

MINERA LOS PELAMBRES
AUDITED FINANCIAL STATEMENTS
FOR THE FULL YEAR ENDED 31 DECEMBER 2008 AND 2007

(TRANSLATION FROM SPANISH VERSION TO BE
FILED WITH SUPERINTENDENCIA DE VALORES Y SEGUROS
DE CHILE 27TH MARCH 2009)

MINERA LOS PELAMBRES

Financial statements for the years ended
December 31, 2008 and 2007 and independent
auditors' report

INDEPENDENT AUDITORS' REPORT

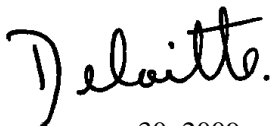
To the Shareholders of
Minera Los Pelambres

We have audited the accompanying balance sheets of Minera Los Pelambres as of December 31, 2008, and 2007 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, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in Chile.

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


January 30, 2009

MINERA LOS PELAMBRES

BALANCE SHEETS AT DECEMBER 31, 2008 AND 2007
(In thousands of United States Dollars - ThUS\$)

	2008 ThUS\$	2007 ThUS\$
ASSETS		
CURRENT ASSETS:		
Cash at bank and in hand	821	722
Time deposits	221,926	59,557
Marketable securities	103,114	103,907
Trade debtors - net		290,623
Sundry debtors	7,898	20,135
Notes receivable	231	326
Account receivable from related companies	1	4
Inventories - net	85,479	74,585
Refundable taxes	92,503	77,634
Prepaid expenses	11,686	11,909
Deferred taxes	59,776	15,506
Other current assets	14	18
Total current assets	<u>583,449</u>	<u>654,926</u>
FIXED ASSETS:		
Land	4,969	8,234
Constructions and infrastructure	1,557,199	861,284
Machinery and equipment	838,187	718,660
Other fixed assets	341,181	691,386
Subtotal	2,741,536	2,279,564
Accumulated depreciation	<u>(594,219)</u>	<u>(520,704)</u>
Total fixed assets - net	<u>2,147,317</u>	<u>1,758,860</u>
OTHER ASSETS:		
Intangibles - net	123,220	128,712
Other	12,057	14,530
Total other assets	<u>135,277</u>	<u>143,242</u>
TOTAL ASSETS	<u><u>2,866,043</u></u>	<u><u>2,557,028</u></u>

The accompanying notes are an integral part of these financial statements

	2008	2007
	ThUS\$	ThUS\$
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Bank loans	225,007	
Bank loans: short-term portion of long- term debt	76,826	82,032
Accounts payable	115,198	100,142
Sundry creditors	1,421	73
Account payable to related companies	1,322	1,230
Accruals	10,810	21,484
Withholdings	3,231	44,089
Advance payment from clients	274,168	
Total current liabilities	<u>707,983</u>	<u>249,050</u>
LONG-TERM LIABILITIES:		
Bank loans	76,667	153,333
Account payable to related company	157	165
Accruals	15,880	15,725
Deferred taxes	239,238	153,492
Total long-term liabilities	<u>331,942</u>	<u>322,715</u>
SHAREHOLDERS' EQUITY:		
Paid-in capital	373,820	373,820
Retained earnings:		
Retained earnings	1,611,443	1,476,460
Net income for the year	1,020,855	1,741,392
Interim dividends	(1,180,000)	(1,606,409)
Total shareholders' equity, net	<u>1,826,118</u>	<u>1,985,263</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u><u>2,866,043</u></u>	<u><u>2,557,028</u></u>

MINERA LOS PELAMBRES

STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007 (In thousands of United States Dollars - ThUS\$)

	2008 ThUS\$	2007 ThUS\$
REVENUES	2,170,255	2,656,846
OPERATING COSTS	<u>(676,224)</u>	<u>(470,893)</u>
OPERATING MARGIN	1,494,031	2,185,953
ADMINISTRATIVE AND SELLING EXPENSES	<u>(148,200)</u>	<u>(92,875)</u>
OPERATING INCOME	<u>1,345,831</u>	<u>2,093,078</u>
OTHER INCOME (EXPENSES):		
Other income	6,714	7,827
Financial income	10,793	29,897
Financial expenses	(11,734)	(18,102)
Other expenses	(5,455)	(2,345)
Exchange differences	<u>(58,013)</u>	<u>30,445</u>
Other income - net	<u>(57,695)</u>	<u>47,722</u>
INCOME BEFORE INCOME TAX	1,288,136	2,140,800
INCOME TAX	<u>(267,281)</u>	<u>(399,408)</u>
NET INCOME FOR THE YEAR	<u><u>1,020,855</u></u>	<u><u>1,741,392</u></u>

The accompanying notes are an integral part of these financial statements

MINERA LOS PELAMBRESSTATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(In thousands of United States Dollars - US\$)

	2008	2007
	ThUS\$	ThUS\$
NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net income for the year	1,020,855	1,741,392
Charges (credits) to income not representing cash flows:		
Depreciation and amortization	80,838	78,711
Mark to Market	197,636	(41,051)
Provision for finalization (Final liquidations)	16,878	(1,286)
Obsolescence accrual		6,599
Accruals and other long-term	5,828	(168)
Accrued interest	1,166	590
Project write offs	1,150	195
Loss (profit) on sale of fixed assets	1	(7,132)
Exchange differences	58,013	(30,445)
Other	(553)	(231)
(Increase) decrease in current assets:		
Trade debtors	72,749	72,363
Sundry debtors	12,237	14,194
Notes receivable	95	(242)
Account receivable from related companies	3	
Inventories	(10,894)	(34,595)
Refundable taxes	(80,033)	(42,198)
Prepaid expenses	223	106
Other assets	(1,245)	(542)
Increase (decrease) in current liabilities:		
Accounts payable	1,186	(9,600)
Accounts payable to related companies	92	(344)
Accruals	(6,495)	(582)
Withholdings	(40,858)	6,075
Income tax payable	41,476	(88,316)
Advance payment from clients	274,168	(684)
Net cash provided by operating activities	<u>1,644,516</u>	<u>1,662,809</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to fixed assets - net	(445,459)	(303,379)
Sale of fixed assets	60	7,301
Net cash used in investing activities	<u>(445,399)</u>	<u>(296,078)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Loans obtained	224,000	
Payment of dividends	(1,180,000)	(1,606,409)
Loan repayment	(81,442)	(81,442)
Net cash used in financing activities	<u>(1,037,442)</u>	<u>(1,687,851)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	161,675	(321,120)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>164,186</u>	<u>485,306</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>325,861</u></u>	<u><u>164,186</u></u>

The accompanying notes are an integral part of these financial statements

MINERA LOS PELAMBRES

NOTES TO THE FINANCIAL STATEMENTS

(In thousand of US 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 N°20,026 on the Specific Mining Tax published in the Official Gazette of June 16, 2005, and the relevant regulations issued by the Superintendence of Securities and Insurance (“SVS”) through its Exempt Resolutions N°549 of September 23, 2005 and N°39 of February 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, 2008 and 2007 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 transactions have been converted into US\$ amounts using the observed exchange rate on the date of each transaction. Asset and liability balances for accounts recorded in local currency have been converted to United States dollar amounts using the closing exchange rate at each year-end:

		2008	2007
Closing exchange rate (Chilean peso/US dollar)	Ch\$	636.45	496.89
Unidad de Fomento (inflation index - linked units of account	Ch\$	21,452.57	19,622.66

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 - These are investments in mutual fund shares presented at their surrender price and cash surpluses managed by Asset Managers, who manage a portfolio of instruments with a view to achieving a return on such surpluses. The investments in Asset Managers, are stated in this item at their redemption value and are adjusted to their fair value at year-end, according to Technical Bulletin N°76 of the Chilean Institute of Accountants.

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

Raw and other materials, as well as supplies and spare parts in the warehouse, are stated at average purchase cost. At each year end, this item is presented net of obsolescence provision.

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 management 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 in the Asset Managers who handle the short-term portfolio, according to the cash surplus investment policies defined to that effect.

n. Revenue - Copper concentrate sales are recognized at shipping dates, net of treatment and refining charges, and valued in conformity with contract clauses, 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. 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, 2007

3. TIME DEPOSITS

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

	Currency	2008 ThUS\$	2007 ThUS\$
Foreign time deposits	US\$	131,833	52,911
Local time deposits	US\$	81,510	
Local time deposits	Ch\$	8,583	
Local financial investments	Ch\$		<u>6,646</u>
Total time deposits		<u>221,926</u>	<u>59,557</u>

4. MARKETABLE SECURITIES

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

	Currency	2008 ThUS\$	2007 ThUS\$
A.M. Deutsche Foreign Investments (*)	US\$	37,547	45,886
A.M. Blackrock Foreign Investment (*)	US\$	37,298	45,957
Foreign mutual funds	US\$	19,092	
Local mutual funds	Ch\$	<u>9,177</u>	<u>12,064</u>
Total investments in mutual funds		<u>103,114</u>	<u>103,907</u>

(*) The fair value of this portfolio at December 31, 2008 meant recording a net loss of ThUS\$3 to income (net loss of ThUS\$279 in 2007).

5. TRADE DEBTORS - NET

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

	2008	2007
	ThUS\$	ThUS\$
Foreign debtors		
Europe	46,543	78,450
Asia Pacific	17,148	26,481
Asia Pacific - related parties (*)	85,986	162,490
Latin America	459	
North America		56,515
(Mark to market estimate and metal content adjustment)	(271,180)	(73,544)
Final liquidations (**)	<u>(181,006)</u>	<u>(9,974)</u>
Total foreign debtors	<u>(302,050)</u>	<u>240,418</u>
Local debtors	<u>27,882</u>	<u>50,205</u>
Total (***)	<u><u>(274,168)</u></u>	<u><u>290,623</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.

(**) As a result of the fall in the prices of copper and molybdenum, at the 2008 year-end final settlements of these products have exceeded the amount of invoices receivable at year-end.

(***) At December 31, 2008, the credit balance is presented as a zero balance, because it has been re-classified to the item Advance payment from clients.

6. INVENTORIES

The detail of inventories is as follows:

	2008	2007
	ThUS\$	ThUS\$
Finished products	8,041	7,569
Work in progress	47,259	39,823
Raw materials	37,781	36,130
Provision for obsolescence of materials	<u>(7,602)</u>	<u>(8,937)</u>
Total	<u><u>85,479</u></u>	<u><u>74,585</u></u>

7. FIXED ASSETS

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

	2008 ThUS\$	2007 ThUS\$
Land	<u>4,969</u>	<u>8,234</u>
Constructions and infrastructure:		
Buildings and constructions	690,210	622,764
Infrastructure	847,050	221,627
Installations	<u>19,939</u>	<u>16,893</u>
Total constructions and infrastructure	<u>1,557,199</u>	<u>861,284</u>
Machinery and equipment:		
Machinery and equipment	739,582	625,366
Furniture and fixtures	3,617	3,617
Information technology and communication equipment	20,299	18,360
Mobile equipment	74,390	71,018
Vehicles	<u>299</u>	<u>299</u>
Total machinery and equipment	<u>838,187</u>	<u>718,660</u>
Other fixed assets:		
Works in progress El Mauro dam	23,982	531,533
Works in progress Re-powering II	212,414	51,588
Projects in progress	47,158	50,595
Mining properties	12,643	12,643
Prestripping	44,824	44,824
Fixed assets for disposal	<u>160</u>	<u>203</u>
Total other fixed assets	<u>341,181</u>	<u>691,386</u>
Total fixed assets, gross	<u>2,741,536</u>	<u>2,279,564</u>
Accumulated depreciation of constructions and infrastructure	(253,655)	(228,262)
Accumulated depreciation of machinery and equipment	(323,027)	(277,246)
Amortization of mining properties and prestripping	<u>(17,537)</u>	<u>(15,196)</u>
Total accumulated depreciation and amortization	<u>(594,219)</u>	<u>(520,704)</u>
Total fixed assets – net	<u><u>2,147,317</u></u>	<u><u>1,758,860</u></u>

8. INTANGIBLES

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

	2008 ThUS\$	2007 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	<u>10,695</u>	<u>9,528</u>
Total intangibles	178,755	177,588
Accumulated amortization	<u>(55,535)</u>	<u>(48,876)</u>
Total intangibles - net	<u><u>123,220</u></u>	<u><u>128,712</u></u>

9. BANK LOANS

The Company has long-term financing from banking 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.

In addition, the Company obtained short-term bank financing in 2008 as follows:

At December 31, 2008:

Financial institutions	Interest rate %	2008 ThUS\$	
Santander	5.8000	80,516	
Chile	5.9688	30,199	
Scotiabank	5.2875	50,110	
Santander	6.0000	25,063	
BICE	7.3432	39,119	
Total		<u>225,007</u>	

Financial institutions	Interest rate %	Short-term ThUS\$	Long-term ThUS\$
Citibank and others	2.4900	<u>76,826</u>	<u>76,667</u>
Total		<u>76,826</u>	<u>76,667</u>

At December 31, 2007:

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

10. ACCOUNTS PAYABLE

The detail of this item is as follows:

	2008 ThUS\$	2007 ThUS\$
Invoices payable	95,745	79,793
Withholdings from contractors	8,233	4,440
Insurance policies payable	11,220	15,495
Other		<u>414</u>
Total	<u>115,198</u>	<u>100,142</u>

11. ACCRUALS

The detail of this item is as follows:

	2008	2007
	ThUS\$	ThUS\$
Short-term:		
Personnel benefits	10,608	21,053
Sundry	<u>202</u>	<u>431</u>
Total	<u>10,810</u>	<u>21,484</u>
	2008	2007
	ThUS\$	ThUS\$
Long-term:		
Severance indemnity	12,257	12,947
Mine closure costs	<u>3,623</u>	<u>2,778</u>
Total	<u>15,880</u>	<u>15,725</u>

12. INCOME AND DEFERRED TAXES

a. Recoverable taxes include the following:

	2008	2007
	ThUS\$	ThUS\$
Current assets:		
Specific tax on petroleum products	375	498
Value added tax	26,346	12,647
Monthly Provisional Payments and income tax credit, net	65,626	64,481
Other withholding taxes recoverable	<u>156</u>	<u>8</u>
Total short-term	<u>92,503</u>	<u>77,634</u>
Other assets (long term):		
Additional tax for advisory services	<u>4,919</u>	<u>5,661</u>
Total long-term	<u>4,919</u>	<u>5,661</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, 2008 and 2007 was 17% of the net taxable income of ThUS\$995,736 and ThUS\$1,983,629, respectively, calculated as provided for in the Chilean Income Tax Law. The provision for the specific mining tax at December 31, 2008 and 2007 was 4% of the net operating taxable income of ThUS\$1,415,092 and ThUS\$1,986,500, respectively. However, as of 2008 there is no credit of 2% over the specific mining tax, as this tax franchise ends.

At December 31, 2008 and 2007 as monthly provisional payments are higher than the income tax calculated for the year, the surplus of ThUS\$65,626 (ThUS\$64,481 in 2007) has been reclassified to refundable taxes, as indicated in Note 12a).

	2008	2007
	ThUS\$	ThUS\$
Income tax provision	(169,275)	(337,217)
Specific mining tax provision	(56,604)	(39,730)
Monthly provisional payments	223,817	374,985
Technical consulting services additional tax	381	396
Refundable training expenses	157	166
Credits from donations	1,486	1,366
Credits from purchases of fixed assets	38	34
	<u> </u>	<u> </u>
Income and specific mining tax payable	<u> - </u>	<u> - </u>

c. Deferred taxes

At December 31, 2008 and 2007, the detail of accumulated deferred tax balances was as follows:

	2008				2007			
	<u>Asset</u>		<u>Liability</u>		<u>Asset</u>		<u>Liability</u>	
	Short-term ThUS\$	Long-term ThUS\$	Short-term ThUS\$	Long-term ThUS\$	Short-term ThUS\$	Long-term ThUS\$	Short-term ThUS\$	Long-term ThUS\$
Provision for final liquidation	2,651						219	
Provision for price and quantity variations	46,100				12,503			
Allowance for uncollectible accounts	57				98			
Provision for vacations	537				603			
Provision donations	238							
Provision for obsolete materials	1,296				1,559			
Severance indemnity		2,057				2,144		
Provision for mine closure		616				472		
Refinancing costs			58	59			59	117
Indirect manufacturing expense			2,186				1,694	
Indirect manufacturing charges			245				269	
Depreciation of fixed assets				201,507				124,464
Preoperational expenses				32,372				27,645
Specific mining tax	11,957	484	571	8,457	3,450	504	513	4,386
Other					47			
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total deferred taxes	<u>62,836</u>	<u>3,157</u>	<u>3,060</u>	<u>242,395</u>	<u>18,260</u>	<u>3,120</u>	<u>2,754</u>	<u>156,612</u>

The net asset of ThUS\$59,776 (ThUS\$15,506 in 2007) for short-term deferred taxes is presented in current assets.

The net liability of ThUS\$239,238 (ThUS\$153,492 in 2007) for long-term deferred taxes is presented in long-term liabilities.

The breakdown of the charge for income tax is as follows:

	2008 ThUS\$	2007 ThUS\$
Current tax expense:		
Provision for income tax for the year	(169,275)	(337,217)
Surplus of prior year income tax provision	38	65
Provision for specific mining tax	(56,604)	(39,730)
Surplus (deficit) of prior year specific mining tax	36	(131)
Deferred taxes:		
Changes in deferred taxes during the year	(45,833)	(21,730)
Deferred taxes for specific mining tax	<u>4,357</u>	<u>(665)</u>
Total charge to income	<u><u>(267,281)</u></u>	<u><u>(399,408)</u></u>

13. SHAREHOLDERS' EQUITY, NET

a. The following are the equity movements during 2008 and 2007:

Items	Paid-in capital ThUS\$	Retained earnings ThUS\$	Total ThUS\$
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)
		<u> </u>	<u> </u>
Balance at December 31, 2007	<u>373,820</u>	<u>1,611,443</u>	<u>1,985,263</u>
Balance at January 1, 2008	373,820	1,611,443	1,985,263
Net income for the year		1,020,855	1,020,855
Interim dividends		(1,180,000)	(1,180,000)
		<u> </u>	<u> </u>
Balance at December 31, 2008	<u><u>373,820</u></u>	<u><u>1,452,298</u></u>	<u><u>1,826,118</u></u>

b. Shareholdings of the subscribed and paid-in capital are as follows at December 31, 2008:

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

c. The Board of Directors approved the interim dividends paid to the Company's shareholders in 2008, in the Ordinary meetings N° 124, dated March 26, 2008; N° 125, dated May 16, 2008; Extraordinary meeting held on July 30, 2008 and Ordinary meeting N° 126, dated August 28, 2008, for ThUS\$300,000, ThUS\$300,000, ThUS\$420,000 and ThUS\$160,000, respectively.

d. 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; Extraordinary meeting dated August 10, 2007 and 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.

14. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

The following is a detail of transactions and balances 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. The others companies are related to the Company through common owners.

At December 31, 2008:

Related party	Transaction description	Transaction amount	Effect on income charge (credit)	Asset	Liability
		ThUS\$	ThUS\$	ThUS\$	ThUS\$
Antofagasta Minerals S.A.	Administrative services received	870	731		709
	Technical support received	1,595	1,340		300
	Recovery of expenses	694	583		190
	Rental of offices in Apoquindo	65	55		65
	Water rights				8
	Expense collection	591	(573)		
Minera Michilla S.A.	Rental of offices in Santiago	201	201		
Minera El Tesoro	Expenses collection	200	(168)		
	Purchase of materials	89	75		
Minera Esperanza	Expenses collection	12	(10)		
Serv. de Trans. Integrado Ltda.	Services of transport	50	42		50
Other related companies	Services and others	3,486	3,385	1	
LP Investment Co. Ltd.	20% withholding on disallowed expenses	250	250		
Nippon LP Resources BV	20% withholding on disallowed expenses	122	122		
MM LP Holding BV	20% withholding on disallowed expenses	73	73		
Total short-term				<u>1</u>	<u>1,322</u>
Antofagasta Minerals S.A.	Water rights				<u>157</u>
Total long-term					<u>157</u>

At December 31, 2007:

Related party	Transaction description	Transaction amount ThUS\$	Effect on income charge (credit) ThUS\$	Asset ThUS\$	Liability 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)		
Minera El Tesoro	Expenses collection	267	(171)		
	Purchase of materials	20			20
Other related	Services and others	1,500	1,500		
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				<u>4</u>	<u>1,230</u>
Antofagasta Minerals S.A.	Water rights				<u>165</u>
Total long-term					<u>165</u>

15. OTHER INCOME AND EXPENSES

The detail of other income and expenses is as follows:

	2008 ThUS\$	2007 ThUS\$
Other income:		
Indemnities received	4,975	
Purchase orders not invoiced	1,709	
Gain on sale of fixed asset		7,132
Other income	30	695
Total	<u>6,714</u>	<u>7,827</u>
Other expenses:		
Contribution to Minera Los Pelambres Foundation	3,384	1,498
Project write-offs	1,150	195
Withholdings write-off	445	
Provision for write off-of housing loans	131	128
Loss on sale of fixed assets	1	
Other expenses	344	524
Total	<u>5,455</u>	<u>2,345</u>

16. CONTINGENCIES, GUARANTEES AND ENCUMBRANCES

I. LAWSUITS:

The Company put an end to the following proceedings reported in prior Financial Statements, via an out-of-court transaction drawn up and executed by public deed signed in the presence of Santiago Notary Public Ivan Torrealba Acevedo on October 23, 2008:

Plaintiff	: Sociedad Agrícola y Comercial Mauro Ltda.
Defendant	: (I) Principal defendants: Muñoz Navarrete, Arnoldo, Jorge and Germán Muñoz C; (ii) replevy defendant: Minera Los Pelambres
Trial No.	: 690 - 2002, Twelfth Civil Court of Santiago
Subject	: Annulment of Purchase and Sale Contract and replevin

As a result of this settlement, the Company obtained liftment of the following legal remedy, which had been previously reported, by a court ruling dated October 24, 2008:

- Legal remedy prohibiting acts and contracts from being entered into under No. 4 of article 298 of the Civil Procedures Code, in Case record 690-2002 referred to above.
- Legal remedy prohibiting the deposit of tailings or waste in the El Mauro Tailings Dam, decreed in the aforementioned proceeding.

Likewise, as a result of this out-of-court settlement related to Case N° 690-02 at the 12th Civil Court of Santiago, the presentation of an inapplicability measure due to unconstitutionality regarding this case was terminated, which was a claim that had been filed with the Constitutional Court under N° 1118/2008/INA.

Additionally, at year-end there is a pending litigation as follows:

Subject	: Denouncement of New Construction Work at El Mauro Dam.
Parties	: Flores Tapia, Cristián Andrés and others v/s Minera Los Pelambres.
Trial No.	: 7,957-2008, Court of First Instance of Los Vilos.
Amount	: There is no amount calculated. Therefore, it is not possible to indicate a potential loss amount.
Status	: On December 4, 2008 the court decided to instruct a temporary stoppage of the construction work at El Mauro Dam. This has not had a major impact as the construction work was already completed at that date. The summon of plea and evidence was performed on January 26, 2009. On the same date Minera Los Pelambres responded the denouncement and requested that the court notify and summon the 3 plaintiffs in order to testify and answer interrogatories. Also, the inspection by the court is pending.

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

II. ENCUMBRANCES:

The Company's assets are not subject to any mortgages, encumbrances or prohibitions.

III. OTHER GUARANTEES

Guarantees Provided:

- The Company has issued performance bonds through banks for ThUS\$12,655 on behalf 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 on behalf 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\$591 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\$95,281 to guarantee compliance with contracts and, in the case of equipment, their quality and performance.

IV. RESTRICTIONS TO OPERATIONS OR LIMITS

The new bank loan contract resulting from the refinancing mentioned in Note 9 includes certain 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:

Year	ThUS\$
2009	626,000
2010	568,000

17. SUBSEQUENT EVENTS

Between January 1, and January 30, 2009, the date on which these financial statements were issued, there have been no subsequent events that could materially affect them.

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