 2007 and 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\$) having for this purpose 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 closing exchange rate at each year end:

	2007	2006
Closing exchange rate (Peso/US Dollar)	Ch\$ 496.89	532.39
Unidad de fomento (inflation index - linked units of account)	Ch\$ 19,622.66	18,336.38

Exchange differences are recognized in results for the year.

**c. Time deposits** - Time deposits and other instruments entered into under resale agreements are stated at original investment amount plus accrued interest at the close of the year.

**d. Marketable securities** - Until 2006, marketable securities were mainly mutual fund units valued at redemption value of units at year end. In 2007, the Company outsourced management of its cash surplus by hiring two Asset Managers, who manage a portfolio of instruments with a view to achieving a return on such surplus. These investments are stated in this item at their redemption value and are adjusted to their fair value at period-end, according to Technical Bulletin No.76 of the Chilean Institute of Accountants.

**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, 2007, this item is presented net of a provision for obsolescence of ThUS\$8,937 (ThUS\$2,602 in 2006).

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, depending on their origin.

Prestripping and preparation and development of the mine relates to the 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 pre-operating stage, including planning, engineering, support equipment, maintenance, and supply costs, etc. necessary to dispose of waste and prepare the pit for exploitation.

Mining properties and prestripping are amortized on the basis of 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 original project financing in the pre-operating phase are also included. These costs are amortized from a financial stand point on the basis of the extraction of 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 basis 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 equivalent includes time deposits and readily realizable financial investments maturing within 90 days, including fixed-income mutual fund units and the investments made by the assets manager who handle the short-term portfolio, according to the cash surplus investment policies defined to that effect.

**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.

**o. Reclassifications** - For comparative purposes, some items have been reclassified in the financial statements at December 31, 2006.

### 3. TIME DEPOSITS

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

	<b>Currency</b>	<b>2007</b> ThUS\$	<b>2006</b> ThUS\$
Foreign time deposits	US\$	52,911	381,565
Local time deposits	US\$		10,023
Local time deposits	Ch\$		44,869
Local financial investments	US\$		10,016
Local financial investments	Ch\$	<u>6,646</u>	<u>27,877</u>
Total time deposits		<u><u>59,557</u></u>	<u><u>474,350</u></u>

### 4. MARKETABLE SECURITIES

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

	<b>Currency</b>	<b>2007</b> ThUS\$	<b>2006</b> ThUS\$
A.M. Deutsche Foreign Investments (*)	US\$	45,886	
A.M. Blackrock Foreign Investment (*)	US\$	45,957	
Local mutual funds	Ch\$	<u>12,064</u>	<u>10,600</u>
Total investments in mutual funds		<u><u>103,907</u></u>	<u><u>10,600</u></u>

(\*) The fair value of this portfolio at December 31, 2007 meant recording a net loss of ThUS\$279 to income.

## 5. TRADE DEBTORS - NET

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

	<b>2007</b>	<b>2006</b>
	ThUS\$	ThUS\$
<b>Foreign debtors</b>		
Europe	76,428	145,132
Asia Pacific	24,419	9,803
Asia Pacific - related parties (*)	155,501	222,443
Latin America		83
North America	57,254	13,803
(Mark to market estimate and metal content adjustment)	<u>(73,544)</u>	<u>(114,595)</u>
<b>Total foreign debtors</b>	<u>240,058</u>	<u>276,669</u>
<b>Local debtors</b>	<u>50,565</u>	<u>42,756</u>
<b>Total</b>	<u><u>290,623</u></u>	<u><u>319,425</u></u>

(\*) Invoicing for the 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:

	<b>2007</b>	<b>2006</b>
	ThUS\$	ThUS\$
Finished products	7,569	4,995
Work in progress	39,823	18,039
Raw materials	36,130	26,157
Provision for obsolescence of materials	<u>(8,937)</u>	<u>(2,602)</u>
<b>Total</b>	<u><u>74,585</u></u>	<u><u>46,589</u></u>

## 7. FIXED ASSETS

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

	<b>2007</b>	<b>2006</b>
	ThUS\$	ThUS\$
Land	<u>8,234</u>	<u>8,234</u>
Constructions and infrastructure:		
Buildings and constructions	622,764	614,378
Infrastructure	216,489	214,925
Installations	<u>16,893</u>	<u>14,845</u>
Total constructions and infrastructure	<u>856,146</u>	<u>844,148</u>
Machinery and equipment:		
Machinery and equipment	625,366	548,462
Furniture and fixtures	3,617	3,617
Information technology and communication equipment	18,360	17,892
Mobile equipment	71,018	96,209
Vehicles	<u>299</u>	<u>279</u>
Total machinery and equipment	<u>718,660</u>	<u>666,459</u>
Other fixed assets:		
El Mauro Dam works in progress	531,533	339,278
Projects in progress	102,183	68,929
Mining properties	12,643	12,643
Prestripping	44,824	44,824
Fixed assets for disposal	<u>203</u>	<u>224</u>
Total other fixed assets	<u>691,386</u>	<u>465,898</u>
Total fixed assets, gross	<u>2,274,426</u>	<u>1,984,739</u>
Accumulated depreciation of constructions and infrastructure	(228,262)	(203,711)
Amortization of mining properties and prestripping	(15,196)	(12,902)
Accumulated depreciation of machinery and equipment	<u>(277,246)</u>	<u>(263,346)</u>
Total accumulated depreciation and amortization	<u>(520,704)</u>	<u>(479,959)</u>
Total fixed assets – net	<u><u>1,753,722</u></u>	<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 of the original project and El Mauro Dam costs, and other minor intangible costs, as follows:

	<b>2007</b> ThUS\$	<b>2006</b> ThUS\$
Cost of initial studies transferred from Minera El Chacay	8,487	8,487
Costs of support management prior to construction stage	8,204	8,204
Preoperating costs of construction stage	137,912	137,912
Costs of start-up, balance of construction	4,957	4,957
Preoperating gains and losses	8,500	8,500
Easements, water rights, software, trade marks, patents and other rights	9,528	8,822
Preoperating costs initial El Mauro Dam studies	<u>5,138</u>	<u>5,138</u>
 Total intangibles	 182,726	 182,020
 Accumulated amortization	 <u>(48,876)</u>	 <u>(40,559)</u>
 Total intangibles - net	 <u><u>133,850</u></u>	 <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 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.

**At December 31, 2007:**

<b>Financial institutions</b>	<b>Interest rate</b> %	<b>Short-term</b> ThUS\$	<b>Long-term</b> ThUS\$
Citibank and others	5.1150	77,124	153,333
BBVA Banco Bhif	5.7463	<u>4,908</u>	<u>          </u>
 Total		 <u><u>82,032</u></u>	 <u><u>153,333</u></u>

**At December 31, 2006:**

<b>Financial institutions</b>	<b>Interest rate %</b>	<b>Short-term ThUS\$</b>	<b>Long-term ThUS\$</b>
Citibank and others	5.6150	77,432	230,000
BBVA Banco 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

A detail of this item is as follows:

	<b>2007 ThUS\$</b>	<b>2006 ThUS\$</b>
Invoices payable	79,770	64,167
Withholdings from contractors	4,440	11,313
Insurance policies payable	15,495	17,484
Other	<u>414</u>	<u>392</u>
Total	<u><u>100,119</u></u>	<u><u>93,356</u></u>

11. ACCRUALS

The detail of this item as at December 31, 2007 and 2006 is as follows:

	<b>2007 ThUS\$</b>	<b>2006 ThUS\$</b>
<b>Short-term:</b>		
Contractors		3,955
Personnel benefits	21,053	4,941
Major maintenance		8,886
Sundry	<u>431</u>	<u>3,228</u>
Total	<u><u>21,484</u></u>	<u><u>21,010</u></u>
<b>Long-term:</b>		
Severance indemnity	12,947	9,707
Mine closure costs	<u>2,778</u>	<u>2,368</u>
Total	<u><u>15,725</u></u>	<u><u>12,075</u></u>

## 12. INCOME AND DEFERRED TAXES

### a. Recoverable taxes include the following:

	<b>2007</b>	<b>2006</b>
	ThUS\$	ThUS\$
<b>Current assets:</b>		
Specific tax on petroleum products	498	332
Value added tax	12,647	6,414
Monthly Provisional Payments and income tax credit, net	64,481	
Other withholding taxes recoverable	8	
	<u>77,634</u>	<u>6,746</u>
Total short-term	<u>77,634</u>	<u>6,746</u>
<b>Other assets (long term):</b>		
Additional tax for advisory services	5,661	4,623
	<u>5,661</u>	<u>4,623</u>
Total long-term	<u>5,661</u>	<u>4,623</u>

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

### b. Income tax

The provision for first category income tax at December 31, 2007 and 2006 was 17% of the net taxable income of ThUS\$1,983,629 and ThUS\$2,279,847, respectively, calculated as provided for in the Chilean Income Tax Law. The provision for the specific mining tax at December 31, 2007 and 2006 was 4% of the net operating taxable income of ThUS\$1,986,500 and ThUS\$2,283,034, respectively.

In 2006, the provisions for income and specific mining tax are presented in income tax payable in current liabilities net of monthly provisional payments (“MPP”), training credits, donations and credits for purchases of fixed assets.

At December 31, 2007 as monthly provisional payments are higher than the income tax calculated for the period, the surplus of ThUS\$64,481 has been reclassified to refundable taxes, as indicated in Note 12a).

	<b>2007</b>	<b>2006</b>
	ThUS\$	ThUS\$
Income tax provision	(337,217)	(387,574)
Specific mining tax provision	(39,730)	(45,660)
Monthly provisional payments	374,985	321,883
Technical consulting services additional tax	396	352
Refundable training expenses	166	136
Credits from donations	1,366	122
Credits from purchases of fixed assets	34	30
	<u>          </u>	<u>          </u>
Income and specific mining tax payable	<u>          -</u>	<u>      (110,711)</u>

### c. Deferred taxes

At December 31, 2007 and 2006, the detail of accumulated deferred tax balances was as follows:

	<b>Deferred taxes</b>							
	<b>2007</b>				<b>2006</b>			
	<b>Asset</b>		<b>Liability</b>		<b>Asset</b>		<b>Liability</b>	
<b>Short-term</b>	<b>Long-term</b>	<b>Short-term</b>	<b>Long-term</b>	<b>Short-term</b>	<b>Long-term</b>	<b>Short-term</b>	<b>Long-term</b>	
ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	
Provision for final liquidations			219					
Provision for price and quantity variations	12,503				19,481			
Allowance for uncollectible accounts	98				155			
Provision for vacations	603				458			
Provision for maintenance					1,510			
Provision for obsolete materials	1,559				594			
Severance indemnity		2,144				1,603		
Provision for mine closure		472				403		
Refinancing costs			59	117			59	176
Indirect manufacturing expense			1,694				1,218	
Indirect manufacturing charges			269				271	
Depreciation of fixed assets				124,464				109,344
Preoperational expenses				27,645				29,078
Specific mining tax	3,450	504	513	4,386	2,605	501	175	3,211
Other	47				104	527		
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total deferred taxes	<u>18,260</u>	<u>3,120</u>	<u>2,754</u>	<u>156,612</u>	<u>24,907</u>	<u>3,034</u>	<u>1,723</u>	<u>141,809</u>

The net asset of ThUS\$15,506 (ThUS\$23,184 in 2006) for short-term deferred taxes is presented in current assets.

The net liability of ThUS\$153,492 (ThUS\$138,775 in 2006) 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:

	<b>2007</b> ThUS\$	<b>2006</b> ThUS\$
<b>Current tax expense:</b>		
Provision for income tax for the year	(337,217)	(387,574)
Surplus (deficit) of prior year income tax provision	65	(973)
Provision for specific mining tax	(39,730)	(45,660)
Deficit of prior year specific mining tax	(131)	
<b>Deferred taxes:</b>		
Changes in deferred taxes during the year	(21,730)	13,550
Deferred taxes for specific mining tax	(665)	1,517
Total charge to income	<u>(399,408)</u>	<u>(419,140)</u>

### 13. SHAREHOLDERS' EQUITY

a. The following are the equity movements during 2007 and 2006:

<b>Items</b>	<b>Paid-in capital</b> ThUS\$	<b>Retained earnings</b> ThUS\$	<b>Total</b> ThUS\$
Balance at January 1, 2006	373,820	1,081,748	1,455,568
Net income for the year		1,844,712	1,844,712
Interim dividends		(1,450,000)	(1,450,000)
Balance at December 31, 2006	<u>373,820</u>	<u>1,476,460</u>	<u>1,850,280</u>
Balance at January 1, 2007	373,820	1,476,460	1,850,280
Net income for the year		1,741,392	1,741,392
Interim dividends		(1,606,409)	(1,606,409)
Balance at December 31, 2007	<u>373,820</u>	<u>1,611,443</u>	<u>1,985,263</u>

- b. Shareholdings of the subscribed and paid-in capital are as follows at December 31, 2007:

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><u>373,819,680</u></u>	<u><u>373,820</u></u>	<u><u>100.00</u></u>

- c. The Board of Directors approved the interim dividends paid to the Company's shareholders in 2007, in ordinary meeting N°117, dated May 23, 2007, in extraordinary meeting dated August 10, 2007, ordinary meetings N°120, dated September 27, 2007 and N°122, dated November 29, 2007, for ThUS\$700,000, ThUS\$186,409, ThUS\$370,000 and ThUS\$350,000, respectively.
- d. The Board of Directors approved the interim dividends paid to the Company's shareholders in 2006, in ordinary meeting N°107, dated May 24, 2006, N°109, dated August 31, 2006, and N°112, dated November 30, 2006, for ThUS\$470,000, ThUS\$600,000, ThUS\$380,000, respectively.

## 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.

### At December 31, 2007:

Related party	Transaction description	Transaction amount	Effect on income charge (credit)	Asset	Liability
		ThUS\$	ThUS\$	ThUS\$	ThUS\$
Antofagasta Minerals S.A.	Administrative services received	1,688	1,418		813
	Technical support received	1,576	1,324		145
	Recovery of expenses	1,582	1,317		233
	Expense collection	90	(46)	4	
Minera Michilla S.A.	Rental of offices in Santiago	212	212		19
	Expenses collection	17	(14)		
Madeco S.A.	Purchase of materials for projects	840	488		23
Minera El Tesoro	Expenses collection	267	(171)		
	Purchase of materials	20			20
Other related	Services and others	990	832		
LP Investment Co. Ltd.	20% withholding on disallowed expenses	61	61		
Nippon LP Resources BV	20% withholding on disallowed expenses	30	30		
MM LP Holding BV	20% withholding on disallowed expenses	18	18		
Total short-term				4	1,253
Antofagasta Minerals S.A.	Water rights				165
Total long-term					165

### At December 31, 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	46	(39)	4	
Minera Michilla S.A.	Rental of offices in Santiago	201	201		17
	Expenses collection	3	(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	204	(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 NON-OPERATING INCOME AND EXPENSES

The detail of other income and expenses is as follows:

	<b>2007</b>	<b>2006</b>
	ThUS\$	ThUS\$
<b>Non-operating income:</b>		
Profit on sale of assets	7,132	609
Other	<u>695</u>	<u>199</u>
Total	<u><u>7,827</u></u>	<u><u>808</u></u>
<b>Non-operating expenses:</b>		
Contribution to Minera Los Pelambres Foundation	1,498	
Deferred charge		1,645
Project write-offs	195	31
Provision for write off of housing loans	128	210
Other expenses	<u>524</u>	<u>143</u>
Total	<u><u>2,345</u></u>	<u><u>2,029</u></u>

## 16. CONTINGENCIES, GUARANTEES AND ENCUMBRANCES

### I. LAWSUITS:

As a result of the processes of some of the litigations detailed in the current note, at the date of issue of these financial statements, the Company is unable to complete certain construction works of El Mauro Dam, which shows a progress of 98.5% at December 31, 2007.

The above may delay the date foreseen for its startup, however and considering the actual capacity of the Quillayes Tailings dam deposit currently in use and the level of production with which the Company is operating, said Dam may be used as the principal tailing facility until the first quarter of 2009, at which time the Management of the Company and its legal advisors estimate that the situation will be favorably resolved.

The Management of Minera Los Pelambres is committed to evaluating a series of measures aimed at keeping the operational continuity of the Company in the long-term.

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. The detail of the most significant litigations is the following:

<b>Plaintiff</b>	: Sociedad Agrícola Ganadera y Forestal Tipay and others.
<b>Defendants</b>	: CONAMA (Chilean National Environmental Commission), CONAMA's Board of Directors and 4 <sup>th</sup> Region's COREMA (Regional Environmental Commission).
<b>Case No.</b>	: 15.333-2006. 3 <sup>rd</sup> Civil Court of Santiago
<b>Matter</b>	: Suit on Public Law Nullity of Environmental Classification Resolution RCA 38/ 299/ 300 on Comprehensive Development Project. Minera Los Pelambres has become party in the lawsuit because it would be directly affected by a possible adverse ruling.
<b>Status</b>	: Trial period is concluded, 1 <sup>st</sup> instance ruling is pending.
<b>Value</b>	: If the claim is accepted in 1 <sup>st</sup> instance, the Company can lodge a jurisdictional appeal to revert the ruling.
<b>Plaintiff</b>	: Caimanes Rural Potable Water Committee, Valle del Pupio Defense Committee, Canal Comuneros Caimanes El Llano, Caimanes Neighbours Committee, Pupio Neighbours Committe.
<b>Defendants</b>	: Director of the Water Board.
<b>Case No.</b>	: 12.004-5, Santiago Court of Appeal.
<b>Matter</b>	: Appeal of Resolution DGA 1791, Authorizing Mauro Tailings Dam according to art 294 of the Water Code.
<b>Status</b>	: On November 3, 2006, the Santiago Court of Appeal accepted the plaintiffs' appeal, only annulling the permit granted by the Water Board to build the dam. The same Court rejected the plaintiffs' restraint request. The Water Board and the Company presented a cassation appeal before the Supreme Court.
<b>Value</b>	: Considering the Company's legal arguments and the Supreme Court's jurisprudence, it is considered unlikely that the claimed construction permit will be definitely revoked that would involve future production losses. With 98.5% of the building complete at December 31, 2007, the Company has invested in this project resources for ThUS\$531,533, in addition to ThUS\$5,138 in preoperational costs classified as intangibles.
<b>Note</b>	: Minera Los Pelambres is a party to the Appeal because the result of the claim affects the Company, because the objected permit allows the construction of the El Mauro tailings dam.

**Plaintiff** : Sociedad Agrícola Ganadera y Forestal El Tipay.  
**Defendant** : Director of the Water Board.  
**Case No.** : 11.915-5, Santiago Court of Appeal.  
**Matter** : Appeal of Resolution DGA 1791, Authorizing Mauro Tailings Dam according to art 294 of the Water Code.  
**Status** : On November 3, 2006, the Santiago Court of Appeal, accepted the plaintiffs' appeal, only annulling the permit granted by the Water Board to build the dam. The same Court rejected the plaintiffs' restraint request. The Water Board and the Company presented a cassations appeal before the Supreme Court.  
**Value** : Considering the Company's legal arguments and the Supreme Courts jurisprudence, it is considered unlikely that the claimed construction permit will be definitely revoked that would involve future production losses. With 98.5% of the building complete at December 31, 2007, the Company has invested in this project resources for ThUS\$531,533, in addition to ThUS\$5,138 in preoperational costs classified as intangibles.  
**Note** : Minera Los Pelambres is a party to the Appeal because the result of the claim affects the Company, because the objected permit allows the construction of the El Mauro tailings dam.  
**Plaintiff** : Sociedad Agrícola y Comercial Mauro Ltda.  
**Defendant** : (i) Principal defendants: Muñoz Navarrete, Arnoldo, Jorge and Germán Muñoz C. (ii) Subsidiary defendant: Minera Los Pelambres.  
**Case No.** : 690/02, 12<sup>th</sup> Civil Court of Santiago  
**Matter** : Nullity of Sales Contract and replevying.  
**Status** : Principal Measure: On April 19, 2007, the 1<sup>st</sup> Instance Judge rules declaring null the sales contract of the Fundo Mauro, dated June 26, 1992 and signed by Soc. Agrícola y Comercial Mauro Ltda., and Arnoldo Muñoz Navarrete and others. The Company acquired the property on January 11, 2001. Consequently the Judge also accepts the claim against Minera Los Pelambres, current owner of the property and orders its restitution once the sentence is final.  
On May 2, 2007: The defendants Arnoldo Muñoz N., Germán Muñoz G., Jorge Muñoz G., and Minera Los Pelambres, appeal the 1<sup>st</sup> Instance ruling, on which the Santiago Court ruling is pending.  
Precautionary Measure: 14.12.05 The prohibition to celebrate acts and contracts was granted. In addition, on May 18, 2007 the precautionary condition of restraining construction activities was rejected and the precautionary measure of prohibiting the deposit of tailings, was granted.

Minera Los Pelambres offers a Performance Bond to substitute the prohibition to deposit tailings, on December 7, 2007, the Court denies the request. Currently, the Santiago Court of Appeal must rule in 2<sup>nd</sup> instance on the aforementioned guarantee substitution request.

<b>Value</b>	: The questioned purchase (1992) is previous to the one by which the Company acquires the Fundo El Mauro property (2001). If the claim is accepted, this second purchase would be null. The property has a ThUS\$ 3,300 book value.
<b>Plaintiff</b>	: Caimanes Rural Potable Water Committee, Canal Comuneros Caimanes, Caimanes Neighbours Committee, Pupio Neighbours Committee, Valle del Pupio Defense Committee, Felipe Montalvo Santana, Jorge Vega Olivares, Magali Galarce Godoy, Myrella Ardies Guardia, Ines Ordenes Cortes, Rosa Galarce V., Victor Ugarte E., Sociedad Agrícola Ganadera and Forestal El Tipay.
<b>Defendant</b>	: Servicio Agrícola y Ganadero (Agricultural and Livestock Service).
<b>Case No.</b>	: 971-06 Third Civil Court of Santiago.
<b>Matter</b>	: Nullity of the Administrative Procedure of Resolution N° 474 of the Agricultural and Livestock Service, which regularized the water use rights of the Fundo Mauro property.
<b>Status</b>	: Trial period is concluded, pending summons to hear ruling.
<b>Value</b>	: A loss of future production scenario, due to an unfavorable ruling for the Company, is unlikely.
<b>Note</b>	: Minera Los Pelambres took part in the nullity proceedings because a possible unfavorable ruling would affect the Company, because it is the current owner of those water use rights.
<b>Plaintiff</b>	: Sociedad Agrícola y Comercial Tipay Ltda.
<b>Defendant</b>	: Minera Los Pelambres.
<b>Case No.</b>	: 7.639, Civil Court of Los Vilos.
<b>Matter</b>	: Accusation of special New Construction of art. 123 of the Water Code, related the construction of the El Mauro Tailings Dam.
<b>Status</b>	: Pending the naming of the informing expert, and pending 2 <sup>nd</sup> instance appeals on the nullity of all proceedings due to lack of competency and refusal of jurisdiction and procedural nullity of the resolution denying the aforementioned appeals.
<b>Value</b>	: Considering the Company's legal arguments, a final instance ruling that would involve future production losses is deemed unlikely. With 98.5% of the building complete at December 31, 2007, the Company has invested in this project resources for ThUS\$531,533, in addition to ThUS\$5,138 in preoperational costs classified as intangibles.

## 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 case number 690-02, as mentioned above.
- Precautionary measure prohibition to deposit tailings or material in the El Mauro tailings dam, decreed in the aforementioned judgment.

### Deferred Customs Duties

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

Deferred customs duties	2007 ThUS\$	2006 ThUS\$
Due in 2007		684
Total benefits under Law N° 18,634	-	684

## 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 tailings 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 tailings 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 dam systems and re-circulation of water of the El Mauro tailings dam project for UF17,526, equivalent to ThUS\$688 as a requirement for river flows modification permits.
- The Company has requested the 12<sup>th</sup> Civil Court of Santiago to accept a certificate of deposit in the amount of UF 91,000 equivalent to ThUS\$3,572 as a substitute for the prohibition to deposit tailings. The first instance court refused to accept this certificate of deposit and the Company presented an appeal to this ruling. This outcome of the appeal is still pending.

**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\$79,038 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.

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

<b>Year</b>	<b>ThUS\$</b>
2008	1,754,000
2009	1,380,000

**17. SUBSEQUENT EVENTS**

Between January 1, and February 1, 2008 the date when these financial statements are issued, there have been no subsequent events that could materially affect them.

\* \* \* \* \*