# Antofagasta

Annual Report and Financial Statements 2008

**Antofagasta is a Chilean-based copper mining group with interests in transport and water distribution. It is listed on the London Stock Exchange and has been a constituent of the FTSE-100 index since 2004.**

Antofagasta aims to be a significant and profitable enterprise by international standards. Its focus is on high-potential mining deposits and it seeks to realise value principally by developing and operating such deposits in order to produce copper and related by-products.

Sustainable development considerations form an integral part of Antofagasta's decision-making process. In the conduct of its activities, it places great importance on health and safety, environmental matters, community relations and management of human resources.

Today, Antofagasta's activities are mainly concentrated in Chile where it owns and operates three copper mines with a total production in 2008 of 477,700 tonnes of copper in cathode and concentrate and 7,800 tonnes of molybdenum in concentrate. It is also the principal provider of cargo transport and water distribution in the Antofagasta Region in the north of Chile. It is carrying out a brownfield expansion and developing a greenfield project, which, when operational, are expected to increase total copper production to nearly 700,000 tonnes per year by 2011. Antofagasta also has exploration or feasibility programmes in Latin America, Asia and Africa.

Please turn over to find out more about our business

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# Our Business at a Glance

## Mining

Antofagasta Minerals S.A. (AMSA) is the corporate centre for the mining division, based in Santiago, Chile. During 2008, its operations produced 477,700 tonnes of copper in concentrate (containing a small amount of gold and silver) and copper cathode as well as 7,800 tonnes of molybdenum in concentrate. The Group's copper production represented approximately 9% of Chilean production and 3% of global production and the Group's molybdenum production represented approximately 3% of global production.

### Operations

| | Los Pelambres | El Tesoro | Michilla |
|---|---|---|---|
| **Location** | Chile's Coquimbo Region, 240km northeast of Santiago | Chile's Antofagasta Region, 1,350 km north of Santiago | Chile's Antofagasta Region, 1,500 km north of Santiago |
| **Shareholders** | 60% Antofagasta plc<br>40% Japanese Consortia | 70% Antofagasta plc<br>30% Marubeni Corporation | 74% Antofagasta plc<br>26% other Chilean investors |
| **Process** | Milling and flotation to produce copper concentrate (containing gold and silver) and molybdenum concentrate | Heap-leaching and solvent extraction-electrowinning to produce copper cathode | Heap-leaching and solvent extraction-electrowinning to produce copper cathode |
| **Production (2008)** | 339,200 tonnes payable copper<br>7,800 tonnes molybdenum | 90,800 tonnes copper | 47,700 tonnes copper |
| **Cash costs (2008)** | 57.3 cents per pound (116.5 cents per pound excluding by-products) | 144.7 cents per pound | 191.1 cents per pound |
| **Workforce** | 697 employees | 534 employees | 524 employees |
| **Safety index (LTIFR)** | 1.3 accidents with lost time per million hours worked | 2.0 accidents with lost time per million hours worked | 4.4 accidents with lost time per million hours worked |
| **Mine life** | 28 years remaining | 12 years remaining | At least 1 year remaining |
| **Reserves** | 1,451m tonnes @ 0.66% copper, 0.019% molybdenum and 0.033 g/tonne gold | 223m tonnes @ 0.60% copper (inc. Esperanza ROM oxides) | 8m tonnes @ 0.91% copper |
| **Resources** | 4,860m tonnes @ 0.56% copper and 0.011% molybdenum | 287m tonnes @ 0.57% copper (inc. Esperanza ROM oxides) | 62m tonnes @ 1.46% copper |

### Development projects

| | Mauro tailings dam | Los Pelambres plant expansion | Esperanza |
|---|---|---|---|
| **Location** | Chile's Coquimbo Region | Chile's Coquimbo Region | Chile's Antofagasta Region |
| **Ownership** | As per Los Pelambres operation | As per Los Pelambres operation | 70% Antofagasta plc<br>30% Marubeni Corporation |
| **Status** | – Covered by environmental study of 2004<br>– Construction initiated in 2004 and completed in November 2008 | – Board approval July 2008<br>– Covered by environmental study of 2004<br>– Commencement of initial works August 2007<br>– Additional copper production of 90,000 tonnes per year (average over first 10 years) | – Board approval in June 2007<br>– Environmental approval in June 2008<br>– Construction initiated in August 2008 |
| **Estimated capex** | US$0.6 billion | US$1.0 billion | US$2.2 billion |
| **Production** | N/A | Additional annual production average over first 15 years of 90,000 tonnes of copper in concentrate | Annual average production over first 10 years of 191,000 tonnes of copper in concentrate containing 215,000 ounces of gold and 1.1 million ounces of silver with molybdenum production expected from 2015 |
| **Estimated start-up** | Started in operation November 2008 | Early 2010 | Q4 of 2010 |
| **Project life** | As per Los Pelambres operation | As per Los Pelambres operation | 16 years, with potential for the Telégrafo deposit to extend the life of the plant |
| **Reserves** | N/A | As per Los Pelambres operation | 583m tonnes @ 0.54% copper, 0.223 g/tonne gold and 0.010% molybdenum |
| **Resources** | N/A | As per Los Pelambres operation | 1,204m tonnes @ 0.45% copper, 0.147 g/tonne gold and 0.012% molybdenum |

Find out more on pages 16 to 31

## Feasibility studies

| | Reko Diq | Antucoya |
|---|---|---|
| **Location** | Pakistan's Province of Balochistan | Chile's Antofagasta Region, 45 kilometres east of Michilla |
| **Ownership** | 50-50 joint venture with Barrick Gold Corporation, with the Government of Balochistan holding a 25% in the principal exploration licence | 100% Antofagasta plc |
| **Status** | – Exploration programme completed in December 2007<br>– Feasibility study initiated in February 2008 | – Exploration programme completed<br>– Feasibility study initiated in February 2008 |
| **Scope** | Initial plant capacity in the range of 100,000 tonnes per day | Range of options including possible utilisation of Michilla plant |
| **Estimated completion** | H2 2009 | Mid-2009 |
| **Resources** | 4,116m tonnes @ 0.50% copper and 0.298 g/tonne gold | Mineral inventory of between 480m–700m tonnes @ between 0.42%–0.34% copper |

## Exploration

**Chile**

Drilling programme initiated in 2006 at Los Pelambres completed in 2008, resulting in 1.9 billion tonnes increase in resources to 4.9 billion tonnes

On-going drilling programme at Sierra Gorda district including Telégrafo, Caracoles and Mirador, with estimated mineral inventory (excluding El Tesoro and Esperanza) of between 2.2 billion–3.4 billion tonnes @ between 0.53%–0.44% copper

Exploration agreement with New Gold for Río Figueroa in Chile's Atacama Region

Joint venture with ENAP for geothermal opportunities in Chile through 60% interest in Energía Andina

On-going target generation programme

**Zambia**

Exploration agreement with TEAL Exploration and Mining Incorporated

## Transport

Find out more on page 23


The Antofagasta Railway Company, founded in 1888, is the main cargo transport system in Chile's Antofagasta Region, with a network of over 900 kilometres in Chile and a controlling interest in the Ferrocarril Andino network in Bolivia.

| | |
|---|---|
| **Location** | Chile's Antofagasta Region |
| **Shareholders** | 100% Antofagasta plc |
| **Process** | Rail and road transport of cargo; engineering and freight forwarding services; undeveloped forestry assets in Chile's Region de los Lagos |
| **Customer base** | 92% mining customers; 8% other customers (by turnover) |
| **Volume transported** | 5.6 million tons by rail in Chile and Bolivia and 1.4 million tons by road in Chile |
| **Workforce** | 1,509 employees |
| **Safety index LTIFR** | 13.9 accidents with lost time per million hours worked |

## Water

Find out more on page 25

Aguas de Antofagasta holds the concession for water distribution in Chile's Antofagasta Region. It produces and distributes potable water to approximately 138,000 customers and potable untreated water to industrial customers through a network of more than 1,000 kilometres of pipelines.

| | |
|---|---|
| **Location** | Chile's Antofagasta Region |
| **Shareholders** | 100% Antofagasta plc |
| **Process** | Capture, purification and distribution of water from rivers and wells; desalination of sea-water; sewage collection and treatment |
| **Customer base** | 76% regulated – domestic; 24% unregulated – industrial (by turnover) |
| **Volume produced** | 42.7 million cubic metres (including 0.4 million cubic metres of water transported) |
| **Workforce** | 264 employees |
| **Safety index LTIFR** | 1.5 accidents with lost time per million hours worked |
| **Concession life** | 25 years remaining |

# Geographical Locations - Operations and Exploration

### 1. Chile
**Operations**

– Mining
  Los Pelambres
  El Tesoro
  Michilla
– Transport
– Water

**Development and feasibility projects**

– Mauro tailings dam (completed)
– Los Pelambres plant expansion
– Esperanza
– Antucoya

**Exploration**

– Exploration in Sierra Gorda District and Los Pelambres
– Joint venture with New Gold (Río Figueroa)
– Joint venture with ENAP for geothermal opportunities


### 2. Zambia
**Exploration**

Exploration agreement with TEAL

### 3. Pakistan
**Feasibility project and exploration**

Joint venture with Barrick Gold in Reko Diq

### 4. United Kingdom
**Registered Office**

London

# Ownership Structure

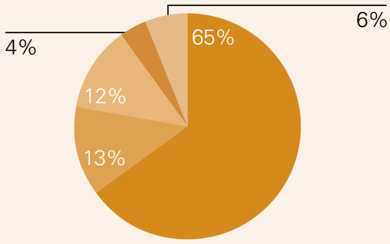
Incorporated in the United Kingdom

Listed on the London Stock Exchange (ANTO.L), with Level One ADR in United States (ANFGY)

FTSE-100 constituent since March 2004

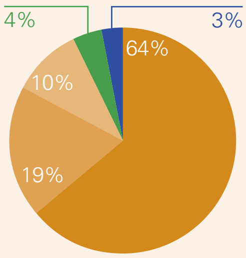
Market cap at 31 December 2008 US$6.1 billion

65% of ordinary share capital controlled by Luksic family of Chile with 35% free float



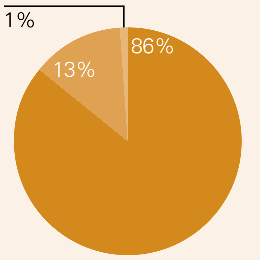

# Segmental Analysis

### Group turnover by operation (US$m)



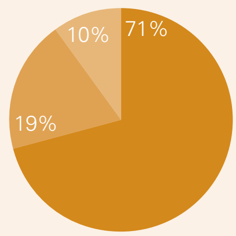

| | |
|---|---|
| Los Pelambres | 2,172.0 |
| El Tesoro | 632.4 |
| Michilla | 332.7 |
| | 3,137.1 |
| Transport | 151.0 |
| Water | 84.5 |
| **Total** | **3,372.6** |

### Mining division turnover by metal (US$m)



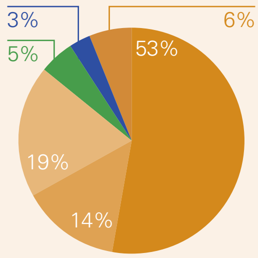

| | |
|---|---|
| Copper | 2,702.9 |
| Molybdenum | 394.8 |
| Gold & silver | 39.4 |
| **Total** | **3,137.1** |

### Copper production by operation ('000 tonnes)




| | |
|---|---|
| Los Pelambres | 339.2 |
| El Tesoro | 90.8 |
| Michilla | 47.7 |
| **Total** | **477.7** |

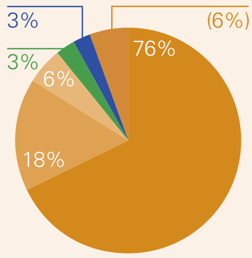
### Segment net assets (liabilities)* (US$m)




| | |
|---|---|
| Los Pelambres | 2,021.3 |
| El Tesoro | 531.6 |
| Michilla | (1.0) |
| Esperanza | 728.9 |
| Transport | 184.0 |
| Water | 129.0 |
| Corporate & other | 219.6 |
| **Total** | **3,813.4** |

*Excluding net cash and taxes

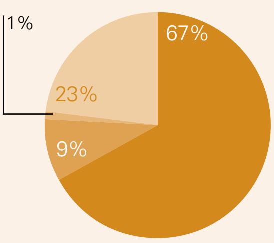
### EBITDA by operation (US$m)




| | |
|---|---|
| Los Pelambres | 1,429.7 |
| El Tesoro | 342.8 |
| Michilla | 118.4 |
| Transport | 64.2 |
| Water | 53.8 |
| Corporate & exploration | (109.1) |
| **Total** | **1,899.8** |

### Reserves by operation (m tonnes)

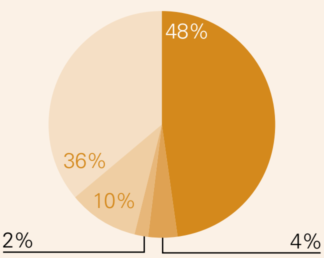
Pie chart based on contained copper




| | |
|---|---|
| Los Pelambres | 1,451.0 @ 0.66% |
| El Tesoro | 222.5 @ 0.60% |
| Michilla | 7.9 @ 0.91% |
| Esperanza | 583.3 @ 0.54% |
| **Total** | **2,264.7 @ 0.63%** |

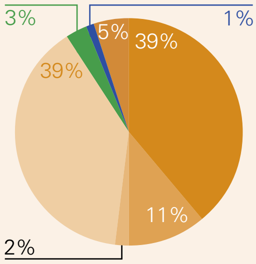
### Resources by operation (m tonnes)

Pie chart based on contained copper



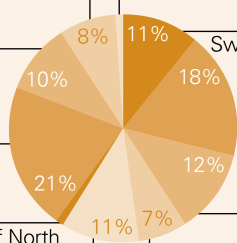

| | |
|---|---|
| Los Pelambres | 4,860.0 @ 0.56% |
| El Tesoro | 286.5 @ 0.57% |
| Michilla | 61.9 @ 1.46% |
| Esperanza | 1,204.4 @ 0.45% |
| Reko Diq | 4,116.0 @ 0.50% |
| **Total** | **10,528.8 @ 0.54%** |

### Capex by operation (US$m)




| | |
|---|---|
| Los Pelambres | 463.9 |
| El Tesoro | 125.7 |
| Michilla | 21.0 |
| Esperanza | 460.6 |
| Transport | 38.5 |
| Water | 14.5 |
| Corporate & exploration | 65.4 |
| **Total** | **1,189.6** |

### Turnover by destination (US$m)




| | |
|---|---|
| Rest of Asia | 262.0 |
| China | 353.5 |
| Japan | 707.5 |
| Rest of North America | 16.5 (1%) |
| USA | 382.3 |
| United Kingdom | 3.7 (1%) |
| Switzerland | 373.9 |
| Rest of Europe | 603.0 |
| Chile | 419.6 |
| Rest of Latin America | 250.6 |
| **Total** | **3,372.6** |

All figures relate to 2008. Figures in respect of the Group's subsidiaries are on a 100% rather than an attributable basis. Figures in respect of Reko Diq represent the Group's 50% proportional share, other than reserves and resources figures which are presented on a 100% basis.

# Highlights of 2008

- Solid financial performance with net earnings[(1)] up 23.5% to US$1,706.5 million
- Total dividends (including special dividends) up 21.0% to 60 cents per share
- Strong financial position with net cash position of US$2,919.1 million at the end of 2008
- Strong operating performance with copper production up 11.6% to 477,700 tonnes
- Increased operating costs due to market pressures with cash costs[(2)] before by-products up 16.8% to 129.3 cents per pound, but expected to reduce to approximately 110 cents per pound in 2009
- Continued progress with capital projects, with Group copper production in 2011 expected to be nearly 700,000 tonnes
- Increased potential through successful exploration at the Los Pelambres and Sierra Gorda districts

See footnotes on page 3.

| | US Dollars 2008 US$m | US Dollars 2007 US$m | Sterling[3] 2008 £m | Sterling[3] 2007 £m |
|---|---|---|---|---|
| Group turnover | 3,372.6 | 3,826.7 | 1,834.3 | 1,913.0 |
| Cash flows from operations | 2,454.3 | 2,817.7 | 1,334.9 | 1,408.6 |
| Net earnings[1] | 1,706.5 | 1,382.1 | 928.2 | 690.9 |
| Net earnings[1] excluding exceptional items[4] | 842.9 | 1,382.1 | 458.4 | 690.9 |
| Capital expenditure[5] | 1,189.6 | 466.0 | 647.0 | 233.0 |
| Net assets | 6,432.6 | 4,906.5 | 4,458.4 | 2,464.1 |

| | 2008 US cents | 2007 US cents | 2008 pence | 2007 pence |
|---|---|---|---|---|
| Earnings per share | 173.1 | 140.2 | 94.1 | 70.1 |
| Earnings per share excluding exceptional items[4] | 85.5 | 140.2 | 46.5 | 70.1 |
| Dividends per ordinary share proposed in relation to year[6] | | | | |
| Ordinary dividends – interim | 3.4 | 3.2 | | |
| – final | 5.6 | 5.4 | | |
| Special dividends – interim | 3.0 | 3.0 | | |
| – final | 48.0 | 38.0 | | |
| Total | 60.0 | 49.6 | | |

(1) Net earnings refer to profit for the financial year attributable to equity holders of the Company. Net earnings includes exceptional items as explained in Note (4) below.

(2) Cash costs are a measure of the cost of operational production expressed in terms of US cents per pound of payable copper produced. Cash costs are stated net of by-product credits and include tolling charges for concentrates for Los Pelambres. Cash costs exclude depreciation, financial income and expenses, hedging gains and losses, exchange gains and losses and corporation tax for all three mines. By-product calculations do not take into account unrealised mark-to-market gains for molybdenum at the beginning or end of each period.

(3) The sterling numbers are for illustrative purposes only. For 2008, an average rate of £1 = US$1.8386 (2007 – US$2.0004) has been used for the income and cash flow statements and a year-end rate of £1 = US$1.4428 (2007 – US$1.9912) has been used for the balance sheet.

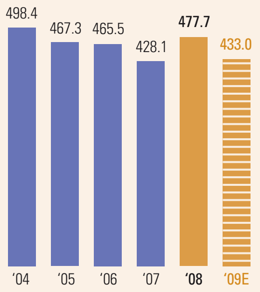
(4) Exceptional items included in the consolidated income statement in respect of 2008 comprise: (i) an impairment charge of US$188.3 million before tax relating to property, plant and equipment at El Tesoro and Michilla; and (ii) a profit of US$1,024.9 million before tax relating to the sale of a 30% interest in the Esperanza project and the El Tesoro mine to Marubeni Corporation. Further details of these exceptional items are set out in Note 5 to the financial statements.

(5) Capital expenditure represents purchases of property, plant and equipment stated on an accruals basis (see Note 14 to the financial statements on page 99).

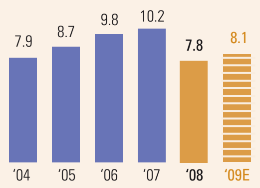
(6) Dividends are paid in either sterling or US dollars. The conversion rate for final dividends to be paid in sterling will be set on 13 May 2009.

# Highlights of 2008 continued

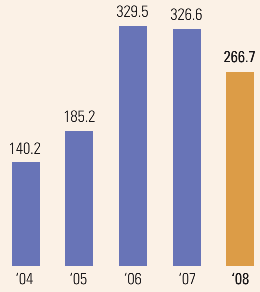
Group copper production
('000 tonnes)[1]



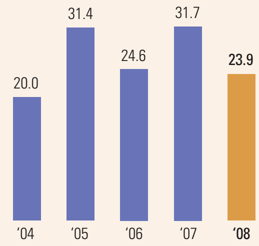

Group molybdenum production
('000 tonnes)[1]



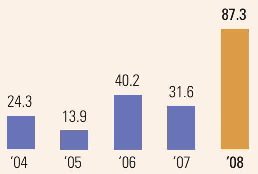

Realised copper price
(US cents per pound)[2]



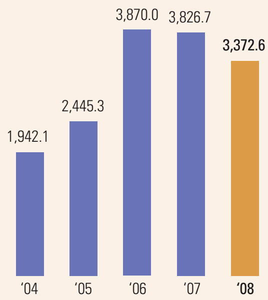

Realised molybdenum price
(US dollars per pound)[2]



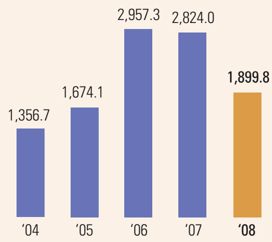

Group cash costs
(US cents per pound)[3]



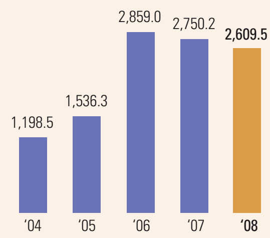

Turnover
(US$ million)



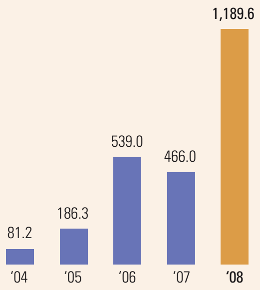

EBITDA
(US$ million)



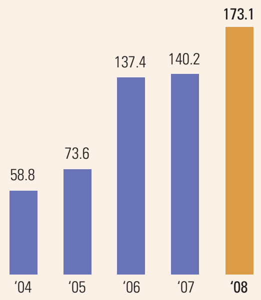

Profit before tax
(US$ million)[4]



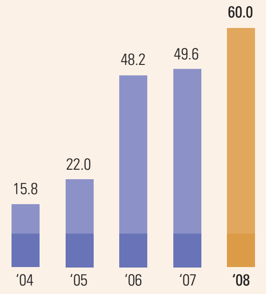

Capital expenditure
(US$ million)



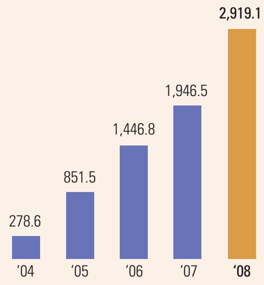

Earnings per share
(US cents)[4][5]




Dividends per share
(US cents)[5][6][7]




Net cash
(US$ million)




(1) Forecasts for Group copper and molybdenum production for 2009 are based on estimates at the date of this report and may be periodically revised during the year.

(2) Realised copper and molybdenum prices are determined by comparing revenues from copper and molybdenum sales respectively (grossed up for tolling charges for concentrates) with sales volumes for each mine in the year and are further explained on page 32.

(3) Cash costs are an industry measure of the cost of production and are further explained in Note 2 on page 3.

(4) Includes exceptional items for 2008 which are further explained in Note 5 to the financial statements. Excluding exceptional items profit before tax is US$1,772.9 million and earnings per share is 85.5 cents. There were no exceptional items in 2004 to 2007.

(5) Earnings per share and dividends per share for the years 2004 and 2005 have been restated for the effects of the 4-for-1 bonus issue on 19 June 2006.

(6) Dividends per share refers to the dividend per ordinary share proposed in relation to each year and does not relate to the amount deducted from equity under IFRS.

(7) The lighter colour part denotes the special dividends of US 8.0 cents in 2004, US 14.0 cents in 2005, US 40.0 cents in 2006, US 41.0 cents in 2007 and US 51.0 cents in 2008. Excluding the special dividends, the ordinary dividend per share proposed in relation to each year was US 7.8 cents in 2004, US 8.0 cents in 2005, US 8.2 cents in 2006, US 8.6 cents in 2007 and US 9.0 cents in 2008.

# Chairman's Statement

Los Pelambres port facility at Punta Chungo.

The Group had a successful year in 2008, with strong operating and financial performance across its business units and continued progress with both capital projects and longer-term growth plans through exploration and early-stage ventures. This was despite the global economic downturn which created extremely challenging conditions, particularly in the second half of the year.

Volume growth was achieved at all three business divisions. Group copper production at the mining division, managed by Antofagasta Minerals S.A. in Chile, rose by 11.6% compared with 2007 to reach 477,700 tonnes. Production at all three of our mines, Los Pelambres, El Tesoro and Michilla, either met or exceeded their production targets to enable the Group to exceed its original forecast for the year of 463,000 tonnes. Molybdenum production at Los Pelambres was 7,800 tonnes, a decrease of 23.5% compared with 2007 when a higher grade area of the open pit had been mined, but 14.7% above the forecast for the year. The transport division, managed by the Antofagasta Railway Company plc ("FCAB"), achieved record rail tonnages of 5.6 million tons, an increase of 12.7% over 2007, as its networks benefited from the ramp-up of new mining projects in northern Chile and Bolivia, while road tonnages remained substantially unchanged at 1.4 million tons. Volumes at Aguas de Antofagasta S.A., the water division, increased by 7.1% to 42.7 million cubic metres as both domestic and industrial sales increased.

Nevertheless, results particularly in the second half of the year were affected by the sudden weakening of commodity markets, as much of the developed world moved into recession matched by slower growth in many emerging economies, particularly in China. This was accentuated by a reduction in the level of financial investment in commodities. While London Metal Exchange ("LME") copper prices averaged over 315 cents per pound for 2008, only 2.5% below 2007, spot prices fell by two-thirds from just under 400 cents at the end of June to just over 130 cents at the end of December. Similarly, molybdenum prices for 2008 averaged US$28.9 per pound in 2008, but fell from US$32.3 per pound at the end of September to US$9.5 per pound at the end of the year. Consensus estimates are that global economic activity is likely to

# Chairman's Statement continued

Open pit at Los Pelambres.

remain weak well into 2009 and possibly 2010, and the effect this will have on metal demand and hence commodity prices will clearly affect Group performance in 2009.

Operating costs also remained under pressure for much of the year, with higher energy, sulphuric acid and fuel prices all contributing to a 16.8% increase in cash costs, excluding by-product credits, to 129.3 cents per pound in 2008. These appear however to have peaked in the third quarter, and the combination of falling input prices as supply constraints ease and the steps we have taken to reduce costs across the Group and eliminate unprofitable production at the Lince open pit mine at Michilla should reduce costs, excluding by-product credits, to approximately 110 cents per pound in 2009, a level similar to 2007.

## Results and Dividends

The Group's net earnings in 2008 were US$1,706.5 million, 23.5% above US$1,382.1 million in 2007, as the Group benefited from the gain realised through including Marubeni Corporation as a partner in the Sierra Gorda district by selling 30% of Esperanza and El Tesoro as announced in April 2008. Excluding exceptional items, which relate to the disposal gain partly offset by impairment provisions, net earnings for 2008 were US$842.9 million (2007 – US$1,382.1 million). Earnings per share were accordingly 173.1 cents (85.5 cents per share excluding exceptional items) compared with 140.2 cents in 2007. Cash flow from operations (which do not include disposal proceeds of US$1,401.2 million) were US$2,454.3 million, compared with US$2,817.7 million in 2007. At the end of 2008, the Group had a net cash position of US$2,919.1 million, which leaves it well placed in the current challenging economic environment.

The Board has recommended a final dividend for 2008 of 53.6 cents per ordinary share which amounts to US$528.4 million and, if approved at the Annual General Meeting, will be paid on 11 June 2009. This comprises an ordinary dividend of 5.6 cents and a special dividend of 48.0 cents. This gives total dividends for the year of 60.0 cents, amounting to US$591.4 million and represents a distribution of 35% of 2008 net earnings and compares with 49.6 cents per share in 2007. As we have previously stated, our policy is to establish an ordinary dividend which can be maintained or progressively increased and to pay special dividends when appropriate, taking into account the profit earned, the Group's cash position and expected funding commitments.

## Strategy

Despite the significantly weaker near-term macroeconomic outlook and the impact this has had on commodity prices, the Group considers the long-term prospects for copper demand to remain sound as industrialisation of developing economies will continue to generate demand growth and the cost structure of the industry continues to be supported by the higher marginal cost of new production. In the fourth quarter of 2008 the Board approved a strategic plan for the development of the Group's mining businesses for the period 2009 to 2015. This is built on three key pillars: securing and strengthening the core business of the Group, comprising its operations and development projects including the Los Pelambres expansion and Esperanza; continuing to grow this core business in a sustainable manner in the longer-term with particular focus on the significant Sierra Gorda and Los Pelambres districts; and finally continuing to develop and search for additional opportunities


ADASA's desalination plant in the city of Antofagasta.

including early stage growth in copper both in Chile and abroad, such as the Group's interest in the prospective Reko Diq joint venture in Pakistan. The Board considers that the Group's strong financial position, the quality of its existing assets and the strength of its experienced management teams leaves it well placed to progress with these objectives despite the current challenging macroeconomic environment.

## Sustainable Development

The Group considers sustainable development to be central to its business conduct and fully accepts its obligation to ensure that management of health, safety, environmental and social issues is rigorous and effective. Growth in the core business creates economic, social and environmental value, increasing production in a profitable way while building and consolidating the reputation of the Group as a contributor to society and achieving efficient use of natural resources through investment in new technologies. During the year the Group began formalising corporate sustainability governance and the systems needed to provide a consistent and unified framework across the Group in respect of the range of matters which have been addressed by each of its operations for several years.

## Progress with Capital Projects

During 2008 we progressed with our three major capital projects in Chile – the Mauro tailings dam and plant expansion projects at Los Pelambres in the Coquimbo Region and the Esperanza project in the Antofagasta Region, with total Group capital expenditure in the year of US$1.2 billion.

At Los Pelambres the Mauro tailings dam is now in operation, following completion of construction in November and resolution of outstanding litigation during 2008. The total cost since the project was initiated at the end of 2004 was approximately US$630 million and the Mauro dam, which is located approximately 60 kilometres from the Los Pelambres plant, will provide sufficient tailings capacity to support the remaining 28 years of the existing mine plan. In July 2008 the Los Pelambres board also approved a further plant expansion at a cost of approximately US$1.0 billion, which will increase copper production by approximately 90,000 tonnes per year from early 2010. By the end of 2008 this project was around one-third complete.

The US$2.2 billion Esperanza copper-gold project, which is located near our El Tesoro mine, received environmental approvals in June and commenced construction in the third quarter of 2008. It is expected

# Chairman's Statement continued

to enter into production in late 2010 with average annual production of approximately 191,000 tonnes of payable copper and 215,000 ounces of gold.

## Exploration and Other Early-stage Opportunities

The Group believes that it is important to continue developing its resource base to secure future growth, and during 2008 it invested nearly US$55 million in exploration. In the Sierra Gorda district further drilling was carried out at Telégrafo, which is 70%-owned through Esperanza, as well as at Caracoles, which is now wholly-owned by the Group. A further prospect known as Mirador was also identified and further exploration is planned for 2009. The total mineral inventory in the Sierra Gorda district is estimated to be in the range of 2.2 billion – 3.4 billion tonnes, in addition to the combined resource estimate of 1.5 billion tonnes at Esperanza and El Tesoro. In Los Pelambres, the evaluation of the drilling programme started in 2006 has been completed with an increase in total resources from 2.9 billion tonnes to 4.9 billion tonnes. A feasibility study is also in progress at Antucoya, a low grade deposit in northern Chile which could eventually provide material to be processed by Michilla's plant.

The Group has also continued with its other early stage opportunities and prospects. During 2008 a feasibility study was initiated at Reko Diq in Pakistan and this is expected to be completed in the second half of 2009. Reko Diq is a substantial copper-gold porphyry district in south-west Pakistan which is held through Tethyan Copper Company Limited, a 50-50 joint venture with Barrick Gold Corporation of Canada, with the Government of Balochistan holding a 25% interest in the main exploration licence, giving the Group an effective 37.5% interest. The main prospect within this licence, the Western Porphyries, has a resource estimate of just over 4 billion tonnes with an attractive gold credit. Work is also continuing on the feasibility study for the Antucoya project near Michilla in Chile. This study, which commenced in 2008, is expected to be completed during 2009.

The Group also signed exploration agreements to acquire interests in two prospecting licences in Zambia as well as an interest in the Río Figueroa deposit in Chile. It also formed a joint-venture in which it has a 60% interest with Empresa Nacional del Petróleo (the Chilean state-owned oil company) through a newly-created vehicle, Energía Andina S.A., to explore for geothermal energy resources in Chile given structural shortages in the country's energy market. It is continuing with an active target generation programme to identify further opportunities.


FCAB train transporting copper cathodes.

Camp facilities at Esperanza.

## Outlook

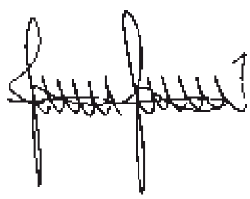
There is no doubt that 2009 will prove to be a challenging year. The prospects for both our main commodities of copper and molybdenum remain uncertain at best. It may take a considerable time for demand for industrial goods, upon which we depend for metals demand, to regain previous levels. In the meantime, we will concentrate our efforts on remaining at the lower end of the production cost curve, which will ensure that we will be well placed for any upturn when it comes. For 2009, we expect copper production to be 433,000 tonnes, a 9% decrease over 2008, mainly due to lower grades and throughput at Los Pelambres. Molybdenum production at Los Pelambres is expected to be 8,100 tonnes.

However, longer-term prospects for copper are expected to remain sound and, in the medium to longer-term, prices are expected to recover when macroeconomic conditions eventually improve. The Group's current strong financial position allows it to continue with its current development plans at Los Pelambres and Esperanza, which should deliver additional low-cost and profitable growth in 2010 and 2011 respectively. With these projects, Group copper production is expected to reach around 500,000 tonnes in 2010 and nearly 700,000 tonnes in 2011.

The Group's exploration programmes also continue to show encouraging results, with increased resources and long-term prospects in both the Pelambres and Sierra Gorda districts. The Reko Diq and Antucoya projects could eventually contribute additional production in future years. The Group intends to use its sound financial position to advance its existing assets and properties while continuing to seek opportunities globally to secure further world-class mining assets.

## Antofagasta's Team

I would like to take this opportunity on behalf of the Board to thank all our management, staff and workforce for the extra efforts they have made this year in creating such a positive result for the Group in challenging circumstances.



J-P Luksic
Chairman
9 March 2009

# Business Review



## Introduction and Business Overview

Antofagasta plc ("Antofagasta" or "the Group") is a Chilean-based Group listed on the London Stock Exchange and has been a constituent of the FTSE-100 Index since March 2004. It has three principal divisions – mining, transport and water – each with its own management team and structure, but which, as explained in the Corporate Governance statement, report to the Chairman of the Group. The ownership structure of the Group, which is controlled by the Luksic family of Chile, is set out on page 58.

The mining division is managed by Antofagasta Minerals S.A. ("AMSA"), a wholly-owned indirect Group subsidiary based in Santiago. AMSA is the corporate centre with responsibility for evaluating and developing business opportunities across the Group; seeking synergies and introducing best practice across its mining operations; and providing legal, marketing and financial (including treasury management) support to the Group's mining operations and projects. It is also responsible for the Group's exploration programme. In 2008, the mining division represented 93% of Group activity by turnover and 92% of the Group by segment net assets.

The mining division has three operating mines – Los Pelambres (60% owned with the remainder held by two Japanese consortia); El Tesoro (70% owned with the remainder held by Marubeni Corporation since 25 August 2008); and Michilla (74.2% owned with the remainder held by Chilean partners). Los Pelambres is located in Chile's Coquimbo Region and uses a flotation process to produce copper concentrate (containing a small quantity of gold and silver) which is sold to copper smelters (including the Japanese minority shareholders) for conversion through smelting and refining into copper cathode. It also produces molybdenum concentrate as a by-product of the flotation process which is sold to molybdenum roasting plants to produce molybdenum oxide. Los Pelambres does not own or operate any smelting capacity of its own. El Tesoro and Michilla, which are located in Chile's Antofagasta Region, use a heap-leach and solvent-extraction electro-winning process to produce copper cathodes which are sold to fabricators for conversion into applications including copper wiring and tubing. The copper and molybdenum concentrate and copper cathodes are sold internationally, principally under contracts with smelters, roasters and fabricators or traders which may extend for several years. The metal content is normally priced based on market prices either at or a number of months after shipment, thereby retaining exposure to underlying commodity prices. A smaller proportion of production is sold on spot markets. Collectively, the three operations produced 477,700 tonnes of payable copper in concentrate and cathode in 2008, which represented approximately 9% of Chilean production and approximately 3% of global mine production. Los Pelambres produced 7,800 tonnes of molybdenum in concentrate in 2008, which represented approximately 3% of global production.

The mining division has two major capital projects in progress. At Los Pelambres, a brownfield expansion was approved in July 2008 which will increase plant capacity at a capital cost of approximately US$1 billion. This is expected to be completed by the end of 2009, and to increase copper production from 2010 by an annual average of approximately 90,000 tonnes per annum. In the Sierra Gorda district where El Tesoro is located, a greenfield project to build the Esperanza mine was approved in June 2007 and is now under construction; this is expected to be completed by the end of 2010 at an estimated capital cost of US$2.2 billion. When in production it is expected to produce an annual average of approximately 191,000 tonnes of copper in concentrate with gold and silver by-products, together with molybdenum concentrate from 2015. Since the introduction of Marubeni Corporation as an investment partner on 25 August 2008, Esperanza has been 70% owned by the Group.

In addition, the mining division has a number of other early-stage opportunities in Chile and abroad. These include feasibility studies at the Reko Diq joint venture in Pakistan and the Antucoya project in Chile, which are expected to be completed during 2009. Reko Diq is a significant copper-gold porphyry system in the Chagai Hills area in the province of Balochistan in south-west Pakistan and is held through Tethyan

Copper Company Limited, a 50-50 joint venture with Barrick Gold Corporation of Canada, with the Government of Balochistan holding a 25% interest in the main exploration licence (giving the Group an effective 37.5% interest). The mining division also has an active exploration and target generation programme to identify and/or acquire early stage opportunities both in Chile and globally. During 2008, agreements were signed to acquire interests in mining or exploration licences in Chile and Zambia, and the Group has continued exploration efforts on its own properties particularly in the Los Pelambres area and Sierra Gorda district.

The transport division is managed by the Antofagasta Railway Company plc ("FCAB"), a wholly-owned Group subsidiary based in the city of Antofagasta in Chile. FCAB provides rail and road services principally to the mining industry in Chile's Antofagasta Region, as well as a number of ancillary services including engineering, repair and freight-forwarding. FCAB has a 50% controlling interest in the Ferrocarril Andino network in Bolivia. The combined Chilean and Bolivian networks, which have a total of 2,350 kilometres of track, transported 5.6 million tons of cargo in 2008 of which 4.8% related to Group operations. The road business transported 1.4 million tons of cargo in 2008. In 2008 the transport division represented 4.5% of Group activity by turnover, and 4.8% of the Group by segment net assets.

The water division is managed by Aguas de Antofagasta S.A. ("ADASA"), a wholly-owned indirect subsidiary also based in the city of Antofagasta. ADASA holds a concession to operate water distribution and treatment services in Chile's Antofagasta Region, which it acquired in December 2003 for a period of 30 years from the state-owned Empresa de Servicios Sanitarios de Antofagasta S.A. ("ESSAN"). ADASA's business comprises a regulated business distributing water to approximately 138,000 domestic customers and an unregulated business distributing water to industrial customers. During 2008 total water volumes sold amounted to 42.7 million cubic metres, of which 71% represented domestic sales and 29% represented industrial sales. In 2008 the water division represented 2.5% of Group activity by turnover, and 3.4% of the Group by segment net assets.

## Strategy

The Group aims to be a significant and profitable enterprise by international standards. Its focus is on high-potential mining deposits and it seeks to realise value principally by developing and operating these in order to produce copper and related by-products. In the conduct of the Group's operational, development and exploration activities as set out above, the Board places great importance on a range of considerations including health and safety, environmental matters, community relations and management of human resources. Sustainable development considerations are an integral part of the Group's decision-making process and it adopts a long-term view in formulating strategy, company policy and everyday business procedures.

As explained in the Chairman's Statement on page 6, in the fourth quarter of 2008 the Board approved a strategic plan for the development of the Group's mining businesses for the period 2009 to 2015 which is built on three key pillars. Firstly, it seeks to secure and strengthen the core business of the Group, comprising its operations and development projects including the Los Pelambres expansion and Esperanza. Secondly, it seeks to continue to grow this core business in a sustainable manner in the longer-term with particular focus on the significant Sierra Gorda and Los Pelambres districts, where as explained below the Group has a substantial resource base well in excess of the ore reserves incorporated in existing mine plans, and which have largely been identified through the Group's exploration efforts. Finally, it seeks to continue to develop and search for additional opportunities for early-stage growth in copper both in Chile and abroad, such as the Group's interest in the prospective Reko Diq joint venture in Pakistan. The Board considers that the Group's strong financial position, the quality of its existing assets and the strength of its experienced management teams leaves it well placed to progress with these objectives despite the current challenging macroeconomic environment.

## Risk Factors

In the conduct of its operations and the execution of its strategy, the Group is exposed to a range of risks and uncertainties which may affect it. These include strategic, commercial, operational, regulatory and financial risks. A summary of key risks facing the Group is set out in this Business Review on pages 33 and 34. There may also be additional risks unknown to the Group and other risks, currently believed to be insignificant, could turn out to be significant.

## Economic Environment and Overview

The Group's businesses, and in particular the mining division, are heavily dependent on the copper and molybdenum markets which in turn are significantly influenced by the international economy.

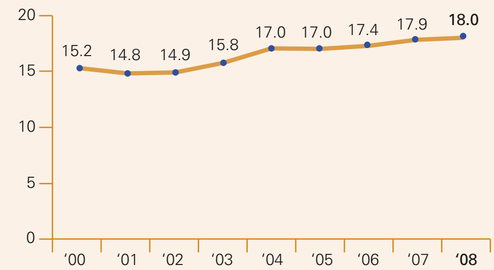
### Global economic activity

Global economic conditions remained strong for a number of years, with continued growth in industrial production ("IP") in both OECD and non-OECD countries. During the period 2005 to 2007, IP in OECD countries is estimated to have grown at an annual average rate of just under 3%, while non-OECD world IP is estimated to have grown at slightly over 9% annually, resulting in average overall global IP growth of nearly 5.5% during this period. While global IP growth remained positive in the first half of 2008, this decelerated rapidly and turned negative in the second half of the year as the credit crisis resulted in several OECD countries moving into recession while growth in many emerging economies, in particular China, slowed sharply. Initial estimates are that global IP growth slowed to below 2% in 2008, including a contraction of 1.2% in OECD countries, and several commentators expect the global economy to contract further in 2009.

### Refined copper market

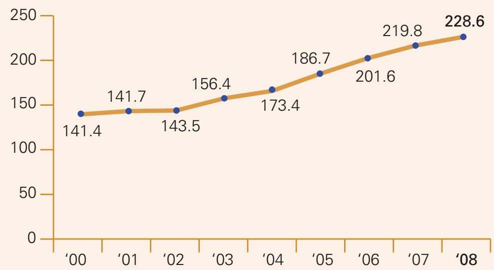
The principal end markets for refined copper are construction and electrical and electronic products, which account for more than 60% of global copper demand, followed by industrial machinery, transport and consumer products. The copper market benefited

World copper consumption
(millions of tonnes)



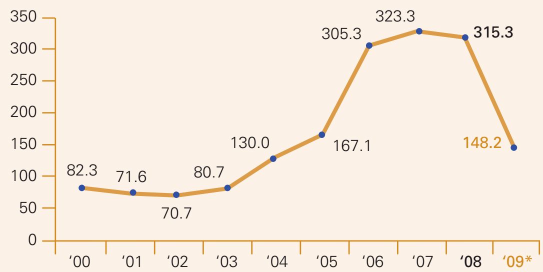

Source – Brook Hunt, a Wood MacKenzie company

World molybdenum consumption
('000 tonnes of molybdenum content)



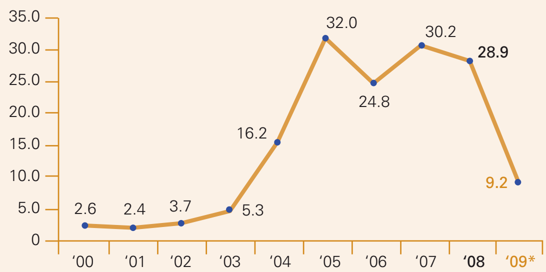

Source – IMOA

LME copper price
(US cents per pound)




*Represents first two months of 2009 only

Molybdenum market price
(US dollars per pound)

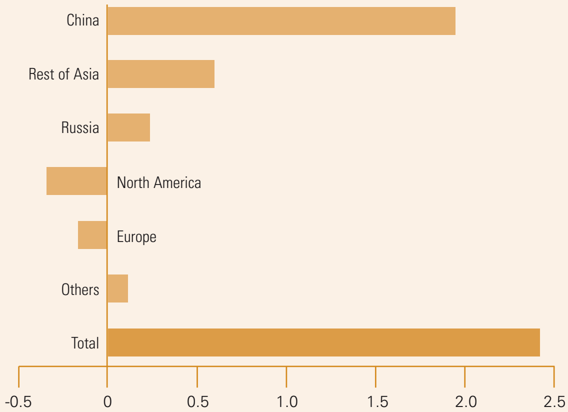



*Represents first two months of 2009 only for a number of years from strong global growth, supported by supply constraints to increased mine production. Between 2006 and the first half of 2008, LME copper prices averaged over 300 cents per pound, reaching nearly 400 cents per pound at the end of June 2008. This compares with average prices of slightly over 100 cents per pound in the preceding five years. In the second half of 2008, however, prices decreased by nearly 67% to end the year at just over 130 cents per pound as demand weakened significantly. It is likely that this was also accentuated by a reduction in the level of financial investment which had become an important feature of commodity markets in recent years. For 2008 as a whole, the copper price averaged 315.3 cents per pound, just 2.5% below 2007. However, copper concentrate sales are typically subject to final pricing a number of months after shipment and consequently the Group's average realised price for copper was 266.7 cents per pound, due to significant negative close-out and mark-to-market adjustments in the second half of the year.

In the first two months of 2009 LME copper prices have averaged 148.2 cents per pound; while this shows some recovery from the 2008 year-end, prices still remain well below the levels of recent years. The demand slowdown in refined copper has resulted in estimated production cutbacks to date of approximately 600,000 tonnes of copper across the whole industry, but this is not expected to be sufficient to balance the market in the short-term. Visible exchange inventories have increased to approximately 600,000 tonnes compared with a low point of 164,000 tonnes in July 2008. While there have been some recent signs of renewed buying in China and the government-led global fiscal stimulus packages may help support demand for commodities, a sustained recovery in prices is unlikely to materialise until economic conditions improve which most analysts believe will not be until the second half of 2009 or possibly 2010. Consensus estimates are for the copper price to average approximately 150 cents in 2009, increasing in 2010 as conditions improve.

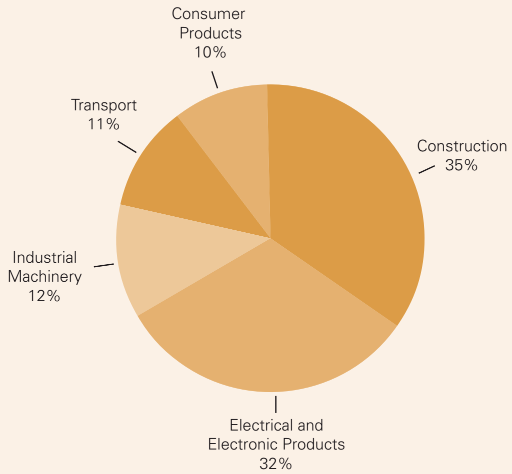
However, longer-term prospects for copper are expected to remain sound and in the medium to

## Growth in copper consumption per region 2003 – 2008 (millions of tonnes)



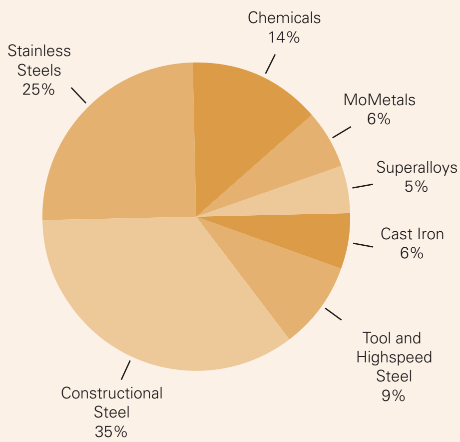

Source: Brook Hunt, a Wood MacKenzie company

## Global copper consumption by market sector




Source: Brook Hunt, a Wood MacKenzie company

## Global molybdenum consumption by market sector




Source: IMOA

longer-term prices are expected to recover when macroeconomic conditions eventually improve, as industrialisation of developing economies will continue to generate demand growth and the cost structure of the industry continues to be supported by the higher marginal cost of new production. While the prices of recent years may not be repeated, most market analysts expect copper prices in the longer-term to average above current levels.

### Copper concentrate market

Copper concentrates are typically priced by reference to the underlying metallic content of the concentrate based on LME market prices less commercial discounts known as tolling charges or treatment and refining charges ("TC/RCs"). TC/RCs are normally negotiated annually between copper producers and smelters in respect of medium or long-term contract sales and set by reference to a spot market in respect of spot concentrate sales. In recent years, TC/RCs have been at low levels (i.e. in favour of mine producers) as the concentrate market has been in deficit, with mine supply remaining insufficient to meet available smelting capacity. However, low utilisation rates at many smelters in response to weak cathode demand and increases in smelting cost structures due to sharp falls in smelting by-products such as sulphuric acid have helped to support tolling charges. This has resulted in improved terms for smelters with settlements for the annual negotiations for 2009 at the level of US$75 per dry metric tonne of concentrate for smelting and 7.5 cents per pound of copper for refining, compared with US$45 and 4.5 cents respectively agreed in 2008. Price participation has also been agreed at nil for both years. The increase in annual terms will be mitigated by the "brick system" whereby the benchmark is often averaged over two years. The concentrate imbalance is nevertheless expected to continue in favour of producers and this should help move market terms in favour of producers such as Los Pelambres in the medium term.

### Molybdenum market

The molybdenum market also enjoyed a number of years of strong prices before weakening in the final quarter of 2008. Molybdenum is primarily used in the production of high-quality steel alloys, and to a lesser extent in the catalyst sector. Molybdenum prices for 2008 averaged US$28.9 per pound, 4.3% below 2007, but fell from US$32.3 per pound at the end of September to US$9.5 per pound at the end of the year as demand from the steel sector weakened considerably. As with copper concentrate, molybdenum concentrate sales are typically subject to final pricing a number of months after shipment and consequently the Group's average realised price for molybdenum was US$23.9 per pound, due to significant negative close-out and mark-to-market adjustments in the second half of the year. The fall in prices has resulted in production cuts from primary mines as well as some secondary producers, and several projects that were due to come on stream in 2010 or 2011 have been postponed or suspended. However, with significant demand contraction, the molybdenum market is expected to remain in surplus in 2009, with prices fluctuating around current levels.

## Overall Group Performance in 2008

The Group delivered a strong operating and financial performance for the 2008 financial year, despite the sharp deterioration in commodity prices through the second half of the year. Net earnings were up 23.5% to US$1,706.5 million from US$1,382.1 million in 2007, as the Group benefited from the gain realised through introducing Marubeni Corporation as a partner in the Sierra Gorda district by selling 30% of Esperanza and El Tesoro, as announced in April 2008. Excluding exceptional items, which relate to the disposal gain partly offset by impairment provisions, net earnings were US$842.9 million (2007 – US$1,382.1 million), reflecting lower commodity prices in the second half and significant pricing adjustments on concentrate sales. Cash flows from operations (which do not include disposal proceeds of US$1,401.2 million) were US$2,454.3 million, compared with US$2,817.7 million in 2007. At the end of 2008, the Group had a net cash position of US$2,919.1 million.

The financial performance of the Group is analysed in further detail in the Financial Review on pages 36 to 43.

For 2008, Group copper production was 477,700 tonnes, an increase of 11.6% over 2007 and ahead of the original forecast for the year of 463,000 tonnes. This was mainly due to higher plant throughput and better ore grades at Los Pelambres. Molybdenum production at Los Pelambres was 7,800 tonnes, a decrease of 23.5% compared with 2007 when a high grade area of the open pit had been mined, but 14.7% above forecast for the year. At the transport division, rail tonnages increased by 12.7% to 5.6 million tons through the ramp-up of new projects in northern Chile and Bolivia while road tonnages remained at similar levels of 1.4 million tons. Volumes sold at the water division increased by 7.1% to 42.7 million cubic metres, reflecting increases in both domestic and industrial sales.

Weighted average cash costs per pound of copper produced were 87.3 cents per pound in 2008, compared with 31.6 cents per pound in 2007. This increase reflects lower by-product credits as a result of lower molybdenum volumes and prices, as well as increased on-site and shipping costs in line with forecast at the Group's three mines as a result of industry cost pressures before markets turned later in the year. These pressures included energy, fuel and sulphuric acid prices and freight costs. Excluding by-products, weighted average cash costs were 129.3 cents per pound in 2008 compared with 110.7 cents in 2007.

In 2009, the Group expects to produce 433,000 tonnes of copper and 8,100 tonnes of molybdenum through its existing operations. Weighted average cash costs excluding by-product credits are expected to be approximately 110 cents per pound, as the Group benefits from the easing of supply constraints in respect of input costs such as energy and sulphuric acid and exchange rates as well as the measures it has taken to reduce costs and eliminate unprofitable production. Group copper production is expected to reach around 500,000 tonnes in 2010 and nearly 700,000 tonnes in 2011 as the capital projects at Los Pelambres and Esperanza come on stream.

The operating performance of the Group is analysed in further detail by each operation in this Business Review on pages 16 to 26.

## Dividends

The Board recommends a final dividend of 53.6 cents per ordinary share payable on 11 June 2009 to shareholders on the Register at the close of business on 8 May 2009. The final dividend comprises an ordinary dividend of 5.6 cents and a special dividend of 48.0 cents. Including the interim dividend, this

### Dividends(1)

Dividends per share proposed in relation to the year are as follows:

| | 2008 US cents | 2007 US cents | 2006 US cents | 2005(2) US cents | 08 v 07 change | 07 v 06 change | 06 v 05 change |
|---|---|---|---|---|---|---|---|
| **Ordinary** | | | | | | | |
| Interim | 3.4 | 3.2 | 3.2 | 3.2 | | | |
| Final | 5.6 | 5.4 | 5.0 | 4.8 | | | |
| | 9.0 | 8.6 | 8.2 | 8.0 | 4.7% | 4.9% | 2.5% |
| **Special** | | | | | | | |
| Interim | 3.0 | 3.0 | 2.0 | – | | | |
| Final | 48.0 | 38.0 | 38.0 | 14.0 | | | |
| | 51.0 | 41.0 | 40.0 | 14.0 | | | |
| Total dividends to ordinary shareholders | 60.0 | 49.6 | 48.2 | 22.0 | 21.0% | 2.9% | 119.1% |
| Dividends as percentage of profit attributable to equity shareholders | 35% | 35% | 35% | 30% | | | |

(1) Further details relating to dividends are given in Note 12 to the financial statements.

(2) Dividends per share have been restated for the effects of the 4-for-1 bonus issue on 19 June 2006.

represents a distribution of approximately 35% of net earnings (profit attributable to equity holders of the Company).

The Board's policy is to establish an ordinary dividend which can be maintained or progressively increased at conservative long-term copper prices and through the economic cycle. The Board recommends special dividends when it considers these appropriate after taking into account the level of profits earned in the period under review, the existing cash position of the Group and significant known or expected funding commitments. As can be seen from the table on page 15, the Board has continued to increase its ordinary dividend and has adjusted its total recommended dividends in line with profits by means of special dividends in the years of high copper prices.

The cost of the final dividend is $528.4 million and the cost of total dividends for the year is US$591.5 million. The board considers that this level of distribution retains adequate working capital and provides sufficient flexibility for the Group to progress with capital projects and its portfolio of early-stage prospects as well as to take advantage of opportunities which may arise in the current economic environment.

## Key Performance Indicators

The Group uses a number of financial and non-financial key performance indicators ("KPIs"), which are set out in the table on page 17, together with an analysis by mine of the non-financial KPIs. Definitions of these KPIs, along with cross references to where the individual measures are reviewed and explained, are set out on pages 31 to 33. Other non-financial performance indicators, including information relating to employees, health and safety and the environment, are contained within the Corporate Sustainability report on pages 44 to 51.

## Review of Operations

### Los Pelambres (60 per cent owned)

Los Pelambres produced 339,200 tonnes of payable copper in 2008. This was 2.8% ahead of the original forecast for the year of 330,000 tonnes and 17.0% above 2007 production of 289,900 tonnes. This was mainly as a result of higher ore throughput and better ore grades. Ore throughput averaged 136,800 tonnes per day (2007 – 126,300 tonnes per day) due to the lower proportion of primary ore treated in the year, while the ore grade in the area of the open pit mined during the year was 0.76% (2007 – 0.71%). Molybdenum production was 7,800 tonnes, 23.5% below the 10,200 tonnes produced in 2007. The decrease compared with 2007 was mainly due to a reduction in molybdenum grades under the current phase of the mine plan following the extraction of ore from a higher grade area during the previous two years. Production was nevertheless 14.7% ahead of the initial forecast for the year.

Realised copper prices at Los Pelambres were 246.5 cents per pound (2007 – 328.3 cents per pound), significantly lower than the average LME price for the year of 315.3 cents per pound (2007 – 323.3 cents per pound). Realised molybdenum prices were US$23.9 per pound (2007 – US$31.7 per pound) which compared with an average market price of US$28.9 per pound (2007 – US$30.2 per pound).

The decrease in realised prices for both copper and molybdenum was due mainly to the sharp fall in market prices through the second half of the year (resulting in a year-end spot price of 131.6 cents per pound for copper and US$9.5 per pound for molybdenum) and the consequent negative adjustments to provisionally priced concentrate sales. The cumulative negative impact of such adjustments in the full year was US$541.9 million for copper and US$101.2 million for molybdenum, reflecting both the settlement of open sales in the year and year-end mark-to-market adjustments. Further details of pricing adjustments for both copper and molybdenum are given in the Financial Review on pages 36 and 37 and in Note 25(d) to the financial statements.

## Key performance indicators

| | | 2008 | 2007 |
|---|---|---|---|
| **Financial indicators[1]** | | | |
| Turnover | US$m | 3,372.6 | 3,826.7 |
| EBITDA | US$m | 1,899.8 | 2,824.0 |
| Earnings per share[2] | US cents | 173.1 | 140.2 |
| Capital expenditure | US$m | 1,189.6 | 466.0 |
| Net cash | US$m | 2,919.1 | 1,946.5 |
| **Non-financial indicators[3]** | | | |
| Copper production | '000 tonnes | 477.7 | 428.1 |
| Molybdenum production | '000 tonnes | 7.8 | 10.2 |
| Realised copper price (per pound) | US cents | 266.7 | 326.6 |
| Realised molybdenum price (per pound) | US$ | 23.9 | 31.7 |
| Cash costs (per pound, net of by-product credits) | US cents | 87.3 | 31.6 |

[1] Definitions of key performance indicators, together with cross-references to where the individual measures are reviewed and explained, are set out on pages 31 to 33.

[2] Excluding exceptional items, earnings per share in 2008 were 85.5 cents (2007 – 140.2 cents). Details of exceptional items are given in Note 5 to the financial statements.

[3] Non-financial indicators are analysed by mine in the table below.

## Production and sales volumes, realised prices and cash costs by mine

| | Production | | Sales | | Cash costs | | Realised prices | |
|---|---|---|---|---|---|---|---|---|
| | 2008 '000 tonnes | 2007 '000 tonnes | 2008 '000 tonnes | 2007 '000 tonnes | 2008 US cents | 2007 US cents | 2008 US cents | 2007 US cents |
| **Copper** | | | | | | | | |
| Los Pelambres | 339.2 | 289.9 | 340.6 | 289.4 | 57.3 | (10.8) | 246.5 | 328.3 |
| El Tesoro | 90.8 | 93.0 | 90.9 | 93.3 | 144.7 | 109.8 | 315.6 | 327.6 |
| Michilla | 47.7 | 45.1 | 47.5 | 45.8 | 191.1 | 143.5 | 317.7 | 313.8 |
| **Group total** | 477.7 | 428.1 | 479.0 | 428.5 | | | | |
| **Group weighted average (net of by-products)** | | | | | 87.3 | 31.6 | 266.7 | 326.6 |
| **Cash costs at Los Pelambres comprise** | | | | | | | | |
| On-site and shipping costs | | | | | 99.5 | 76.3 | | |
| Tolling charges for concentrates | | | | | 17.0 | 29.6 | | |
| Cash costs before deducting by-product credits | | | | | 116.5 | 105.9 | | |
| By-product credits (principally molybdenum) | | | | | (59.2) | (116.7) | | |
| Cash costs (net of by-product credits) | | | | | 57.3 | (10.8) | | |
| **LME average** | | | | | | | 315.3 | 323.3 |
| **Molybdenum** | | | | | | | | |
| Los Pelambres | 7.8 | 10.2 | 7.7 | 10.0 | | | 23.9 | 31.7 |
| **Market average price** | | | | | | | 28.9 | 30.2 |

AMSA's operations, projects and principal exploration prospects


Cash costs for the 2008 full year which are stated net of by-product credits and include tolling charges, were 57.3 cents per pound compared with negative 10.8 cents per pound for 2007, an increase of 68.1 cents per pound. This was mainly due to lower by-products credits and to a lesser extent higher on-site and shipping costs, partly offset by lower tolling charges. By-product credits decreased by 57.5 cents in 2008. This was due to both lower molybdenum market prices (including the impact of provisionally priced sales as explained above) as well as the lower molybdenum volumes. The increase in on-site and shipping costs of 23.2 cents was largely in line with budget, reflecting the increased costs of electricity, shipping and steel during the year. Tolling charges decreased by 12.6 cents per pound partly due to the more favourable annual treatment and refining charges achieved in the negotiations with smelters in the 2008 calendar year, together with continued benefit from nil price participation first achieved in 2007 as a result of the "brick system" under which the annual terms agreed are often averaged over two years. The individual components of Los Pelambres' cash costs are set out on page 17.

Los Pelambres achieved an operating profit of US$1,347.7 million in 2008, 35.8% below 2007, as lower realised copper and molybdenum prices, higher on-site and shipping costs and lower molybdenum production offset the benefits of higher copper production and lower tolling charges in the year.

During 2008, Los Pelambres continued with regular repayments of US$81.4 million on its existing borrowings. In December, short-term facilities for US$224.0 million were taken out in order to meet working capital requirements including repayments to smelters on final settlement of provisional invoices. Total borrowings (net of deferred financing costs) at the end of 2008 were US$376.6 million (2007 – US$233.7 million).

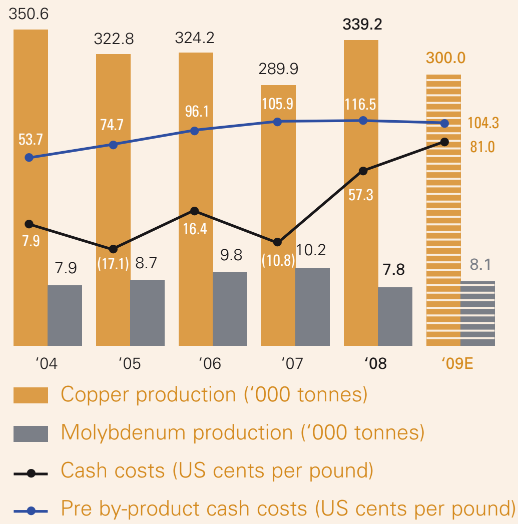
Continued progress was also achieved with Los Pelambres' capital expenditure programmes, which are presently being financed out of its cash resources.

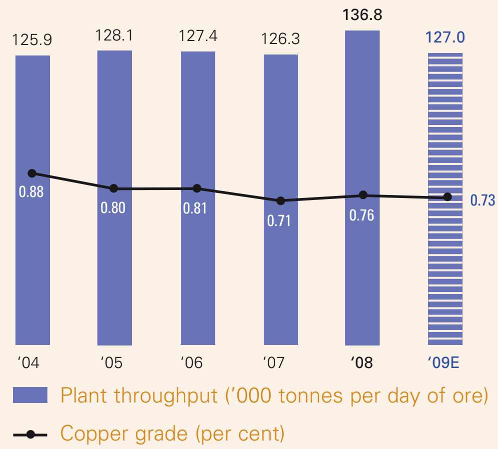
Total capital expenditure in 2008 was US$463.9 million, including expenditures on the Mauro tailings dam project and the expansion of throughput capacity to 175,000 tonnes per day.

During 2008, Los Pelambres completed construction of the Mauro tailings dam, which commenced operation in November. The cumulative expenditure on this project by the end of 2008 was US$633.3 million, which included US$107.2 million during the year. The tailings dam will provide sufficient capacity to ensure Los Pelambres' mine life of 28 years based on the expanded throughput, given that the existing Quillayes tailings dam has now reached capacity. During the year, Los Pelambres also settled outstanding litigation relating to the Mauro dam concerning the validity of water permits and land title at a combined cost of US$46 million. A full description of these cases is given in Note 39(a) to the financial statements. The settlement of these cases allowed construction to be completed as described above and for the tailings dam to be put into operation. As previously announced in December, Los Pelambres became aware of further legal proceedings which had been recently initiated in first instance courts in Santiago and in Los Vilos by certain members of the Caimanes community located near the Mauro valley. These claims, some of which have already been rejected by the relevant courts, seek to prevent the continued operation of the Mauro tailings dam. Los Pelambres is taking necessary steps to protect its position and remains confident of its rights to continue the operation of the dam.

Following the completion of a feasibility study in 2007 and expenditures on early works, Los Pelambres approved a further upgrade of its plant capacity in July 2008 through additional infrastructure including a third SAG mill and sixth ball mill. The repowering is within existing environmental permits and when completed is expected to increase production of payable copper by an annual average of 90,000 tonnes over the first 15 years from early 2010. The total cost of this project is expected to be approximately US$1.0 billion including escalation. Cumulative expenditure on this project to the end of 2008 was US$324.3 million of which US$272.7 million was incurred in 2008. At the

Selected data for Los Pelambres



end of 2008, the project was approximately one-third complete and remains on budget and on schedule for completion at the end of 2009.

As explained below, Los Pelambres also completed the evaluation of a two-year exploration programme which commenced in 2006 which has resulted in an increase of the mineral resource from 2.9 billion tonnes to 4.9 billion tonnes. This will present opportunities for longer-term planning either by providing additional material in future years when grades at the existing open pit decline or by enabling Los Pelambres to consider possibilities for long-term future growth.

In 2009 the ore processing level is expected to decrease to approximately 127,000 tonnes per day, and the ore grade is expected to average 0.73%, as the mine encounters a phase of harder primary ore and lower grades. Accordingly, production of payable copper is expected to be approximately 300,000 tonnes, 11.6% lower than that achieved in 2008 but similar to the level achieved in 2007. Molybdenum production is expected to be marginally higher than 2008 at 8,100 tonnes, as higher molybdenum grades of approximately 0.022% are expected to offset the lower ore throughput.

On-site and shipping costs are expected to decrease in 2009 to approximately 87 cents per pound compared with 99.5 cents in 2008 as lower energy and fuel costs, the weaker Chilean peso and other cost savings offset the impact of lower production on operating costs. Tolling charges are expected to increase slightly to approximately 18 cents compared with 17 cents in 2008, with the higher benchmark for 2009 partly offset by the averaging effect of the brick system and the impact of the lower copper price on price-sharing arrangements in some contracts. Cash costs before by-product credits are, therefore, expected to fall to 104 cents per pound compared to 116.5 cents per pound in 2008. By-product credits are nevertheless expected to reduce sharply, given lower current molybdenum prices. Based on a molybdenum price of approximately US$8 per pound, by-product credits are expected to be around 23 cents per pound giving net cash costs of approximately 81 cents per pound compared with 57.3 cents in 2008.

From 2010, copper production is expected to increase to approximately 410,000 tonnes for a number of years from the combination of increased throughput when the plant expansion is completed and some recovery in copper grades, before reducing in line with the mine plan as grades eventually decline, with a long-term average under the existing mine plan of 0.64%.

## El Tesoro (70 per cent owned; 100 per cent until 25 August 2008)

Production at El Tesoro for 2008 was 90,800 tonnes, which was marginally ahead of the original forecast for the year. This compared with 93,000 tonnes in 2007 reflecting expected reductions in ore grades and lower metallurgical recoveries, partly offset by higher throughput. Plant throughput averaged 28,500 tonnes per day compared with 26,800 tonnes per day in 2007 when processing levels had been affected by the high moisture content in the ore, a problem that was resolved through modifications to the production process at the end of that year. The ore grade averaged 1.16%, slightly ahead of budget but lower than 1.23% in 2007 when a higher grade section of the open pit had been mined.

Cash costs for the year averaged 144.7 cents per pound in line with forecast, compared with 109.8 cents per pound in 2007. The increase was due mainly to higher sulphuric acid costs (which contributed to 21.3 cents per pound of this increase) and higher energy and fuel costs (which contributed to 12.7 cents per pound of the increase). Average acid prices doubled as a result of the tight market and limited availability for the majority of the year. As previously explained, like many other companies in the region El Tesoro renegotiated its energy contract during 2007 to absorb the higher generation costs faced by suppliers, and continued increases in diesel and gas prices resulted in higher electricity tariffs. These costs, which peaked in the third quarter of the year, have since started to decline.

Realised copper prices at El Tesoro were 315.6 cents per pound compared with 327.6 cents per pound in 2007, broadly in line with the movement in LME prices. During 2008 cathode premiums, realised gains on commodity hedge instruments and timing differences in shipments through the year offset the negative effect of provisional pricing adjustments on cathode sales. Further details of the effects of commodity hedging instruments in place are given in the Financial Review under "Treasury Management and Hedging" and in Note 25(e) to the financial statements.

Operating profit at El Tesoro was US$124.9 million (US$284.9 million before impairment charges) compared with US$380.3 million in 2007. Excluding impairment charges, this represented a decrease of 25.1%, reflecting the combination of lower realised copper prices and higher cash costs. As explained in Note 5 to the financial statements, an impairment charge of US$160.0 million was booked as a result of the weaker economic environment.

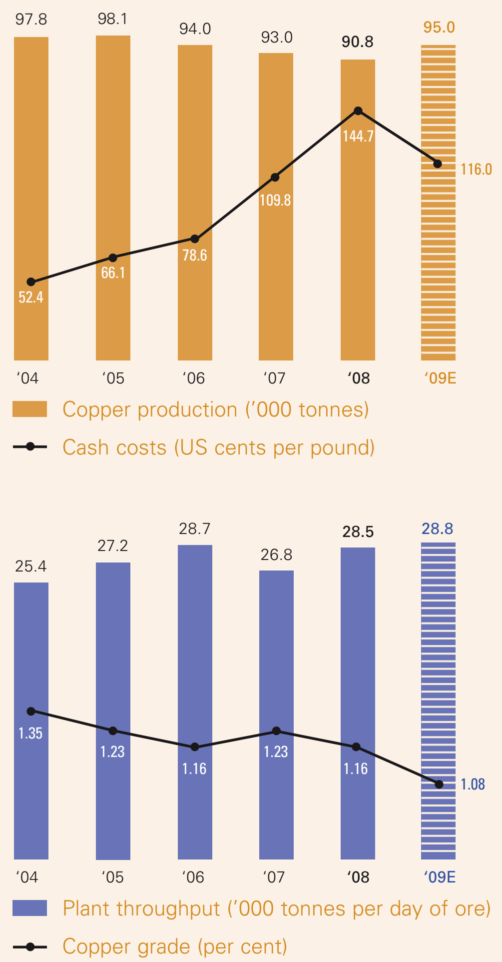
Labour relations remained positive and El Tesoro was able to reach a new 46-month labour agreement with both its unions in June, well in advance of the expiry of the previous agreement in May 2009.

Capital expenditure in the year was US$125.7 million. This included US$69.3 million related to pre-stripping at the Tesoro North-East satellite deposit located approximately one kilometre from the existing open pit and US$22.3 million related to expenditures required to enable the processing of the Esperanza low-grade oxide ores through a run-of-mine operation. These projects have a total estimated combined capital cost of approximately US$150 million with the remainder to be incurred in the first half of 2009. As explained below, these projects mitigate the decline in grades that would otherwise occur from mining exclusively from the open pit and extend the mine life to 2020.

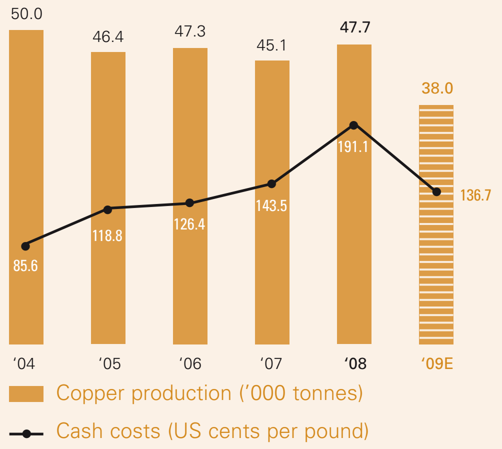
Outstanding corporate loans at El Tesoro of US$14.0 million at the beginning of 2008 were fully repaid in the first half of the year, with minor leasing obligations of US$0.4 million outstanding at the end of 2008.

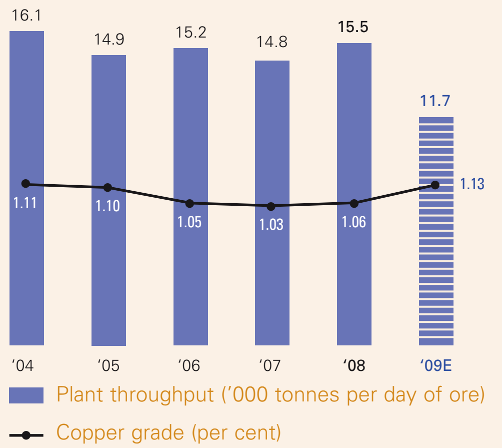
For 2009, cathode production is expected to be approximately 95,000 tonnes as the processing of a greater volume of ore from the higher grade Tesoro North-East deposit and the dump-leaching of ore from the oxide cap at Esperanza, both from the second quarter of the year, are expected to offset lower production from the existing open-pit. Average ore grades are expected to decrease to approximately

Selected data for El Tesoro



### Selected data for Michilla




1.08% with the inclusion of lower grade material from Esperanza.

El Tesoro announced in January 2009 that it had taken a number of steps to minimise costs to respond to the significant weakening in the copper market in the second half of 2008; these include renegotiation of sulphuric acid and other contracts where possible to benefit from the weaker market as well as deferral of waste removal not required for current production to minimise the volume of material moved at the open pit. The latter measure has resulted in a reduction in the workforce at El Tesoro of approximately 50 employees. El Tesoro should also benefit from the weaker Chilean peso and lower energy costs reflecting recent falls in diesel and gas prices. These factors should help offset the higher costs associated with the run-of-mine operation, and cash costs at El Tesoro for 2009 are expected to average approximately 116 cents per pound, a reduction of approximately 20%. Capital expenditure in 2009 is estimated at approximately US$80 million, including approximately US$60 million to complete the run-of-mine project.

El Tesoro should be able to maintain annual production at approximately 90,000 tonnes till at least 2011, when lower ore grades under the existing mine plan cause output to decrease. As explained under "Exploration" below, the Group has an on-going exploration programme in the Sierra Gorda district to identify further oxide deposits that could in future years provide additional ore to the El Tesoro plant.

## Michilla (74.2 per cent owned)

Cathode production at Michilla in the year reached 47,700 tonnes, 5.8% above 2007 production of 45,100 tonnes and 10.9% above the original forecast for the year of 43,000 tonnes through the combined effect of better throughput, ore grades and recoveries. Ore throughput averaged 15,500 tonnes per day compared to 14,800 tonnes in 2007 when some disruption occurred as a result of the earthquake in northern Chile in November of that year. Ore grades were 1.06% compared with 1.03% in 2007.

Cash costs for 2008 were 191.1 cents per pound, in line with the original forecast for the year but higher than the 143.5 cents per pound in 2007.

Like El Tesoro, sulphuric acid and energy costs rose significantly; these contributed 10.5 cents and 18.1 cents respectively. Michilla purchases a portion of the ore which it processes through its plant from independent contractors in its vicinity and the price paid for such materials is based partly on the market value of the contained copper. High copper prices in the year accordingly resulted in higher materials cost, contributing 20.3 cents to the higher cash costs. Nevertheless, with the weakening commodity environment in the second half of 2008, cash costs have started to decline, falling to 172.8 cents per pound in the fourth quarter. As explained below, the Group expects to further reduce costs in 2009.

Realised copper prices in the period were 317.7 cents per pound (2007 – 313.8 cents per pound). In 2008, cathode premiums and realised gains on commodity hedge instruments offset the negative effect of provisional pricing adjustments on cathode sales, and consequently realised prices were marginally above the average LME price for the year. In contrast, in 2007 the realised price was below the average LME price mainly due to realised losses on commodity hedge instruments for that year. Further details of the effects of commodity hedging instruments in place are given in the Financial Review under "Treasury Management and Hedging" and in Note 25(e) to the financial statements.

Operating profit in 2008 at Michilla was US$71.3 million (US$99.6 million before impairment charges) compared with US$154.0 million in 2007. Excluding impairment charges, this represented a decrease of 35.3%, reflecting lower realised copper prices and higher cash costs, partly offset by higher cathode production. As explained in Note 5 to the financial statements, an impairment charge of US$28.3 million was booked as a result of the weaker economic environment and Michilla's potentially short remaining mine life.

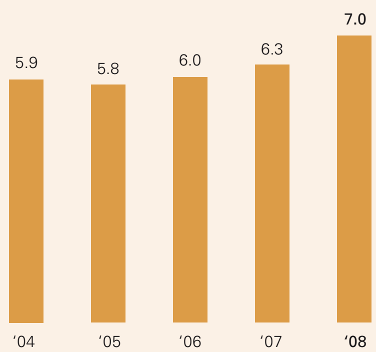
In 2009 Michilla will continue mining its underground operation and processing of third part materials, but will cease operations at the higher cost Lince open pit mine. Consequently, cathode production in 2009 is expected to be approximately 38,000 tonnes compared with 45,000 tonnes had the open pit remained in operation. The reduction in costs through the cessation of the open pit, combined with lower energy costs, the weaker Chilean peso and lower costs of purchased ore as a result of the fall in the copper price should enable cash costs to average approximately 137 cents per pound for 2009.

Michilla's current mine plan extends to the end of 2009. The Group has also been examining options for the possible extension of its mine life, which include an evaluation of existing resources for inclusion as additional ore reserves and the possibility of eventually processing enriched copper solution from Antucoya, which is currently undergoing a feasibility study as explained below. A decision will be taken during the course of this year and will depend on expected future operating costs and expected future copper prices

## Railway and other transport services

In Chile, the Antofagasta Railway Company's ("FCAB") main business continues to be the transport of copper cathodes from and sulphuric acid to mines in the Antofagasta Region, one of the main copper mining districts in the world. It has benefited in recent years from the new mines and expansions of existing mines. FCAB's trucking service, Train Ltda., is a key part of FCAB's bi-modal transport service. Train Ltda.'s main business continues to be the transport of sulphuric acid from transfer terminals operated by FCAB,

### Transport division




Combined road and rail transport volumes (million tons)

FCAB and Andino rail networks


as well as other supplies such as the transport of quicklime from Inacesa's cement plant to various mines. In Bolivia, FCAB has a 50% controlling interest in the Ferrocarril Andino, with the remainder held by Bolivian pension funds. The Ferrocarril Andino connects to the Chilean network at Ollague.

The rail businesses in Chile and Bolivia produced another strong operational performance, with combined volumes of 5.6 million tons transported compared with 5.0 million tons in 2007, which itself had been a record year. This was driven by the continued ramp up of Apex Silver's San Cristóbal mine in Bolivia which benefited both the Chilean and Bolivian rail networks and to a lesser extent the start-up of Codelco's Gaby mine which contributed to rail tonnages in the second half of the year. These helped offset minor variations from existing customers as a result of continuing production disruptions at mines in the early part of the year, and the loss of tonnages from some smaller contracts which ended in 2007. Train Ltda., FCAB's trucking subsidiary, maintained tonnages at 1.4 million tons, a marginal increase over the 1.3 million tons moved in 2007.

Combined turnover at the transport division increased by 29.1% in 2008 to US$151.0 million (2007 – US$117.0 million). This exceeded the increase in tonnages described above for a number of reasons, including an increase in average haulage distances due to the location of new customers, tariff adjustments in line with equivalent cost increases relating to inflation and fuel and to a lesser extent guaranteed payments under some contracts in the first half of the year where minimum tonnages were not met. As a result, operating profit increased to US$50.4 million (2007 – US$35.0 million).

The Antofagasta port, which is managed by the Group's 30% associate investment Antofagasta Terminal Internacional S.A. ("ATI") increased tonnages despite continued competition from the port of Mejillones. It continued to perform well and contributed US$2.3 million to Group results compared with US$1.4 million in 2007. ATI is a strategic investment for FCAB and complements its principal business as the main transporter of cargo within Chile's Antofagasta Region.

In 2009, combined rail tonnages in Chile and Bolivia are expected to increase as the rail networks benefit from a full year's production at both San Cristóbal and Gaby, together with marginal increases as other customers recover from disruptions and shortfalls experienced in 2008. The weaker commodity price environment has increased pricing pressures on FCAB as mining customers seek to control costs and consider production cuts. The Group nevertheless expects FCAB to continue to perform well in the medium term.

FCAB also holds Forestal S.A., which owns and manages the Group's forestry assets. Forestal's two properties, Releco-Punir and Huilo-Huilo, comprise 26,295 hectares of native forest near the Panguipulli and Neltume lakes, in Chile's Region de Los Lagos. During 2008, Forestal continued with its on-going forestation, fertilisation and thinning programme to maintain these assets.

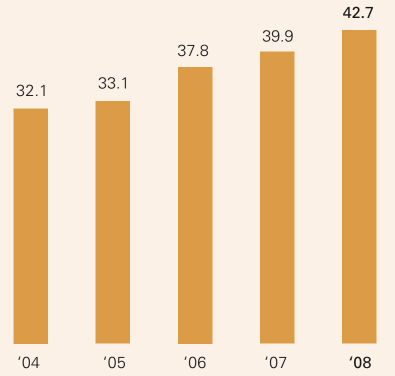
## Aguas de Antofagasta S.A. (100 per cent owned)

Aguas de Antofagasta ("ADASA") operates a 30-year concession for the distribution of water in Chile's Antofagasta Region which it acquired from the state owned Empresa de Servicios Sanitarios de Antofagasta S.A. ("ESSAN") in 2003. ADASA's operation consists of two businesses, a regulated water business supplying approximately 138,000 domestic customers and an unregulated business serving mines and other industrial users. It also provides sewage and treatment services in a number of cities in the Region.

Combined domestic and industrial water sales in 2008 amounted to 42.7 million cubic metres compared with 39.9 million cubic metres in 2007, an increase of 7.1%. Domestic sales increased by 4.0% to 30.2 million cubic metres, broadly in line with the increased customer base over the year. Industrial sales increased 15.2% to 12.5 million cubic metres mainly as a result of increased supplies to the Spence mine and a contract to supply the Esperanza project during construction until that project's seawater and desalination facilities are in place. ADASA expects these volumes to be maintained in 2009.

ADASA's water distribution system

Water division




Water volumes sold by ADASA (million $m^3$)

Turnover increased by 25.9% to US$84.5 million; in addition to the improved volumes, this was also due to tariff adjustments in line with inflation and sundry income from installation and construction services for water facilities provided by ADASA to its customers. Operating profit accordingly increased from US$30.4 million in 2007 to US$42.3 million in 2008. In 2009, ADASA expects to maintain or increase its volumes but reported revenues and profits, which are mainly earned in Chilean pesos, are expected to be impacted by the weakening of that currency against the US dollar, the currency in which the Group reports its results.

In March 2009 ADASA acquired the desalination plant located in the city of Antofagasta from the current owner, Desalant S.A. ("Desalant"), for a purchase price of US$52.5 million. As part of this agreement, on-going arbitration proceedings between ADASA and Desalant were also terminated. Following the completion of the acquisition, ADASA will operate the plant but, as it is presently the sole customer, the acquisition will have no direct impact on water volumes or sales. Nevertheless, the acquisition will consolidate ADASA's position by placing it in full control of the plant, which provided it with 22.6% of its water for its distribution business in 2008 and which has further capacity to increase water supply by starting up two further modules in addition to the two currently in operation. The desalination plant, when acquired, will be held under the terms of the 30-year concession from ESSAN.

## Corporate Transactions

In April 2008 the Group announced that it had entered into an agreement with Marubeni Corporation ("Marubeni") under which Marubeni would enter as an investment partner in the Sierra Gorda district by acquiring a 30% interest in both the Esperanza project (including the Telégrafo deposit) and the El Tesoro mine (including the Tesoro North-East deposit) and would fund its 30% share of the development costs of the Esperanza project. Closing of this transaction was achieved on 25 August 2008 following satisfaction of all conditions precedent including receipt of environmental approvals for the Esperanza project and the completion of the transfer of certain mining properties to Minera Esperanza and Minera El Tesoro. The final cash consideration received by the Group from Marubeni was US$1,401.2 million, reflecting the base consideration of US$1,310.0 million plus interest thereon from signing to completion and other adjustments specified in the agreements signed on 24 April 2008. The profit before tax attributable to this transaction was US$1,024.9 million.

As also announced on 24 April 2008, the Group entered into an agreement to acquire Mineralinvest Establishment's ("Mineralinvest") approximately 49% interest in certain mining properties required for the Marubeni transaction as well as other properties including part of the Antucoya project. Mineralinvest's interest was held through Antomin Limited, a company in which the Group held the remaining approximately 51%. Mineralinvest is an entity ultimately controlled by the Luksic family, which has a significant indirect interest in Antofagasta plc. The Antomin transaction was, therefore, approved by a committee of independent directors of Antofagasta. Conditions for closing of this transaction were also achieved on 25 August 2008 concurrently with completion of the Marubeni transaction. The final consideration payable by the Group to Mineralinvest was US$243 million, reflecting the base consideration of US$240 million plus interest to completion.

During 2008 the Group also signed exploration agreements with TEAL Exploration & Mining Incorporated in Zambia and New Gold Inc. (formerly Metallica Resources Inc.) in Chile, as well as an agreement with Empresa Nacional del Petróleo for the exploration and exploitation of potential sources of geothermal energy in Chile, through a newly formed joint-venture vehicle, Energía Andina S.A.. Further details of these activities are given in "Projects, Exploration and New Opportunities" below.

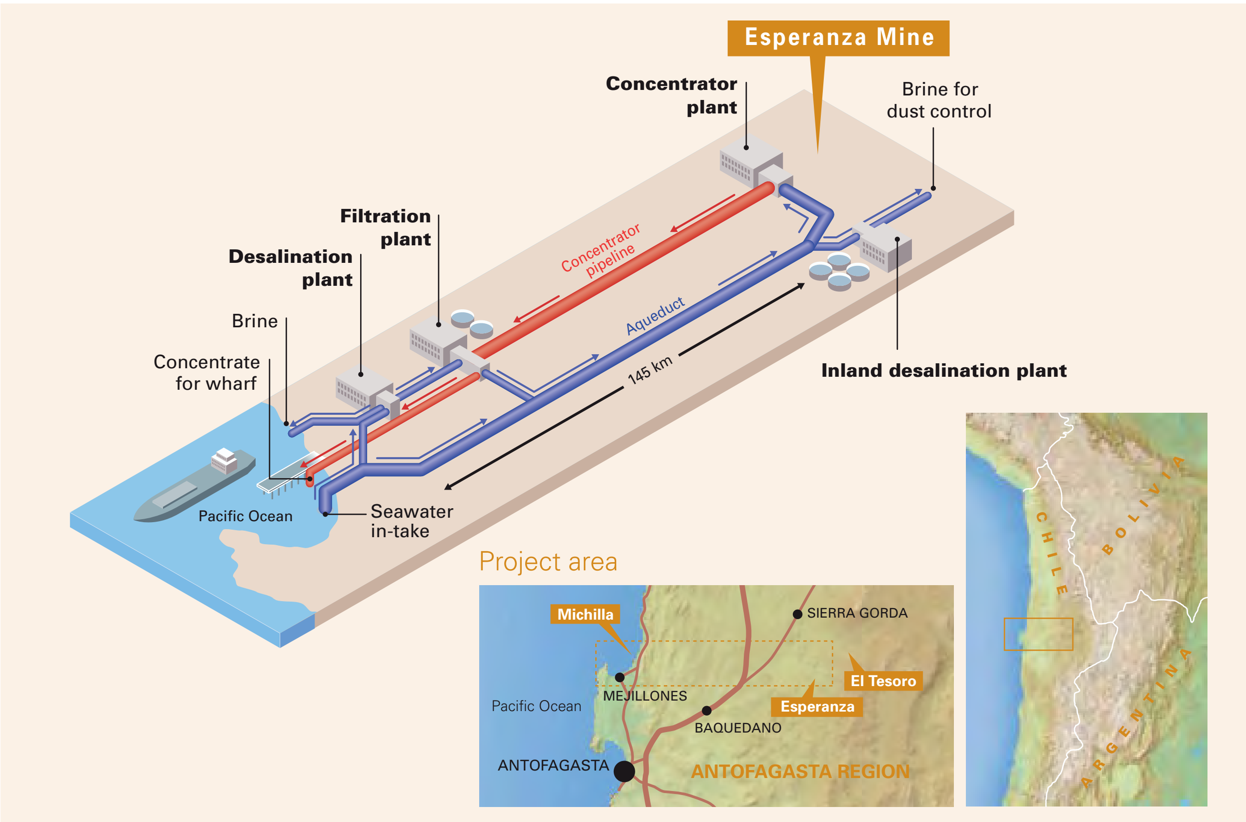
## Projects, Exploration and New Opportunities

### Esperanza (70 per cent owned; 100 per cent until 25 August 2008)

The Esperanza project continues on schedule with first production expected by the end of 2010. Esperanza is a sulphide deposit located in Chile's Antofagasta Region approximately four kilometres south of the Group's El Tesoro mine. It will produce copper concentrate containing gold and silver by-product credits through a conventional milling and flotation process, with ore throughput expected to average approximately 98,000 tonnes per day. The Esperanza deposit includes an oxide resource that is part of the overburden being removed through pre-stripping and which will be processed by the El Tesoro plant starting in 2009.

Esperanza has updated its mine plan during 2008 with an increase in mine life to 16 years. Under this mine plan, in its first ten years of operation Esperanza will produce on average per year approximately 714,000 tonnes of concentrate containing 191,000 tonnes of payable copper, 215,000 ounces of payable gold and 1,132,000 ounces of silver. Molybdenum production is expected to start during 2015 at a rate of 2,000 tonnes per year over the following ten years. The adjacent Telégrafo deposit is expected to utilise the Esperanza plant and facilities well beyond Esperanza's mine life.

Esperanza project – layout of facilities




BUSINESS REVIEW

Development of the project received Board approval for its development in June 2007 and the environmental impact assessment was submitted in August of that year. Pre-stripping and other early works began in early 2008 following receipt of provisional environmental authorisation at the end of 2007. The full environmental impact assessment was received in June 2008 and the construction works were initiated in August 2008. The maritime concession has been recently issued.

Key contracts were awarded during 2008 and others are in progress, including engineering, procurement and construction management contract with Aker-Solutions. The power supply contract was awarded to Electro-Andina, a subsidiary of Suez Energy, both for the short term power supply during construction as well as for the period of commercial operation. Currently, overall physical completion of approximately one-third has been achieved, including prestripping, early work, and plant and infrastructure construction activities.

Cumulative capital expenditure to the end of 2008 was US$502 million (excluding amounts related to the acquisition of properties from Antomin Limited). As announced in January 2009, a detailed review of project costs was completed during the fourth quarter, with total development costs (excluding working capital and financing costs) estimated at US$2.2 billion, compared to the previous estimate of US$1.9 billion. Including working capital and possible financing costs, total costs are estimated at just over US$2.3 billion. The Group is responsible for its 70% share of these development costs and its partner Marubeni Corporation is responsible for the remaining 30%. Options for obtaining project debt finance are currently being explored and a decision is expected to be taken in the course of 2009, although the Group expects that its solid financial position will enable it to progress with the project independently of any decisions taken in this regard.

## Reko Diq (Tethyan Copper Company Limited) (50 per cent owned)

The Group holds a 50% interest in Tethyan Copper Company Limited ("Tethyan"), its joint venture with Barrick Gold Corporation established in 2006. Tethyan's principal assets are a 75% interest in the exploration licence encompassing the Reko Diq prospects in the Chagai Hills region of South-West Pakistan (in which the Government of Balochistan holds the remaining 25%) including the Western Porphyries, and a 100% interest in certain other licences in the region.

A feasibility study was initiated in February 2008 for an initial project of in the range of 100,000 tonnes per day of ore throughput. The feasibility contract was assigned to SNC-Lavalin of Toronto as lead engineer. By the end of 2008, the study was approximately 70% complete and is expected to be finalised in the second half of 2009. The study is examining a number of issues to determine the shape of any future project, including throughput capacity, water, energy, transport and port location.

As part of the feasibility process, an extensive drilling programme of approximately 146,000 metres was carried out during 2008 out of an overall programme of 210,000 metres. This included 65,000 metres of infill drilling to improve the categorisation of the existing resource estimate, 76,000 metres to support the feasibility study and 5,000 metres for new exploration. The resource estimate for the Western Porphyries has remained approximately the same at 4.1 billion tonnes, with 1.5 billion tonnes upgraded from Inferred to Measured & Indicated Resources compared to 2007. The average copper grade is 0.50% and the average gold grade is 0.298 g/t.

The Group's 50% share of expenditure relating to Tethyan during 2008 amounted to US$49.8 million. This comprises US$28.8 million relating to exploration and pre-feasibility costs which have been expensed, US$21.0 million relating to the costs of the feasibility study and the acquisition of additional surface rights which have been capitalised.

Negotiations continue with the Federal Government of Pakistan and the Government of Balochistan for a mineral agreement to establish a framework for future investment, and a shareholders' agreement with the Government of Balochistan for the exploration licence in which it has a 25% interest.

## Antucoya (100 per cent owned)

Antucoya is an oxide deposit located approximately 45 kilometres east of Michilla. Following additional drilling during 2008, the mineral inventory is currently estimated at between 480 million tonnes to 700 million tonnes of ore with a corresponding average copper grade of between 0.42% and 0.34%. Following the acquisition during 2008 of certain mining properties held through Antomin Limited as described above, the Antucoya deposit is now wholly owned by the Group.

A feasibility study for the Antucoya project was initiated in February 2008. This is examining a number of options including a run of mine operation to produce enriched copper solution which could be processed at Michilla's SX-EW plant as well as a stand-alone SX-EW project with possible cathode production of approximately 30,000 tonnes per year. As a low grade deposit, however, the viability and nature of any future project will remain highly sensitive to assumptions as to development and operating costs and future copper prices, as well as any decision as to the longer-term potential of Michilla. The feasibility study for Antucoya is expected to be completed in mid-2009.

## Other exploration activities and opportunities

The Group spent US$54.9 million on exploration activities in 2008 (2007 – US$38.1 million). This included US$23.6 million (2007 – US$17.8 million) in Chile, mainly relating to the Sierra Gorda district; US$28.8 million (2007 – US$17.7 million) relating to the Group's share of exploration and pre-feasibility costs at Reko Diq in Pakistan; and US$2.5 million (2007 – US$2.6 million) relating to exploration activities in other countries. An initial budget of approximately US$27 million has been established for 2009.

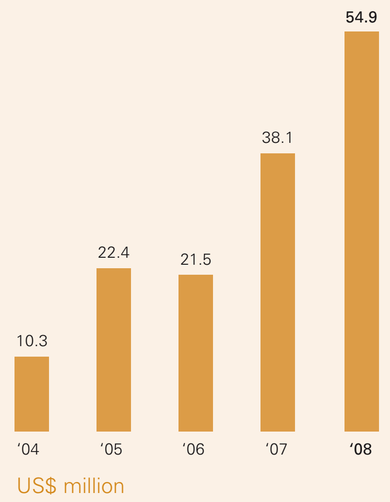
### Sierra Gorda district

In Chile, the Group's primary focus remains the Sierra Gorda district, where El Tesoro and Esperanza are located.

Further drilling was carried out during the year at the Telégrafo deposit at a cost of US$3.2 million. Telégrafo is adjacent to Esperanza and which as explained above could extend the life of Esperanza beyond its current mine plan. An infill drilling programme of 24,800 metres was carried out at Telégrafo Sur to improve resource categorisation, with further drilling of 8,100 metres at Telégrafo Norte to examine its continuity with Esperanza and Telégrafo Sur as well to explore the deposit at greater depth. This programme has now been completed and the results of drilling are now being modelled. The existing mineral inventory for the combined deposits ranges from 1 billion tonnes to 1.6 billion tonnes, with a corresponding average copper grade between 0.49% and 0.40% and containing gold and molybdenum credits.

An extensive 51,000 metre drilling programme at a cost of US$9.0 million was also carried out at Caracoles, approximately 10 kilometres southeast of Esperanza. Caracoles was identified by the Group's exploration team in 2007 and forms part of the mining properties which the Group obtained through its acquisition of Equatorial Mining Limited in 2006. It was partly owned by Compañía Minera Milpo of Peru, although in February 2009 the Group acquired Milpo's 18.5% interest for US$25 million to take its interest in Caracoles to 100%. Results of the drilling programme at Caracoles have been promising with prospects for a substantial porphyry copper-gold system containing both sulphides and oxides which could strengthen the Group's geological position in Sierra Gorda. The Group intends to continue evaluating

Group exploration expenditure




Sierra Gorda district


Resource/mineral inventory estimates

- < 100 MT Cu
- 100 – 400 MT Cu
- 500 – 800 MT Cu
- > 800 MT Cu

Type of interest

- Operation
- Project under construction
- Exploration

Further details of reserve, resource and mineral inventory estimates are set out on pages 138 to 142.

this deposit during 2009 with a view to bringing this to pre-feasibility stage.

A further prospect known as Mirador, located approximately 5 kilometres east of Tesoro North-East, was identified by the Group's exploration team during 2008. A 17,000 metre drilling programme was carried out in the year at a cost of US$1.0 million, with initial indications suggesting potential for identifying additional oxide resource. Further exploration is planned for 2009 to establish the mineralisation of this prospect and to assess its potential.

With combined resources for Esperanza and El Tesoro of 1.5 billion tonnes and a mineral inventory for other prospects in the range of 2.2 to 3.4 billion tonnes, the Sierra Gorda district has good potential for consolidation of the Group's mining properties in the area and development as a single complex for oxide and sulphide deposits.

## Los Pelambres district

During 2008, Los Pelambres completed the evaluation of a two-year exploration programme in order to identify additional resources in the area around the existing open pit through a 44,300 metre drilling programme. This resulted in an increase of the total mineral resource in the Los Pelambres area from 2.9 million tonnes with an average copper grade of 0.61% to 4.9 billion tonnes with an average copper grade of 0.56%. This includes 1.5 billion tonnes at Frontera, a newly discovered porphyry to the south-east of the existing pit and 0.4 billion tonnes identified by drilling the existing open pit resource to greater depth. While the increase in mineral resource has no immediate impact on the existing mine plan for Los Pelambres, it will present opportunities for longer-term planning either by providing additional material in future years when grades at the existing open pit decline, or by enabling Los Pelambres to consider possibilities for long-term future growth.

## Michilla district

The Group has continued with its on-going exploration programme in Michilla, spending US$4.9 million in 2008. A number of prospects within Michilla's land district have been identified through drilling, such as

Aurora Central and Aurora East which could eventually supplement the existing resource at Michilla. Further drilling on various targets will continue into 2009.

### Rió Figueroa – New Gold Inc.

As announced in June, the Group signed an agreement with Minera Metallica Resources Chile Limitada, a subsidiary of New Gold Inc., to acquire a 30% interest in Rió Figueroa, an exploration project located in Chile's Atacama Region, approximately 80 km east of Copiapó city, for a consideration of US$2.6 million payable in instalments. Under the agreement the Group has the right to increase its interest up to 70% in successive stages over a number of years by first incurring exploration expenditures of US$7 million and subsequently completing a feasibility study and making a further payment of US$5 million to Minera Metallica Resources Chile Limitada. Drilling on this prospect is expected to commence later in 2009.

### Zambia – TEAL Exploration & Mining Incorporated

As announced in April, the Group has entered into an agreement with TEAL Exploration & Mining Incorporated ("TEAL") to acquire an initial 30% interest in two of TEAL's exploration licences on the Zambian Copperbelt covering an area of approximately 2,067 sq. km. for a consideration of US$5 million. The agreement gives the Group the right to earn an additional 20% interest by spending US$4.5 million on exploration (of which US$2 million is committed expenditure) over a period of four years. TEAL is a company listed on the Toronto Stock Exchange and the JSE Limited with exploration and project interests in Africa. Exploration commenced on these licences during 2008 with approximately 1,800 metres of drilling completed, with logging and sample preparation for assay results now in progress.

### Opportunities in geothermal and coal exploration and generation

Despite recent weakening of energy markets, Chile continues to face structural shortages of energy in the medium to longer term, and in 2007 the Group decided to enter into the energy exploration business to search for and eventually develop geothermal and coal prospects.

In October 2008, the Group signed an agreement with Empresa Nacional del Petróleo ("ENAP") of Chile for the exploration and development of potential sources of geothermal energy in Chile following a Memorandum of Understanding signed earlier in the year. Under this agreement, a new company, Energía Andina S.A, has been formed with an initial capital of US$15 million and is owned 60% by the Group and 40% by ENAP. The Tinguiririca A and B concessions granted in 2007 have been contributed to this joint venture and further concessions Polloquere 1 and Lirima 1,2,3 and 4 have been applied for in 2008. Energía Andina S.A. intends to evaluate and apply for further concessions which may be offered by the Chilean Government during 2009 in order to build a portfolio of opportunities that can be examined through an exploration programme over the next five years, with the aim of eventually developing electric power generation capacity. The Group considers the medium and long-term potential for this form of renewable energy in Chile to be considerable.

In September 2008, the Group acquired an option in respect of Mulpún, a coalfield situated near Valdivia in southern Chile, with the potential to undertake a coal gasification project. The initial payment for the option was US$2.5 million, with potential further payments of up to US$9.5 million over the next four years.

## Additional Information Relating to the Business Review

### Key performance indicators – definitions and cross-references to reviews and explanations

#### Turnover

Turnover represents the value of goods and services supplied to third parties during the year. This principally comprises sales of copper concentrate, copper cathodes and by-products (principally molybdenum concentrate) from the mining division, transport of cargo by road and rail by the transport division, and supply of water to domestic and industrial users by the water division.

Turnover at the mining division includes the effect of final pricing and mark-to-market adjustments to provisionally priced concentrate and cathode sales.

# Business Review continued

Realised gains and losses on commodity derivatives recognised in the income statement have been recorded within turnover. Turnover is stated net of tolling charges for concentrate sales.

An explanation of turnover is contained on pages 36 and 37 of the Financial Review and analyses of turnover by business segment and geographical segment are contained in Notes 6(a)(i) and 6(b)(i) respectively to the financial statements. Details of pricing adjustments and gains and losses on commodity derivatives are given in Notes 25(d) and 25(e) to the financial statements.

## EBITDA

EBITDA refers to Earnings Before Interest, Tax, Depreciation and Amortisation. EBITDA is calculated by adding back depreciation, amortisation and profit or loss on disposals of property, plant and equipment and impairment charges to operating profit from subsidiaries and joint ventures.

An explanation of EBITDA, including a reconciliation to operating profit from subsidiaries and joint ventures, is contained on pages 37 and 38 of the Financial Review. An analysis of EBITDA by business segment is contained in Note 6(a)(i) to the financial statements.

## Earnings per share (EPS)

Earnings per share is calculated as the net profit attributable to equity holders of the Company, divided by the number of ordinary shares in issue.

Details of earnings per share are given on pages 39 and 40 of the Financial Review and in Note 11 to the financial statements.

## Capital expenditure

Capital expenditure refers to amounts capitalised in respect of the purchase of property, plant and equipment, including the asset purchase price, directly attributable costs and related interest. The capital expenditure figures are stated on an accruals rather than a cash basis.

An explanation of capital expenditure is given on pages 41 and 42 of the Financial Review and analyses of capital expenditure by business segment and type of asset are given in Notes 6(a)(ii) and 14 respectively to the financial statements.

## Net cash

Net cash represents cash and cash equivalents less borrowings. Cash and cash equivalents comprise cash on hand, deposits held on call with banks and highly liquid investments that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value, net of bank overdrafts which are repayable on demand. Borrowings include loans, finance leases and preference shares.

An explanation of the net cash position is given on page 42 of the Financial Review and analyses of cash and cash equivalents and borrowings are given in Notes 22, 23 and 34(b) to the financial statements.

## Copper and molybdenum production

Copper and molybdenum production comprises the concentrate and cathode output of the Group's three operating mines, Los Pelambres, El Tesoro and Michilla. Los Pelambres produces copper and molybdenum concentrates, and the figures for Los Pelambres are expressed in terms of payable metal contained in concentrate. The copper concentrate also contains gold and silver, for which Los Pelambres is credited when the concentrate is sold. El Tesoro and Michilla produce copper cathodes with no by-products.

An explanation of Group production is given in this Business Review under "Overall Group Performance in 2008" on pages 14 and 15 and in respect of each mine under "Review of Operations" on pages 16 to 23. Further details of throughput, grades and recoveries at each mine are given in the Mining Production and Sales, Transport and Water Statistics on page 143.

## Realised prices

Realised copper prices are determined by comparing revenues from copper sales (grossed up for tolling charges for concentrates) with sales volumes for each mine in the year, and reflect the effective prices achieved by each mine. Realised molybdenum prices are determined on a similar basis. Realised prices reflect the effect of realised gains and losses on commodity derivatives, which are recorded within turnover.

An explanation of realised prices is given on pages 36 and 37 of the Financial Review under "Turnover" and in this Business Review in respect of each mine under "Review of Operations" on pages 16 to 23.

### Cash costs

Cash costs are a measure of the cost of operational production expressed in terms of US cents per pound of payable copper produced. Cash costs are stated net of by-product credits and include tolling charges for concentrates at Los Pelambres. Cash costs exclude depreciation, financial income and expenses, hedging gains and losses, exchange gains and losses, and corporation tax for all three mines. By-product calculations do not take into account unrealised mark-to-market gains for molybdenum at the beginning or end of each year.

An explanation of cash costs is given in this Business Review under "Overall Group Performance in 2008" on pages 14 and 15 and in respect of each mine under "Review of Operations" on pages 16 to 23.

## Risk factors

### Introduction

The Group is exposed to a range of risks and uncertainties which may affect it. These risks include strategic, commercial, operational, regulatory and financial risks. A summary of the key risks facing the Group is set out below. There may be additional risks unknown to the Group and other risks, currently believed to be insignificant, could turn out to be significant. These risks, whether they materialise individually or simultaneously, could significantly affect the Group's business and financial results. They should also be considered in connection with any forward looking statements in this document and the cautionary statement on pages 34 and 35.

### Financial risks

The principal financial risks to which the Group is exposed include risks relating to interest rates, commodity prices, credit, cash flow and liquidity. Details of these risks are contained in the Treasury Management and Hedging section on pages 40 and 41 and Note 25(c) to the financial statements.

### Economic environment

Commodity prices, and demand for the Group's products, are influenced strongly by world economic growth. Commodity prices can fluctuate widely and could have a material and adverse impact on the Group's revenues, earnings, cash flows and financial position.

### Exploration

The Group seeks to identify new mineral resources through exploration. There is no guarantee, however, that exploration activities will identify viable mineral resources. A failure to discover new resources or enhance existing resources could negatively affect the Group's results and prospects.

### Ore reserve and mineral resource estimation

The Group's ore reserve and mineral resource estimates are subject to a number of assumptions, including the price of commodities, production costs and recovery rates. Fluctuations in these variables may result in lower grade reserves being deemed uneconomic, and may ultimately lead to a reduction in reserves. A significant reduction could have a negative impact on the Group's results, financial position and prospects.

### Mining operations and new projects

Demand for supplies, equipment, skilled personnel and contractors could affect capital and operating costs, which may impact the development of new projects, the expansion of existing operations, the results of those operations and the Group's financial condition and prospects.

Mining operations and project developments are also subject to a number of circumstances not wholly within the Group's control, including damage to or breakdown of equipment or infrastructure, natural disasters, unexpected geological variations and industrial actions. Appropriate insurance can provide protection from some, but not all, of the costs that may arise from unforeseen events.

Failure to meet production targets may also result in increased unit costs, particularly where operations have a high level of fixed costs.

Increasing regulatory and environmental approvals and litigation could result in significant delays in construction and/or increases in construction costs. These events could materially and adversely affect a project's economics or its successful completion and the Group's earnings and cash flows. Similarly, withdrawal or variation of permits already granted and litigation could affect production or costs at existing operations, the results of these operations and the Group's financial condition and prospects.

### Decommissioning and restoration

Costs associated with the decommissioning and restoration of mine sites are estimated on the basis of a formal closure plan and are subject to regular formal review. Estimates may, however, be insufficient, further issues may be identified or changes in regulatory standards may occur. Any underestimated or unidentified costs will affect earnings and cash flows.

### Acquisitions

Difficulties may be experienced in successfully integrating acquired businesses, and the full benefits, cost savings or synergies identified at the time of acquisition may not be achieved.

### Political environment

The Group could be affected by any political or regulatory developments in any of the countries and jurisdictions in which it operates, including controls on imports, exports and prices, expropriation of assets, or new forms or rates of taxation and royalties.

### Health, safety and environment

The Group operates in an industry that is subject to numerous health, safety and environmental laws and regulations as well as community expectations. Developments in regulatory standards and expectations could result in increased costs and/or litigation, which could impact on earnings and cash flows.

### Critical accounting judgements and key sources of estimation uncertainty

Determining many of the amounts included in the financial statements involves the use of judgement and/or estimation based on management's best knowledge of the relevant facts and circumstances, having regard to prior experience, but actual results may differ from the amounts included in the financial statements. Changes in judgements or the assumptions underlying estimates could result in a significant impact on the financial statements. Details of principal accounting policies are set out in Note 2 to the financial statements and details of critical accounting judgements and key sources of estimation uncertainty are set out in Note 3 to the financial statements.

### Cautionary statement about forward looking statements

The Annual Report and Financial Statements contain certain forward looking statements with respect to the financial position, results of operations and business of the Group. Examples of forward looking statements include those regarding ore reserve and mineral resource estimates, anticipated production or construction commencement dates, costs, outputs, demand, trends in commodity prices, growth opportunities and productive lives of assets or similar factors. The words "intend", "aim", "project", "anticipate", "estimate", "plan", "believe", "expect", "may", "should", "will", "continue", or similar expressions, commonly identify such forward looking statements.

Forward looking statements involve known and unknown risks, uncertainties, assumptions and other factors that are beyond the Group's control. For example, future ore reserves will be based in part on long term price assumptions that may vary significantly from current levels. These may materially affect the timing and feasibility of particular developments. Other factors include the ability to produce and transport products profitably, demand for products, the effect of foreign currency exchange rates on market prices and operating costs, activities by governmental authorities, such as changes in taxation or regulation, and political uncertainty.

Given these risks, uncertainties and assumptions, actual results could be materially different from any future results expressed or implied by these forward looking statements which speak only as at the date of this report. Except as required by applicable regulations or by law, the Group does not undertake any obligation to publicly update or revise any forward looking statements, whether as a result of new information or future events. The Group cannot guarantee that its forward looking statements will not differ materially from actual results.

# Financial Review



## Basis of Preparation

The Group's financial statements on pages 72 to 129 have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The accounting policies followed are set out in Note 2 to the financial statements.

The presentational currency of the Group and the functional currency of the Company is the US dollar, the principal currency in which the Group operates and in which assets and liabilities are denominated.

## Review of Performance

Turnover, EBITDA, depreciation and amortisation, operating profit, capital expenditure and net assets are analysed on a segmental basis in Note 6 to the financial statements.

### Turnover

| | 2008 US$m | 2007 US$m |
|---|---|---|
| Turnover | 3,372.6 | 3,826.7 |

Group turnover in 2008 was US$3,372.6 million, 11.9% below the US$3,826.7 million achieved in 2007. The decrease mainly reflected the impact of lower realised prices for copper and molybdenum and lower molybdenum volumes, partly offset by the effect of higher copper volumes and reduced tolling charges for copper concentrate and increased sales at the transport and water divisions.

### Turnover from copper concentrate and copper cathodes

Turnover from copper concentrate and copper cathode sales from the Group's three mines decreased by 7.3% to US$2,702.9 million, compared with US$2,915.9 million in 2007. The Group's average realised copper price decreased by 18.3% to 266.7 cents per pound (2007 – 326.6 cents). This decrease in the realised price was significantly more pronounced than the 2.5% decrease in the average LME copper price to 315.3 cents per pound (2007 – 323.3 cents), reflecting the impact of adjustments to provisionally priced sales. Realised copper prices are determined by comparing turnover (gross of tolling charges for concentrate sales) with sales volumes in the year.

Realised copper prices differ from market prices mainly because, in line with industry practice, concentrate and cathode sales agreements generally provide for provisional pricing at the time of shipment with final pricing based on the average market price for future periods (normally about 30 days after delivery to the customer in the case of cathode sales and up to 180 days after delivery to the customer in the case of concentrate sales). In 2008 there were significant negative close-out and mark-to-market adjustments to provisionally invoiced sales as a result of a significant decrease in the LME copper price during the second half of the year, particularly in the fourth quarter.

In the case of Los Pelambres, pricing adjustments reduced initially invoiced sales (before adjusting for tolling charges) by US$541.9 million in 2008, compared with a US$52.8 million increase to sales in 2007. The adjustments in 2008 comprised an uplift of US$131.1 million in respect of sales invoiced in 2007 (net of the reversal of mark-to-market adjustments made at the end of 2007) which were finally priced in 2008, outweighed by a deduction of US$673.0 million in respect of sales invoiced in 2008 (including a negative mark-to-market provision for open sales at the end of the year of US$257.6 million). Pricing adjustments in 2008 at El Tesoro and Michilla reduced revenues by US$27.9 million (2007 – reduced revenues by US$5.1 million) and US$12.2 million (2007 – reduced revenues by US$1.2 million) respectively. Further details of provisional pricing adjustments are given in Note 25(d) to the financial statements.

In 2008 turnover also included a gain of US$30.0 million (2007 – loss of US$14.0 million) on commodity derivatives at El Tesoro and Michilla which matured during the year.

Copper sales volumes increased by 11.8% from 428,500 tonnes in 2007 to 479,000 tonnes this year. The increase was mainly due to higher plant throughput and better ore grades at Los Pelambres. Sales volumes differed slightly from production each year mainly due to differences in shipping and loading schedules.

Tolling charges for copper concentrate at Los Pelambres decreased from US$169.4 million in 2007 to US$113.1 million in 2008, reflecting the lower annual treatment and refining charges, and the further benefit of nil price participation, the introduction of which was averaged over 2007 and 2008 under the "brick" arrangement. Tolling charges are deducted from concentrate sales in reporting turnover and hence the decrease in these charges has had a positive impact on turnover compared with 2007.

## Turnover from by-products

Turnover from by-products at Los Pelambres decreased by 40.3% to US$434.2 million in 2008 compared with US$726.7 million in 2007, mainly due to lower molybdenum market prices and sales volumes.

Molybdenum revenues (net of roasting charges) were US$394.8 million (2007 – US$676.4 million). The realised molybdenum price decreased by 24.6% to US$23.9 per pound in 2008 (2007 – US$31.7 per pound), compared to a 4.3% decrease in the average market price to US$28.9 per pound (2007 – US$30.2 per pound). Molybdenum concentrate sales are also subject to provisional pricing with an average open period of approximately 90 days. As prices weakened sharply during the fourth quarter of 2008, realised prices were lower than the average market price. In contrast, during 2007 strengthening prices caused the realised price to be slightly higher than the market price. Molybdenum sales volumes decreased by 23.0% to 7,700 tonnes, compared with 10,000 tonnes in 2007. Small differences with production in each year reflected shipping and loading schedules.

Credits received from gold and silver contained in copper concentrate sold decreased to US$39.4 million (2007 – US$50.3 million). This was mainly due to the decrease in gold content from 37,800 ounces in 2007 to 19,700 ounces in 2008, partly offset by higher average gold prices this period.

## Turnover from the transport and water divisions

Turnover from the transport division (FCAB) increased by US$34.0 million or 29.1% to US$151.0 million, mainly due to increased rail volumes, longer haulage distances, normal tariff adjustments under contracts in line with costs and guaranteed payments under certain contracts. Volume increases came mainly from the San Cristóbal mine in Bolivia (which commenced production in late 2007) and the start-up of the Gaby mine in Chile.

Turnover at Aguas de Antofagasta, which operates the Group's water business, increased by US$17.4 million or 25.9% to US$84.5 million in 2008, reflecting increased volumes to both domestic and industrial customers, tariff adjustments in line with inflation and sundry income from installation and construction services.

## EBITDA and operating profit from subsidiaries and joint ventures

| | 2008 US$m | 2007 US$m |
|---|---|---|
| EBITDA | 1,899.8 | 2,824.0 |
| Depreciation and amortisation | (180.2) | (162.2) |
| Loss on disposals | (5.3) | (8.4) |
| Operating profit from subsidiaries and joint ventures excluding exceptional items | 1,714.3 | 2,653.4 |
| Impairments | (188.3) | – |
| Operating profit from subsidiaries and joint ventures including exceptional items | 1,526.0 | 2,653.4 |

EBITDA (earnings before interest, tax, depreciation, and amortisation) from subsidiaries and joint ventures decreased by 32.7% to US$1,899.8 million (2007 – US$2,824.0 million).

EBITDA at the mining division decreased by 34.8% from US$2,734.4 million to US$1,781.8 million, due to the reduction in turnover as explained above (resulting mainly from the lower realised prices for copper and lower molybdenum prices and volumes, partly offset by the effect of higher copper volumes and reduced tolling charges for copper concentrate) and increased operating costs. Excluding by-product credits (which are reported as part of turnover) and tolling charges for concentrates (which are deducted from turnover), weighted average cash costs for the Group (comprising on-site and shipping costs in the case of Los Pelambres and cash costs in the case of the other two operations) increased from 90.6 cents per pound in 2007 to 117.2 cents per pound. This increase, which was in line with forecast, reflected the impact of higher input costs and specific factors at each mine as discussed in the review of operations above.

As noted above, during 2008 a gain of US$30.0 million (2007 – loss of US$14.0 million) relating to commodity derivatives which matured in the period has been recorded within turnover, along with losses of US$3.0 million (2007 – gain of US$0.7 million) recognised within other finance items as explained below and a mark-to-market gain of US$52.6 million (2007 – loss of US$0.2 million) deferred in equity.

At Los Pelambres, EBITDA decreased from US$2,178.0 million in 2007 to US$1,429.7 million this year. EBITDA at El Tesoro decreased by US$88.1 million to US$342.8 million. At Michilla EBITDA decreased by US$50.8 million to US$118.4 million.

Exploration costs increased from US$38.1 million in 2007 to US$54.9 million, reflecting the increased level of exploration activity across the Group particularly in Chile and Pakistan. Net costs in respect of corporate and other items were higher at US$55.7 million (2007 – US$6.8 million). The 2007 net costs included a number of one-off gains totalling US$21.8 million.

EBITDA at the transport division increased by US$15.3 million to US$64.2 million, with the increased revenue as explained above partly offset by associated higher operating costs. Aguas de Antofagasta contributed US$53.8 million compared to US$40.7 million last year, mainly reflecting the increased revenues discussed above.

Depreciation and amortisation increased by US$18.0 million to US$180.2 million, mainly due to higher charges at El Tesoro and Michilla. The loss on disposal of property, plant and equipment in 2008 was US$5.3 million, compared with US$8.4 million in the prior year.

As a result of the above factors, operating profit from subsidiaries and joint ventures (excluding exceptional items) decreased by 35.4% to US$1.714.3 million (2007 – US$2,653.4 million). An impairment charge of US$188.3 million relating to property, plant and equipment at El Tesoro (US$160.0 million) and Michilla (US$28.3 million) has been recorded within operating profit, following an impairment review undertaken in light of the current commodity market environment. Including the impact of this exceptional item, operating profit from subsidiaries and joint ventures decreased by 42.4% to US$1,526.0 million (2007 – US$2,653.4 million). Further details of this exceptional item are set out in Note 5 to the financial statements.

## Share of income from associate

| | 2008 US$m | 2007 US$m |
|---|---|---|
| Share of income from associate | 2.3 | 1.4 |

The Group's share of net profit from its 30% investment in Antofagasta Terminal Internacional S.A. ("ATI") was US$2.3 million (2007 – US$1.4 million).

## Profit on part-disposal of subsidiaries

The Group's disposal of a 30% interest in both Esperanza and El Tesoro to Marubeni Corporation in August 2008 for a consideration of US$1,401.2 million resulted in a profit before tax of US$1,024.9 million. Further details of this exceptional profit are set out in Note 5 to the financial statements.

## Net finance income

| | 2008 US$m | 2007 US$m |
|---|---|---|
| Investment income | 78.9 | 113.4 |
| Interest expense | (13.7) | (20.4) |
| Other finance items | (8.9) | 2.4 |
| Net finance income | 56.3 | 95.4 |

Net finance income in 2008 was US$56.3 million, compared with US$95.4 million in 2007.

Interest receivable decreased from US$113.4 million in 2007 to US$78.9 million in 2008, reflecting the lower interest rates in the year, partly offset by the higher average cash balances held during the year. Interest expense decreased from US$20.4 million in 2007 to US$13.7 million, due to the lower interest rates and the repayment of existing borrowings during the year as planned.

Other finance items comprised a loss of US$8.9 million (2007 – gain of US$2.4 million). A loss of US$1.6 million (2007 – gain of US$0.7 million) has been recognised in respect of the time value element of changes in the fair value of commodity derivative options, which is excluded from the designated hedging relationship, and is therefore recognised directly in the income statement. A loss on foreign exchange derivatives of US$1.4 million (2007 – nil) is also included in finance items. Foreign exchange losses included in finance items were US$3.9 million in 2008, compared with a gain of US$2.9 million in the previous year.

## Profit before tax

The resulting profit before tax for the period was US$2,609.5 million compared to US$2,750.2 million in 2007, reflecting the reduction in turnover, increased operating costs and lower net finance income, partly offset by the profit on part disposal of subsidiaries.

## Income tax expense

| | 2008 US$m | 2007 US$m |
|---|---|---|
| Total tax charge (Income tax expense) | (519.7) | (638.4) |

The rate of first category (i.e. corporation) tax in Chile was 17% for both 2008 and 2007. Los Pelambres, El Tesoro and Michilla are also subject to a mining tax (royalty) which imposes an additional tax of 4% of tax-adjusted operating profit. Until 2007, 50% of the mining tax could be offset against first category tax and the remaining 50% was tax deductible (i.e. an allowable expense in determining liability to first category tax). From 2008, the ability to offset is no longer available, but 100% of the mining tax is tax deductible. The effect is to increase the effective tax rate of these three operations (before taking into account deductibility against corporation tax) by approximately 2% in 2007 and 4% from 2008 and thereafter. In addition to first category tax and the mining tax, the Group incurs withholding taxes on the remittance of profits from Chile. Withholding tax is levied on remittances of profits from Chile at 35% less first category tax already paid. Accordingly, the effective tax rate of withholding tax for the purpose of paying dividends to Group shareholders is approximately 18% of the amount remitted or expected to be remitted.

The tax charge for the year was $519.7 million and the effective tax rate was 19.9%. This rate varies from the standard rate principally due to the provision of withholding tax of $72.1 million, the effect of the mining tax which resulted in a charge of $66.2 million, exchange losses of $66.3 million on Chilean peso denominated tax prepayments due to the weakening of the Chilean peso during the year, and the effect of items which are not subject to or deductible from first category tax.

## Minority interests

| | 2008 US$m | 2007 US$m |
|---|---|---|
| Minority interests | 383.3 | 729.7 |

Profit for the financial year attributable to minority shareholders was US$383.3 million, compared with US$729.7 million in 2007. The decrease reflects the reduction in the Group's operating profit from subsidiaries and joint ventures in 2008 compared with 2007.

## Earnings per share

| | 2008 US cents | 2007 US cents |
|---|---|---|
| Earnings per share including exceptional items | 173.1 | 140.2 |
| Earnings per share excluding exceptional items | 85.5 | 140.2 |

Earnings per share calculations are based on 985,856,695 ordinary shares.

As a result of the factors set out above, profit for the 2008 financial year attributable to equity shareholders of the Company was US$1,706.5 million compared with US$1,382.1 million in 2007. Accordingly, basic earnings per share were 173.1 cents in 2008 compared with 140.2 cents for 2007, an increase of 23.5%. Basic earnings per share excluding exceptional items (detailed in Note 5 of the financial statements) were 85.5 cents in 2008 compared with 140.2 cents for 2007.

### Dividends

Details of dividends proposed in relation to 2008, and the Board's policy regarding dividends, are set out in the Business Review on pages 15 and 16.

## Capital Expenditure

Details of capital expenditure during the year are set out in the cash flow summary below on pages 41 and 42.

## Treasury Management and Hedging

A detailed description of the key financial risks facing the Group, and the processes in place to manage those risks, is included in Note 25(c) to the financial statements.

The Group periodically uses derivative financial instruments to reduce exposure to commodity price movements. The Group does not use such derivative instruments for speculative trading purposes. The impact of derivative instruments on the Group's results for the period is set out above in the sections on turnover, operating profit from subsidiaries and net finance income, and in Note 25(e) to the financial statements.

The Group has applied the hedge accounting provisions of IAS 39 "Financial Instruments: Recognition and Measurement" to its commodity derivatives. Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows have been recognised directly in equity, with such amounts subsequently recognised in the income statement in the period when the hedged item affects profit or loss. Any ineffective portion is recognised immediately in the income statement. Realised gains and losses on commodity derivatives recognised in the income statement have been recorded within turnover.

The time value element of changes in the fair value of derivative options is excluded from the designated hedging relationship, and is therefore recognised directly in the income statement within other finance items.

At 31 December 2008 the Group had min/max instruments for 27,600 tonnes of copper production at El Tesoro covering a total period up to 31 December 2009. The weighted average remaining period covered by these hedges calculated with effect from 1 January 2009 is 7 months. The instruments have a weighted average floor of 224.3 cents per pound and a weighted average cap of 374.4 cents per pound. At 31 December 2008 the Group also had futures for 6,500 tonnes, to both buy and sell copper production at El Tesoro, with the effect of swapping COMEX prices for LME prices without eliminating underlying market price exposure, covering a period up to 31 January 2010. The remaining weighted average period covered by these instruments calculated with effect from 1 January 2009 is 7 months.

Details of the mark-to-market position of these instruments at 31 December 2008, together with details of any interest and exchange derivatives held by the Group, are given in Note 25(e) to the financial statements.

Between 31 December 2008 and 28 February 2009 the Group entered into further min/max instruments for 29,800 tonnes of copper production (of which 12,000 tonnes relate to El Tesoro and 17,800 tonnes relate to Michilla), covering a total period up to 31 December 2009. The weighted average remaining period covered by these hedges calculated with effect from 1 January 2009 is 9 months. The instruments have a weighted average floor of 133.1 cents per pound and a weighted average cap of 176.5 cents per pound. The Group has also entered into further futures instruments for 18,050 tonnes of copper production (of which 7,850 tonnes relate to El Tesoro and 10,200 tonnes relate to Michilla) covering a total period up to 31 January 2010. The weighted average remaining period covered by these hedges calculated with effect from 1 January 2009 is 4 months. The instruments have a weighted average price of 151.5 cents per pound.

Including instruments in place at 31 December 2008 and those taken out subsequent to the year end, this represents approximately 70% of Michilla's forecast production for 2009 and 35% of El Tesoro's forecast production for 2009, and the Group's exposure to the copper price will be limited to the extent of these instruments.

The Group also periodically uses foreign exchange derivatives to reduce its exposure to fluctuations in the fair value of non US dollar denominated assets or liabilities. At 31 December 2008 the Group had cross currency swaps with a principal value of US$35.1 million, to swap Chilean pesos for US dollars, at an average rate of Ch$663.0 / US$1, covering a total period up to 12 February 2009. The weighted average remaining period covered by these hedges calculated with effect from 1 January 2009 is 1 month.

## Commodity Price Sensitivities

Based on 2008 production volumes and without taking into account the effects of provisional pricing and any hedging activity, a one-cent change in the average copper price would affect turnover and profit before tax by US$10.5 million and earnings per share by 0.6 cents. Similarly, a one-dollar change in the average molybdenum price would affect turnover and profit before tax by US$17.2 million and earnings per share by 0.8 cents.

## Cash Flows

The Group cash flow statement is presented on page 74. The key features are summarised in the following table.

Cash flows from operations were US$2,454.3 million in 2008 compared with US$2,817.7 million last year, reflecting the operating results adjusted for depreciation, amortisation, impairments and disposals gains and losses of US$373.8 million (2007 – US$150.5 million) and a net working capital decrease of US$554.5 million (2007 – decrease of US$13.8 million).

| | 2008 US$m | 2007 US$m |
|---|---|---|
| Cash flows from operations | 2,454.3 | 2,817.7 |
| Income tax paid | (561.4) | (806.0) |
| Net interest received | 66.3 | 91.1 |
| Acquisition of minority interest in subsidiary | (243.1) | – |
| Disposal and part-disposal of subsidiaries, joint venture interests and available for sale investments | 1,401.2 | 27.5 |
| Purchases of property, plant and equipment | (1,135.0) | (481.7) |
| Purchase of intangible assets | (10.7) | – |
| Dividends paid to equity holders of the Company | (491.0) | (485.0) |
| Dividends paid to minority interests | (495.6) | (681.2) |
| Capital increase from minority interest | 57.7 | – |
| Other items | 6.9 | 11.0 |
| Changes in net cash relating to cash flows | 1,049.6 | 493.4 |
| Exchange and other non-cash movements | (77.0) | 6.3 |
| Movement in net cash in the year | 972.6 | 499.7 |
| Net cash at the beginning of the year | 1,946.5 | 1,446.8 |
| Net cash at the end of the year (analysed on page 42) | 2,919.1 | 1,946.5 |

A dividend of US$1.8 million (2007 – US$2.4 million) was received from the Group's investment in ATI.

Cash tax payments in the year were US$561.4 million (2007 – US$806.0 million), comprising corporation tax of US$399.5 million (2007 – US$537.7 million), mining tax of US$41.7 million (2007 – US$133.0 million) and withholding tax of US$120.2 million (2007 – US$135.3 million). These amounts differ from the current tax charge in the consolidated income statement of US$541.7 million (2007 – US$598.7 million) because cash tax payments partly comprise monthly payments on account in respect of current year profits and partly comprise the settlement of the outstanding balance for the previous year. In 2008 the cash outflow for the acquisition of the minority interest in Antomin Limited amounted to US$243.1 million. No acquisitions were made in 2007.

Cash proceeds from the part disposal of subsidiaries, relating to the disposal of a 30% interest in Esperanza and El Tesoro to Marubeni Corporation, amounted to US$1,401.2 million in 2008. In 2007, cash proceeds from disposals of subsidiaries, joint ventures and available for sale investments amounted to US$27.5 million.

Capital expenditure in 2008 was US$1,135.0 million compared with US$481.7 million in 2007. This included expenditure of US$460.6 million relating to the Esperanza project (2007 – US$43.7 million), US$272.7 million (2007 – US$49.3 million) relating to the plant expansion at Los Pelambres, US$107.2 million relating to the completion of the Mauro tailings dam (2007 – US$203.5 million), and US$69.3 million (2007 – nil) relating to pre-stripping at the Tesoro North-East deposit.

Purchase of intangibles in 2008 was US$10.7 million (2007 – nil) relating to exploration licences and related rights in Pakistan and Zambia.

Dividends (including special dividends) paid to ordinary shareholders of the Company this year were US$491.0 million (2007 – US$485.0 million), which related to the final dividend declared in respect of the previous year and the interim dividend in respect of the current year, and reflected the increased dividend per share paid out during 2008 compared with 2007. Dividends paid by subsidiaries to minority shareholders were US$495.6 million (2007 – US$681.2 million), principally due to decreased distributions by Los Pelambres.

Repayments of borrowings and finance leasing obligations in the year, mainly at Los Pelambres and El Tesoro, were US$109.5 million (2007 – US$100.2 million). New borrowings in the year amounted to US$229.5 million (2007 – US$7.0 million), which almost entirely related to short term loans taken out by Los Pelambres towards the end of 2008.

Details of other cash inflows and outflows in the year are contained in the Consolidated Cash Flow Statement.

## Financial Position

| | 2008 US$m | 2007 US$m |
|---|---|---|
| Cash and cash equivalents | 3,358.0 | 2,212.5 |
| Total borrowings | (438.9) | (266.0) |
| Net cash at the end of the year | 2,919.1 | 1,946.5 |

At 31 December 2008 the Group had cash and cash equivalents of US$3,358.0 million (2007 – US$2,212.5 million). Excluding the minority share in each partly-owned operation, the Group's attributable share of total cash and cash equivalents was US$3,085.7 million (2007 – US$2,135.4 million). The cash balances are conservatively managed, with the majority held in US Treasury securities.

Total Group borrowings at 31 December 2008 were US$438.9 million (2007 – US$266.0 million). Of this, US$282.3 million (2007 – US$169.5 million) is proportionally attributable to the Group after excluding the minority shareholdings in partly-owned operations. The increase in debt is mainly due to the new short-term borrowing at Los Pelambres, offsetting further principal repayments on existing borrowings at Los Pelambres and El Tesoro as explained above.

## Balance Sheet

Net equity (i.e. equity attributable to ordinary shareholders of the Company) increased from US$4,065.0 million at 1 January 2008 to US$5,266.8 million at 31 December 2008, relating mainly to profit after tax and minority interests for the period less ordinary dividends declared and paid in the year. Other changes relate mainly to movements in the fair value of hedges and available for sale investments and the currency translation adjustment; these are set out in the Consolidated Statement of Changes in Equity.

Minority interests increased from US$841.5 million at 1 January 2008 to US$1,165.8 million at 31 December

2008. This principally reflected the minority's share of profit after tax and the increase in minority interests following the disposal of 30% of the net assets of El Tesoro and Esperanza as at 25 August 2008, less the minority's share of the dividends paid by subsidiaries in the year. Other movements affecting minority interest are also set out in the Consolidated Statement of Changes in Equity.

## Foreign Currency Exchange Differences

The principal subsidiaries with a functional currency other than the US dollar are Chilean peso denominated, of which the most significant is Aguas de Antofagasta S.A.. Exchange rates used to translate the results of such subsidiaries are given in Note 37 to the financial statements.

In 2008 the currency translation adjustment charge to net equity of US$41.8 million resulted mainly from the weakening in the Chilean peso during the year from Ch$497 = US$1 at the start of 2008 to Ch$636 = US$1 at the end of 2008. In 2007 the currency translation adjustment credit to net equity of US$13.5 million resulted mainly from the strengthening in the Chilean peso during the year from Ch$532 = US$1 at the start of 2007 to Ch$497 = US$1 at the end of 2007.

## Going Concern

The Group's business activities, together with those factors likely to affect its future performance, are set out in the Business Review, along with details of the key risks facing the Group. Details of the cash flows of the Group during the year, along with its financial position at the year-end are set out in this Financial Review. The Directors' Report includes details of the Group's capital structure, as well as significant medium and long-term contracts with customers and suppliers. The financial statements include details of the Group's cash and cash equivalent balances in Note 22, and details of borrowings including the maturity profile are set out in Note 23. Details of the Group's financial risk management, including details on the management of liquidity and counterparty risk, are set out in Note 25(c) to the financial statements.

In assessing the Group's going concern status the Directors have taken into account the above factors, including the financial position of the Group and in particular its significant net-cash position, the current copper price and market expectations in the medium-term, and the Group's capital expenditure and financing plans.

After making appropriate enquiries, the Directors consider that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and that it is appropriate to adopt the going concern basis in preparing the financial statements.

# Corporate Sustainability

## Introduction

As explained in the Chairman's Statement on page 7 and the Business Review on page 11, the Board continues to place importance on a range of considerations including health and safety, environmental matters, community relations and management of human resources. Sustainable development forms an important element of the Group's decision-making process and it adopts a long-term view in formulating strategy, company policy and everyday business procedures.

With the growth of the Group in Chile and the acquisition of opportunities abroad, the Board decided in 2007 to develop a set of Group Sustainable Development principles to provide a structured framework through which its strategy and growth plans could be achieved. These principles were adopted during 2008 together with social and environmental policies for the mining division and have been framed within the context of the Group's strategic plan for 2009 – 2015. As explained in the Chairman's Statement on pages 6 and 7, this plan is based on the three pillars of:

- securing and strengthening the core business of the Group, comprising its operations and development projects including the Los Pelambres expansion and Esperanza;
- continuing to grow this core business in a sustainable manner in the longer-term with particular focus on the significant Sierra Gorda and Los Pelambres districts; and
- continuing to develop and search for additional opportunities for early stage growth in copper both in Chile and abroad, such as the Group's interest in the prospective Reko Diq joint venture in Pakistan.

The strategic plan recognises the continued importance of ensuring the Group generates social value (by building and consolidating its contribution to society) and environmental value (by achieving efficient use of natural resources), in order to achieve the aim of continuing to grow the business in a sustainable manner.

In order to support this, a Corporate Sustainability committee was formed during 2008 at Board level to provide direction and oversight of the Group's corporate sustainability activities and performance. An executive corporate sustainability reporting committee has also been established.

This section focuses on the key corporate sustainability matters which have received attention during 2008 in respect of its operations and capital projects. During 2008 the Group published its first separate sustainability report covering its activities in respect of 2007, and intends to also report on activities in respect of 2008 during 2009.

## Corporate Sustainability Governance

The corporate sustainability governance arrangements exist within the overall Group governance arrangements described in the Corporate Governance report on pages 58 to 64. Corporate procedures, management structures and risk management procedures are in place at both a Group level and in the business units. As stated above, elements of the corporate sustainability governance structure were reviewed during 2008.

The Directors' responsibilities, including responsibilities relating to risk management and control are described in the Statement of Directors' Responsibilities on page 69.

Management systems are in place at the majority of the Group's principal operations for quality of process and products (ISO 9001), health and safety (OHSAS 18001), and environmental management (ISO 14001). To supplement these, during 2008 Antofagasta Minerals S.A. ("AMSA"), the corporate centre for the mining division, developed social and environmental policies to provide a framework for managing these matters.

In addition, the Group has a risk management system in place which is described in the Corporate Governance statement on page 62. Its purpose is to centrally monitor the risks arising from each operating company to enable management to mitigate and prevent potential situations and incidents which might have a negative impact on business objectives. Risk maps identifying key risk areas are prepared within each division and risk management processes are embedded at all levels across the Group's operations and projects.

## Ethics

The Group is committed to conducting business in an accountable and transparent way and demands honesty, integrity and responsibility from its employees and others involved with it. It strives to ensure that the human rights, customs and values of its employees, contractors and the communities close to its operations are respected.

The Board has a Corporate Code of Ethics aimed at all employees and contractors. This Code was reviewed during 2008, including benchmarking against peers. The Code is monitored by an Ethics Committee, which reports to the Chief Executive of AMSA and comprises the Head of Risk, Head of Human Resources and Head of Corporate Affairs. Its responsibilities include investigation of any alleged major instances of non-compliance.

## Engagement and Communication with Stakeholders

The Group believes that communication and consultation are important for the achievement of its goals and therefore works closely with local communities where it communicates its views to governmental agencies either directly or through industry associations and representative bodies at both national and international levels.

Direct engagement exists primarily at the divisional and operating company levels. Engagement exercises during 2008 included several programmes which are core to the business in particular:

- employee survey programmes across the divisions;
- customer engagement programmes in ADASA and FCAB; and
- community engagement by all operating companies, but in particular at the mine operations where ongoing, regular local dialogue processes are established. For example Los Pelambres has developed a formal procedure to help maintain strong relationships with local communities.

## Human Capital

The Group is committed to ensuring that its employees are provided with a safe, healthy and respectful working environment, the training to perform their responsibilities, equal opportunity for development and fair reward which reflects their contribution and potential. Contractors form a significant element of the Group's total workforce. Under Chilean law, they are subject to the same obligations and responsibilities as employees.

The Group operations have human resource as well as health and safety policies, guidelines and management procedures.

Training at El Tesoro.

In line with its Social Relations Policy, the Group continues to source employees from within local communities as far as practical, this is particularly evident at Esperanza (see case study on page 49). The success of its approach in human capital management is reflected in some of the awards received in 2008 including:

- for El Tesoro: Honours from the Antofagasta Association of Industries for support and commitment to the Social Responsibility for Businesses Programme: Empowerment of Human Capital in the Region 2007; and
- for Los Pelambres: the award from INACAP Technological University for developing Human Capital in Choapa Province.

The Group is committed to comply with legal requirements contained within employment laws in Chile relating to child labour, discrimination and equal opportunity.

Human rights considerations form part of human capital management programmes. No cases of human rights breaches have been identified in 2008.

During 2008, the following areas of focus within this area were:

- safety and occupational health among employees and contractors;
- compensation and reward arrangements;
- employee development and engagement; and
- labour relations.

## Safety and occupational health

The safety and health of employees and contractors is a priority and the Group seeks to go beyond relevant legislative requirements in this area.

The principal Group operations have occupational safety and health policies and management arrangements in place.

The Group has an established safety and health culture based on the following concepts:

- senior management leadership commitment to safety and health, with these matters considered at monthly divisional board meetings;

## Safety statistics

| | Lost Time Injury Frequency Rate (LTIFR) | | | All Injury Frequency Rate (AIFR) | | | Number of Fatalities | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2008 | 2007 | 2006 | 2008 | 2007 | 2006 | 2008 | 2007 | 2006 |
| Chilean mining industry | n/a | 5.9 | 5.8 | n/a | n/a | n/a | n/a | 40 | 31 |
| Los Pelambres | 1.3 | 1.7 | 2.3 | 6.6 | 5.3 | 7.5 | – | – | – |
| El Tesoro | 2.0 | 1.2 | 2.2 | 6.6 | 13.1 | 19.4 | – | – | – |
| Michilla | 4.4 | 2.6 | 1.3 | 12.1 | 12.8 | 12.7 | – | 1 | 1 |
| Esperanza | 1.6 | n/a | n/a | 8.2 | n/a | n/a | – | n/a | n/a |
| AMSA including exploration | 5.4 | – | – | 13.1 | – | – | 1 | – | – |
| Mining | 2.2 | 1.8 | 2.0 | 8.2 | 9.0 | 11.6 | 1 | 1 | 1 |
| FCAB | 13.9 | 19.2 | 15.3 | 35.7 | 44.3 | 37.5 | – | – | 3 |
| ADASA | 1.5 | 8.6 | 9.1 | 21.6 | 28.7 | 29.9 | – | – | – |
| Group | 4.4 | 5.6 | 4.9 | 12.9 | 17.1 | 17.5 | 1 | 1 | 4 |

Definitions:
LTIFR – Number of accidents with lost time during the year per million hours worked.
AIFR – Number of accidents with and without lost time during the year per million hours worked.

Chilean mining industry source – Servicio Nacional de Geología y Minería. Comparative figures for 2007 have been updated to reflect the full year; 2008 full year figures have not yet been released by Servicio Nacional de Geología y Minería and therefore are not shown above.

- safety and health management systems, with the majority of the Group's operations certified under OHSAS 18001;
- regular training to employees and contractors, to ensure awareness and improve attitudes and behaviours to achieve safe working practices; and
- incident investigation and response, with internal investigation of all serious incidents and follow up action plans prepared.

Key safety indices for the Group are shown below.

During 2008, the investment in preventative health programmes has continued, while also providing ongoing support where there are identified occupational health cases. Examples of the initiatives established in 2008 include:

- AMSA undertook annual preventative health examinations for all employees who have been with the company for at least 12 months;
- FCAB completed a qualitative survey during 2008 of staff exposed to potential occupational illnesses such as deafness and ergonomic injury; specific training has been provided to these staff to help them understand the risks and protection measures; and
- ADASA established an occupational health programme as well as a campaign focusing on preventative behaviours.

Some of the Group's operating companies received awards for safety and health management in 2008 including:

- eleven new distinctions from the National Safety Council at Los Pelambres; and
- accreditation of El Tesoro by the Ministries of Health and Labour and Social Welfare as "Workplace Health Promoter Level 3" (the first company in Chile to receive this accreditation) as well as three awards from the Chilean National Safety Council.

### Employee development and engagement

The Group continues to make a significant investment in employee training and development.

In 2008, programmes have included:

- in AMSA, the Talent Management Programme to develop leadership ability and promote high performance. In addition to the Talent Management Programme there are specific training programmes conducted at a project and mine level. Individual development plans should be finalised in AMSA during 2009;
- in ADASA a management and technical skills programme has been established to develop the specific competencies required within teams; and
- FCAB commenced a leadership training programme in addition to continuing its sponsorship of pre- and post- graduate training courses.

Employee engagement has also been increased in 2008 with a workplace survey conducted by AMSA. In response to feedback from the survey the Group plans to focus more attention on work-life balance initiatives in 2009.

### Labour relations

The Group respects freedom of association and union membership by its work force. Collective bargaining processes have resulted in collective employment agreements establishing remuneration levels as well as terms and conditions of employment. Labour relations are managed at an operating company level with management working to maintain compliance with the requirements of the Chilean Labour Codes. There are thirteen labour unions across the Group.

## Community Relations

The Group is committed to managing the social impact of its activities through promoting respect for its people, local capacity building, and developing dialogue with key stakeholders. It uses its operating companies to become a social and economic platform for local communities, and contributes to long term development through building socio-economic capital.

During 2008, the Board of AMSA approved a Social Relations Policy which brings together the areas of community priority and focus for the mining division. This policy will be supported by a social management

Work with the community of Los Pelambres.



system which is expected to be developed further in 2009 together with performance measures.

In 2008, AMSA has focused on the following areas which all form part of the Social Relations Policy:

- ongoing dialogue with key stakeholders (see "Engagement");
- promotion of local capacity building;
- promotion of respect amongst employees and contractors towards local communities; and
- training to acquire new skills to neighbouring communities.

The Group's data for economic contributions such as employee salaries and payments to government are provided in Notes 7 and 8 to the financial statements.

The Group operating companies are responsible for the design and execution of their social programmes with each having areas of focus relevant to their local communities needs. For example during 2008:

- the Los Pelambres Foundation focused on three main areas: water conservation, local production and education. Programmes in 2008 have ranged from supporting micro-enterprise projects in Choapa, providing skills training to 200 people, obtaining approval for the development of the Los Vilos Maritime Vocational School and completing a tender process for building a digital network in the Choapa Valley; and
- AMSA actively participated in the Mining Council's programme in 2008, aimed at giving support to 150 mine workers from Tocopilla affected by the November 2007 earthquake in the Antofagasta Region. The Mining Council's programme benefited the small-scale and artisanal miners who were members of the Mine Worker's Union before the earthquake occurred.

## Environmental Management and Protection

The Group is committed to managing the environmental impacts of its activities from mine planning through to closure. It promotes efficient natural resource management and seeks to generate environmental benefits where possible. The environmental impacts of mine closure are considered at the planning stage for each operation, in line with local regulatory requirements.

During 2008, the Board approved an Environmental Policy for AMSA which brings together the areas of environmental priority and focus for the Mining division.

In 2008, AMSA focused on the following areas which are all within the Environmental Policy:

- developing an overarching environmental management system including establishing performance indicators;
- managing natural resources efficiently with a focus on energy and water resources; and
- respecting the environment and encouraging conservation, protection of natural and social diversity and heritage.

### Environmental management system

The management of environmental matters is carried out jointly by the environment department at AMSA and the environmental departments at each of the operating companies. ISO14001 certified systems are in place or underway across the Group's principal operating companies.

In 2008, in addition to the development of the new Environmental Policy, progress has been made by AMSA in the following areas:

## Sustainable Development at Esperanza

In 2008, construction at the Esperanza operations began. Sustainable development was a key consideration when applying for the permits and approvals and is a priority for the management at Esperanza. The Environmental Impact Assessment was approved by the Regional Commission of the Environment ("COREMA") for Chile's Antofagasta Region in June 2008; social and environmental commitments are being undertaken by management under the terms of this approval.

A Health, Safety and Environmental (HSE) management committee has been established as well as emergency and clinical services established and a HSE management system designed. In addition social management processes have been developed to manage and support the interests and needs of employees, contractors and local communities.

During 2008, development of the workforce and local communities has been the priority and the following steps have been taken:

- establishing a multiple skills Apprentice Programme. This will focus on the workforce from the Antofagasta Region who will receive training from the experienced hires;
- completing quarterly performance evaluations for all staff;
- developing a three year programme to address the concerns of the local communities. This has included a number of workshops entitled "My Life, My Hope";
- completing health and cultural awareness workshops with employees and contractors. In 2008 these were held with the construction project teams; and
- initiating a Road Safety Campaign for local communities and drivers for Esperanza; this includes for a bi-annual survey by the police into road accidents and incidents which have involved mine related traffic.

Construction at Esperanza.

El Manque, Choapa Valley near Los Pelambres.



- a registry of the significant environmental aspects for every mining operation has been created and a response plan prepared;
- an early warning system has been developed to provide a further level of supervision over the operations and drive high level of consistency in environmental management across the operating companies; and
- environmental performance indicators have been defined in three main areas: operational efficiency, impact control and value creation.

## Energy security and management

The Group is committed to conserving energy and aims to use and develop energy efficient technologies and energy saving practices.

Energy efficiency programmes are established in the Group's operations. In recognition of the work completed at Los Pelambres during 2008, it received the Confederation of Production and Trade and Ministry of Energy distinction for Commitment to Energy Efficiency.

The Group continues to undertake significant work to secure alternative supplies and establish longer term agreements and contracts with energy suppliers. Contracts have been signed for long term energy supply and a joint venture with ENAP for geothermal energy.

## Water management and supply

The efficient use of water is fundamental for ensuring its availability for Group operations and neighbouring communities. Water consumption and quality are both closely monitored across the Group's operations in accordance with legislative requirements.

The operating companies have established water supply arrangements that seek to minimise the demand on water resources, in particular through water recycling. For example, Los Pelambres recycles the majority of the water used, while Michilla, and Esperanza in due course, rely on use of sea water. ADASA is also seeking to increase its use of sea water for provision of potable water to customers in the Antofagasta Region.

## Waste management

The Group is committed to implementing solutions to enable waste reduction and reuse where possible. The Group's operations have arrangements in place to dispose of waste according to applicable legal requirements.

At Los Pelambres, the Mauro tailings dam is now operational providing sufficient waste disposal capacity for the remaining 28 year mine life. Due to Esperanza's geographical and meteorological location, it will be able to use technology to develop "thickened tailings". This system of tailings management will reduce water consumption and enable improved evaporation so reducing the potential for soil contamination; it will also help ensure a high level of stability for the tailings both during and after the cessation of the operations.

## Carbon emissions management

The Group is committed to developing a suitable response to climate change that recognises the needs of the business. The energy efficiency programmes already underway are a means to achieve carbon emission reduction. An assessment to measure AMSA's carbon impact has begun in 2008. Carbon measurement systems will be developed by AMSA during 2009.

## Biodiversity

The Group aims to maintain existing ecosystems and biodiversity and minimise habitat disturbance. Biodiversity plans exist for the Group operations in accordance with relevant legislative requirements and conditions of environmental approvals. The management approach adopted, for example at Los Pelambres, comprises four main elements: mitigation plans, compensation plans, internal management procedures to prevent impact and monitoring schedules. Los Pelambres has more than 25,000 hectares of protected areas, including a Ramsar Convention site.



Wildlife at Los Pelambres.

# Directors' Report

The Directors present their Annual Report, together with the audited financial statements for the year ended 31 December 2008.

## Principal Group Activities

The principal activities of the Group are copper mining (including exploration and development), the transportation of freight by rail and road and the distribution of water. These activities are mainly based in Chile.

The Company's principal activity is to act as a holding company. Group operations are carried out through subsidiaries, associates and joint ventures. The principal subsidiaries, associates and joint ventures that make up the Group are set out in Notes 16 to 18 to the financial statements. One subsidiary, the Antofagasta Railway Company plc, has a branch in Chile (known as the FCAB) which provides rail freight services.

## Business Review

The Company is required by section 417 of the Companies Act 2006 to provide a business review in this Report. The requirements of the business review are fulfilled in the disclosures contained within the Chairman's Statement on page 5 to 9, the Business Review (including information on expected future developments) on pages 10 to 35, the Financial Review on pages 36 to 43, the Corporate Sustainability report on pages 44 to 51 and the Corporate Governance report on pages 58 to 64. A summary of the key performance indicators considered most relevant to the Group is included within the Business Review on pages 16 and 17. A description of the principal risks and uncertainties facing the Group is included within the Business Review on pages 33 and 34. Information on environmental, employee and social and community matters is included within the Corporate Sustainability report on pages 44 to 51. Information on significant contractual and other arrangements which are essential to the business of the Group is included within this Directors' Report on pages 54 and 55.

A description of the financial risk management objectives and policies of the Group, together with the principal risks to which the Group is exposed, is contained in the Financial Review on pages 40 and 41 and in Note 25(c) to the financial statements.

Significant events since the balance sheet date requiring disclosure are set out in Note 40 to the financial statements.

All the above matters are incorporated into this report by reference.

## Value of Land

Land included within property, plant and equipment in the financial statements is mainly held at cost. It is not practicable to estimate the value of such land and mineral rights, since these principally depend on product prices over the long-term and will vary with market conditions.

Land included in investment properties relates to forestry properties which the Group maintains but does not use in any of its existing operations. The land is held for long-term real estate development and recreational potential and is held in the financial statements at cost. The fair value of such land is disclosed in Note 15 to the financial statements.

## Results and Dividends

The consolidated profit before tax has decreased from US$2,750.2 million in 2007 to US$2,609.5 million in 2008.

The Board has recommended a final dividend of US 53.6 cents (2007 – US 43.4 cents) per ordinary share, comprising an ordinary dividend of US 5.6 cents (2007 – US 5.4 cents) and a special dividend of US 48.0 cents (2007 – US 38.0 cents). An interim dividend of US 6.4 cents was paid on 9 October 2008, which comprised an ordinary dividend of US 3.4 cents (2007 – US 3.2 cents) and a special dividend of US 3.0 cents (2007 – US 3.0 cents). This gives total dividends per share proposed in relation to 2008 of US 60.0 cents (2007 – US 49.6 cents), including the special dividend. The total cost of dividends to ordinary shareholders (including special dividends) proposed in relation to 2008 will be US$591.5 million, compared with US$489.0 million in 2007.

Preference shares carry the right to a fixed cumulative dividend of 5 per cent per annum. The preference shares are classified within borrowings, and preference dividends are included within finance costs. The total cost of dividends paid on preference shares and recognised as an expense in the income statement was US$0.2 million (2007 – US$0.2 million).

Further information relating to dividends is set out in the Business Review on pages 15 and 16, and in Note 12 to the financial statements.

## Directors

The Directors who served during the year are set out on page 149. No Director has a service contract with the Company which cannot be terminated within 12 months.

Biographical details of those Directors seeking re-election are set out below. The reasons why the Board considers that these Directors should be re-elected are set out in the Corporate Governance statement on pages 58 to 62 and in particular in the sections headed "Performance Evaluation" and "Re-election".

*Mr. C H Bailey* was appointed a Non-Executive Director in 1987 and is the Senior Independent Non-Executive Director. Mr. Bailey is a Chartered Accountant, and a director of General Oriental Investment Limited and RIT Capital Partners plc. Mr. Bailey will be aged 75 at the date of the Annual General Meeting.

*Mr. R F Jara* was appointed a Non-Executive Director in 2003. He is a lawyer and a director of Empresa Nacional del Petróleo. He is vice-president of the Sociedad Nacional de Minería (Sonami), an organisation which represents a number of mining companies in Chile. He is chairman of the Fundación Minera Los Pelambres and a director of Fundación Andrónico Luksic A. and Fundación Pascual Baburizza, all of which are charitable foundations in Chile. Mr. Jara will be aged 56 at the date of the Annual General Meeting.

*Mr. G S Menéndez* was appointed a Non-Executive Director in 1985. He holds a degree in business administration and is a public accountant from the Universidad de Chile. He is a director of Quiñenco S.A., Banco de Chile, Teléfonica del Sur S.A. and is chairman of the board of directors of Banco Latinoamericano de Exportaciones (BLADEX). He is also the vice-chairman of Fundación Andrónico Luksic A. and Fundación Pascual Baburizza, both of which are charitable foundations in Chile. Mr. Menéndez is aged 60.

Biographical details of the other Directors are given below:

*Mr. J-P Luksic* is Executive Chairman. He was appointed a Director in 1990 and Deputy Chairman in 2000. He holds a B.Sc. degree in management and science from the London School of Economics. He was also Chief Executive Officer of Antofagasta Minerals S.A. until his appointment as Chairman of the Group in 2004. He is a non-executive director of Quiñenco S.A. and Madeco S.A. He is vice-chairman of the Consejo Minero, the industry body representing the largest international mining companies operating in Chile. Mr. J-P Luksic will be aged 45 at the date of the Annual General Meeting.

*Mr. G A Luksic* was appointed a Non-Executive Director in 2005. Mr. Luksic is a director of Banco de Chile and chairman of Quiñenco S.A., Compañía Cervecerías Unidas S.A., Teléfonica del Sur S.A. and Madeco S.A. Mr. G A Luksic is aged 53.

*Mr. J G Claro* was appointed as a Non-Executive Director in 2005. He is currently chairman of Embotelladora Andina S.A. He is a Director of several other companies in Chile, including Entel S.A., Empresas CMPC S.A., Red Televisiva Chilevisíon S.A. and Empresas Lafarge Chile S.A. He is also a member of the governing boards of Universidad Adolfo Ibáñez and Centro de Estudios Públicos, a non-profit academic foundation in Chile. He is a former Chairman of the Sociedad de Fomento Fabril (Chilean Society of Industrialists), the Confederación de la Producción y del Comercio (Confederation of Chilean Business) and the Consejo Binacional de Negocios Chile-China (Council for Bilateral Business Chile-China). Mr. Claro is aged 58.

*Mr. J W Ambrus* was appointed a Non-Executive Director in 2005. Mr. Ambrus is an internationally renowned geologist with over 38 years experience in exploration and development of mineral resources, evaluation of mining projects, strategic planning and mining business assessment. He obtained a PhD in geological sciences from the University of Salamanca in Spain. He is a director of Apoquindo Minerals Inc. Mr. Ambrus is aged 65.

*Mr. D E Yarur* was appointed a Non-Executive Director in 2004. Mr. Yarur is a director of several Chilean companies including Banco de Crédito e Inversiones S.A., Sociedad Química y Minera de Chile S.A. and Invertec Pesquera Mar de Chiloé. He holds an M.Sc. degree in Finance from the London School of Economics and completed the Advanced Management Program at Harvard Business School. He is a qualified accountant, and a former Chairman of the Chilean Securities and Exchange Commission. Mr. D E Yarur is aged 53.

*Mr. W M Hayes* was appointed a Non-Executive Director in 2006. He is a director of Royal Gold Inc. He was previously a senior executive with Placer Dome Inc. from 1988 to 2006. Mr. Hayes is a former president of the Consejo Minero, the industry body representing the largest international mining companies operating in Chile. He holds a M.A. degree in International Management from the American Graduate School of International Management. Mr. Hayes is aged 64.

## Directors' Interests

The interests of the persons (including the interests of their families) who were Directors at the end of the year, in the preference and ordinary share capital of the Company are shown on page 66.

## Directors' Indemnities and Insurance

In accordance with the Company's Articles of Association and to the extent permitted by the laws of England and Wales, Directors are granted an indemnity from the Company in respect of liabilities incurred as a result of their office. In respect of those matters for which the Directors may or may not be indemnified, the Company maintained a Directors' and Officers' liability insurance policy throughout the financial year. This policy has been renewed for the next financial year. Neither the Company's indemnity nor the insurance provides cover in the event that the Director is proven to have acted dishonestly or fraudulently.

## Conflicts of Interest

The Companies Act 2006 has introduced a statutory requirement, effective from 1 October 2008, that a Director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the Company's interests. The Company has undertaken a process to identify, and, where appropriate, authorise and manage potential or actual conflicts. The Directors of the Company have identified all interests which may constitute conflicts, including for example, directorships in other companies. The Board has considered the potential or actual conflict situations of each of the Directors and decided in relation to each situation whether to authorise it and the steps, if any, that need to be taken to manage it. The authorisation process is not regarded as a substitute for managing an actual conflict of interest if one arises. The monitoring and, if appropriate, authorisation of actual and potential conflicts of interest is an on-going process. Directors are required to notify the Company of any material changes in those positions or situations that have already been considered, as well as to notify the Company of any other new positions or situations that may arise. In addition to considering any new situations as they arise, the Board will consider the conflict position of all Directors formally each year.

## Significant Relationships

The Group has a number of significant contractual or other arrangements which are essential to its operations and projects:

- the Group holds a number of mining and exploration rights in Chile and other countries in which it has exploration or development activities, normally granted by the relevant national government;
- a significant proportion of the Group's copper and molybdenum concentrate sales are made under long-term framework agreements with a number of customers. These framework contracts will typically set out the minimum annual volumes to be supplied, with the tolling charges determined annually and the pricing of contained material to be in accordance with market prices. A significant proportion of the Group's copper cathode sales are made under annual contracts with a number of customers. These contracts will typically specify the volumes to be supplied, with the pricing to be in accordance with market prices. Further details of such arrangements are given in Note 25(d) to the financial statements;

- there are collective labour agreements with each of the labour unions at the Group's operations. These agreements are typically of between three and four years' duration;
- the Group has contracts with a number of suppliers to sub-contract certain services at each of its mine sites, including vehicle and equipment maintenance and other logistical services. In addition, the Group has a number of medium and long-term contracts for the supply of key inputs such as electricity, sulphuric acid, oil and explosives with a number of suppliers;
- the Group has a number of engineering, construction and supply contracts in respect of the development of the Esperanza project, including an Engineering, Procurement and Construction Management (EPCM) contract with Aker Solutions;
- the contract for the feasibility study at the Reko Diq project has been assigned to SNC Lavanin;
- foreign investment agreements with the Chilean government (known as DL 600 agreements) are in place in respect of Los Pelambres and Esperanza. These agreements provide a stable legal, and in some cases tax, framework for a specified period of time, ensuring non-discriminatory and non-discretionary treatment for foreign investors;
- in 2003 the Group was awarded a 30-year concession to operate the water rights and facilities in the Antofagasta Region of Chile, supplying domestic and industrial users. The domestic tariffs are controlled by the Chilean Water Regulator. Further details are given in Note 36 to the financial statements;
- the transport division has long-term contracts with a number of customers, which typically govern volumes and pricing structures; and
- the Group has shareholder agreements in place governing its relationship with its partners at its operations and development and exploration projects. The Group also has a number of "earn-in" agreements in respect of exploration projects.

## Capital Structure

Details of the authorised and issued ordinary share capital, including details of any movements in the issued share capital during the year, are shown in Note 29 to the financial statements. The Company has one class of ordinary shares, which carry no right to fixed income. Each ordinary share carries one vote at any general meeting of the Company. Details of the preference share capital are shown in Note 23 to the financial statements. The preference shares are non-redeemable and are entitled to a fixed cumulative dividend of 5% per annum. Each preference share carries 100 votes on a poll at any general meeting of the Company. The nominal value of the issued ordinary share capital is 96.1% of the total sterling nominal value of all issued share capital, and the nominal value of the issued preference share capital is 3.9% of the total sterling nominal value of all issued share capital.

There are no specific restrictions on the transfer of shares or on their voting rights beyond those standard provisions set out in the Company's Articles of Association and other provisions of applicable law and regulation (including, in particular, following a failure to provide the Company with information about interests in shares as required by the Companies Act 2006). The Company is not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights. Details of significant holdings in the Company's shares are set out in the Substantial Shareholdings section below.

The Company has the authority to purchase up to 98,585,669 of its own ordinary shares, representing 10 per cent of the issued ordinary share capital. With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the Combined Code 2006, the Companies Act 1985, the Companies Act 2006 and related legislation. The Articles of Association may be amended by special resolution of the shareholders.

There are no significant agreements in place which take effect, alter or terminate upon a change of control of the Company. There are no agreements in place between the Company and its Directors or employees which provide for compensation for loss of office resulting from a change of control of the Company.

## Donations

The Group made charitable donations of US$11.3 million during the year ended 31 December 2008 (2007 – US$4.0 million). This includes US$108,655 (2007 – US$127,655) of charitable donations in the United Kingdom, principally related to educational studies with a focus on Chile.

The Group made political donations of US$1,037,385 during the year ended 31 December 2008 (2007 – nil), in relation to Chilean municipal elections. These donations were made in accordance with the Chilean legislation which governs the financing of political parties and candidates in order to facilitate the democratic process of the country. The donations were made via the Chilean Electoral Management Body, which transfers funds to political parties and candidates.

## Supplier Payment Policy and Creditor Days

The Company acts as a holding company and does not trade in the United Kingdom or elsewhere. Creditor days for the Group have been calculated at 39 days (2007 – 33 days). Each operating company is responsible for agreeing terms of payment with each of their suppliers. It is Group policy that payments to suppliers are made in accordance with terms agreed.

## Environment

The Group seeks to ensure that its operations and products cause minimal harm to the environment. Care is taken to limit discharges of environmentally harmful substances and to dispose of waste material in a safe manner. Contingency arrangements and plans exist to reduce the risk and limit the effect of any accidental spillage. The Group's policy is that all its operations should comply fully with or exceed applicable Chilean regulations. Further information regarding the Group's environmental performance and activities is given in the Corporate Sustainability report on pages 44 to 51.

## Auditors

In the case of each of the persons who is a Director at the date of approval of this Annual Report:

- so far as he is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- he has taken all steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

For these purposes, "relevant audit information" means information needed by the Company's auditors in connection with preparing their report.

This statement is made and should be interpreted in accordance with the provisions of section 234ZA of the Companies Act 1985.

## Substantial Shareholdings

As at the date of this report, the following holdings of voting rights exceeding the 3% notification threshold had been disclosed to the Company under Disclosure and Transparency Rule 5:

| | Ordinary share capital % | Preference share capital % | Total share capital % |
|---|---|---|---|
| Metalinvest Establishment | 50.72 | 94.12 | 58.04 |
| Kupferberg Establishment | 9.93 | – | 8.26 |
| Aureberg Establishment | 4.26 | – | 3.54 |
| AXA S.A. | 6.01 | – | 5.00 |

Metalinvest Establishment and Kupferberg Establishment are both controlled by the E. Abaroa Foundation, in which members of the Luksic family are interested. As explained on page 129, Metalinvest Establishment is the immediate parent company of the Group and the E. Abaroa Foundation is the ultimate parent company. Aureberg Establishment is controlled by Mr. J-P Luksic, the Chairman of the Company.

A resolution to re-appoint Deloitte LLP as the Company's auditor will be proposed at the forthcoming Annual General Meeting.

## Annual General Meeting

The Annual General Meeting of the Company will be held from 10.30 a.m. on 10 June 2009 at Church House Conference Centre, Dean's Yard, Westminster, London SW1P 3NZ. The Notice of the Meeting, together with an explanation of the business to be dealt with at the Meeting, is included in a separate document sent to shareholders with this Annual Report.

By Order of the Board

For and on behalf of
Petershill Secretaries Limited
Company Secretary
9 March 2009

# Corporate Governance

## Introduction

Antofagasta plc ("Antofagasta") has an uncommon ownership structure for a company listed on the London Stock Exchange. The E. Abaroa Foundation, an entity in which members of the Luksic family are interested, controls 60.65% of the ordinary share capital and 94.12% of the preference share capital of the Company through two investment vehicles, Metalinvest Establishment and Kupferberg Establishment. Aureberg Establishment, which is controlled by Antofagasta's Chairman, Mr. J-P Luksic, holds 4.26% of the ordinary share capital of the Company. Although incorporated in the United Kingdom and listed on the London Stock Exchange, the Group's businesses, which comprise mining, transport and water distribution, are principally located in Chile, the largest copper-producing country in the world.

Antofagasta's Board is committed to managing the operations of the Group with a view to maximising value for all shareholders. The Board currently has nine members, comprising an Executive Chairman and eight Non-Executive Directors. Two of the nine Directors (including the Chairman) are members of the Luksic family. Seven of the Directors, including the Chairman, are based in Chile, where the Group's operations are principally located; one Director is based in the United Kingdom, where the Company is incorporated and listed on the London Stock Exchange; and one Director is based in the United States.

The day-to-day operations of the Group are carried on through the boards of each division of the Group, Antofagasta Minerals S.A. (mining), Antofagasta Railway Company plc (FCAB – railway and other transport services) and Aguas de Antofagasta S.A. (water distribution). Each division is headed by a chief executive officer who reports to his divisional board and the Chairman of the Group. The Antofagasta Board oversees these divisional boards and provides strategic direction.

In its consideration of Corporate Governance matters, the Board is mindful of the principles set out in the Combined Code on Corporate Governance issued by the Financial Reporting Council in June 2006 ("the Combined Code"). However, given the ownership structure and asset base of the Group, the Board believes that full adherence to the Combined Code is not practicable. Nevertheless, the Board considers that its structure and balance (as set out in more detail below under the heading "Directors") provide an appropriate basis for ensuring its effectiveness and the protection of the interests of all shareholders in the Company.

The Board describes below how it applied the corporate governance principles contained in the Combined Code during 2008. Two areas where the Company did not comply with the detailed Combined Code provisions are set out at the end of this report under the heading "Statement of Compliance with the Detailed Provisions of the Combined Code".

## Directors

### The Board

The Directors collectively have responsibility for the conduct of the Group's business. The Board, which met eight times during 2008, comprises an Executive Chairman and eight Non-Executive Directors, six of whom are considered by the Board to be independent. There is a schedule of matters specifically reserved for the Board. The Board is responsible for:

- providing leadership;
- setting the Group's strategic objectives and key policies;
- ensuring that appropriate resources are in place to enable the Group to meet its objectives;
- reviewing the Group's performance; and
- overseeing the Group's internal control systems.

The Chairman will always attempt to persuade the Board to act as a single team by obtaining consensus at Board meetings but, in exceptional circumstances, decisions will be taken by majority. The agenda for Board meetings are set by the Chairman in consultation with the other Directors.

Responsibility for developing and implementing the Group's strategic and financial objectives is delegated to the senior management of the Group. Accordingly, the boards of Antofagasta Minerals S.A. (mining), the

Antofagasta Railway Company plc (railway and other transport services) and Aguas de Antofagasta S.A. (water distribution) meet monthly to consider strategic, operational and risk management issues in more detail. There is substantial overlap between membership of the Board of Antofagasta plc and these three divisional boards. The chief executive officer of each division reports to his divisional board and to the Chairman of the Group; the Board oversees these divisional boards and provides strategic direction. The Board is also responsible for reviewing the performance of management. The Non-Executive Directors scrutinise the performance of management in meeting goals and objectives and also monitor the reporting of performance, through the activities of the Remuneration Committee and the Audit Committee.

Directors who served during 2008 are set out on page 149. There were no changes to the membership of the Board during 2008.

The recognised senior independent Non-Executive Director is Mr. C H Bailey, who is also Chairman of the Audit Committee. Mr. G S Menéndez is Chairman of the Remuneration and Nomination Committees. The Board does not have a Director formally designated as Chief Executive.

## The role of the Chairman

Mr. J-P Luksic is Chairman of the Board. His role is that of a full-time Executive Chairman, and he has no other significant commitments that prevent him from devoting sufficient time to this role. As explained above, the Group does not have a Board member who is designated as Chief Executive. Mr. Marcelo Awad is chief executive officer of Antofagasta Minerals S.A.; Mr. Miguel Sepúlveda is chief executive officer of the Antofagasta Railway Company plc; and Mr. Marco Kútulas is the chief executive officer of Aguas de Antofagasta S.A.

The Board believes that the Company is not at risk from a concentration of power by Mr. J-P Luksic having executive responsibilities as Chairman. In reaching this conclusion, it has taken into consideration the strong presence of Non-Executive Directors on the Board, the structure of the Audit, Remuneration and Nomination Committees designed to devolve away from the Chairman responsibility and control of certain key areas of Board responsibility, and the delegation of management responsibility to the chief executive officer of each division.

## Board balance and independence

The Board considers six of its eight Non-Executive Directors to be independent – Mr. C H Bailey, Mr. G S Menéndez, Mr. D E Yarur, Mr. J W Ambrus, Mr. J G Claro and Mr. W M Hayes. The Board is satisfied that this balance limits the scope for an individual or small group of individuals to dominate the Board's decision-making. The Directors' Report sets out biographical details of each Director and identifies those Directors standing for re-election on page 53.

Mr. Yarur, Mr. Claro, Mr. Ambrus and Mr. Hayes meet the independence criteria set out in Combined Code provision A.3.1 and the Board is satisfied as to their independence.

The Board is satisfied that Mr. Bailey remains independent in character and judgement, notwithstanding that he has served on the Board for more than nine years, since he does not receive any remuneration from the Company other than Non-Executive Directors' fees, nor does he have any other relationships with the Company or its majority shareholder. The Board is also satisfied that Mr. Menéndez remains independent in character and judgement, notwithstanding that he has also served on the Board for more than nine years and notwithstanding that he is a non-executive director of Quiñenco S.A. (a Chilean-listed company also controlled by the Luksic family) and some of its subsidiaries, including Banco de Chile and Telefónica del Sur S.A. This is because he does not receive any remuneration from the Group other than in a non-executive capacity. His position in the Quiñenco group is also solely as a non-executive director. The Board considers that Mr. Bailey's and Mr. Menéndez's length of service is of considerable benefit to the Board given their wealth of knowledge and experience of the Group and of Latin America and of the mining industry, and therefore proposes both for re-election.

Mr. Ambrus was appointed a Non-Executive Director of Antofagasta plc in 2005, and consequently has served as a Director of the Company for three years. He was appointed a non-executive director of Antofagasta Minerals S.A., a subsidiary of Antofagasta plc, in 1997, and has consequently served as a director of that company for eleven years. While this is not a circumstance listed in Combined Code provision A.3.1 as relevant to determining a director's independence (unlike the length of service as a Director of the listed Company), the Board has nevertheless considered this factor and remains satisfied that Mr. Ambrus remains independent in character and judgement as he does not receive any remuneration from the Company other than in a non-executive capacity and does not have any material business relationship with the company. Details of fees paid by the Group to Ingeniería y Servicios Computacionales Geovectra S.A., a company controlled by Mr. Ambrus, are disclosed in Note 38 to the financial statements. The Board has also considered these amounts and does not consider them material either to Mr. Ambrus or the Group.

The Board does not consider Mr. R F Jara or Mr. G A Luksic to be independent. Mr. R F Jara provides advisory services to the Group, as explained in the Remuneration Report on page 66. Mr. G A Luksic is the brother of Mr. J-P Luksic, the Chairman of Antofagasta plc. Mr. G A Luksic is chairman of Quiñenco S.A. and Madeco S.A., and a director of Quiñenco's other listed subsidiaries. Mr. J-P Luksic and Mr. G S Menéndez are also Non-Executive Directors of Quiñenco and some of its listed subsidiaries. Like Antofagasta, Quiñenco is also controlled by the Luksic family.

A committee of Independent Directors was formed during the year, in order to review and approve the transaction whereby the Group acquired a 100% interest in certain mining properties previously owned 51% by the Group and 49% by Mineralinvest Establishment, an entity ultimately controlled by the Luksic family. Further information relating to this transaction is given in Notes 32 and 38 to the financial statements. The members of this committee were Mr. C H Bailey, Mr. J W Ambrus and Mr. W M Hayes, and the committee met three times during the year. Antofagasta was advised in this transaction by Rothschild and Clifford Chance LLP.

## Appointments to the Board

The Nomination Committee currently comprises Mr. G S Menéndez (Chairman), Mr. C H Bailey and Mr. R F Jara.

As explained above, Mr. C H Bailey and Mr. G S Menéndez are considered by the Board to be independent Non-Executive Directors.

The Nomination Committee periodically reviews the composition of the Board including the balance between Executive and Non-Executive Directors and considers succession planning for both Executive and Non-Executive Directors and the Group's senior management. It is also responsible for the process for new Board appointments and makes recommendations to the Board on the appointment of new Directors and is responsible for ensuring that appointments are made on merit and against objective criteria. In fulfilling these responsibilities, the Nomination Committee consults the Chairman, Mr. J-P Luksic. The Nomination Committee meets as necessary and, in any case, at least once a year. Its terms of reference are available from the Company's registered office and may be viewed on the Company's website – www.antofagasta.co.uk.

In making appointments to the Board, the Nomination Committee considers the skills, experience and knowledge of the existing Directors and assesses which of the potential candidates would most benefit the Board. It considers the potential candidate's knowledge and experience of Chile, the mining industry in Latin America, capital markets and the regulatory environment, and that they have sufficient time to devote to the role. The Chairman ensures that any new Directors are provided with a full induction on joining the Board.

All Non-Executive Directors have letters of appointment with the Company, for an initial period of three years from the date of their appointment, subject to reappointment at the Annual General Meeting. These letters require the Non-Executive Directors to undertake that they will have sufficient time to discharge their responsibilities. The letters of appointment are available for inspection at the Company's registered office during normal business hours and at the Annual General Meeting (for 15 minutes prior to and during the meeting).

## Information and professional development

The Directors receive information for review ahead of each Board or Committee Meeting. In addition, they receive regular reports and forecasts for the Group and each significant operation to ensure that they remain properly briefed about the performance and financial position of the Group throughout the year. All Directors have access to management and to such further information as is needed to carry out their duties and responsibilities fully and effectively. Furthermore, all Directors are entitled to seek independent professional advice concerning the affairs of the Group at the Company's expense.

The Company also provides Directors with the necessary resources to develop and update their knowledge and capabilities. In particular, the Directors are regularly updated on the Group's business, the competitive and regulatory environment in which it operates and other changes affecting the Group as a whole. The Directors based outside Chile visit the country regularly and at least once a year, and the Directors based outside the United Kingdom also regularly visit this country, again normally at least once a year.

Group management in the United Kingdom and Chile is responsible for ensuring that Board procedures and applicable rules and regulations are complied with and for advising the Board, through the Chairman, on all governance matters. Company secretarial advice is provided by Petershill Secretaries Limited.

## Performance evaluation

The Board periodically considers its performance and effectiveness. A performance evaluation of the Board, its committees and its individual members was conducted during 2008 by Mr. G S Menéndez, with the assistance of senior management. Mr. C H Bailey, as the senior independent Non-Executive Director was responsible for the evaluation of the Chairman. The results were discussed with the Chairman and considered by the Board and were taken into account in the decision to recommend re-election of the retiring Directors at the forthcoming Annual General Meeting during 2009. The Board is satisfied that each Director continues to contribute effectively and to demonstrate commitment to his role.

## Directors' attendance at meetings in 2008

The number of Board and Committee meetings held during 2008, together with details of each Director's attendance, is set out below:

| | Board | | Audit Committee | | Nomination Committee | | Remuneration Committee | | Independent Committee | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Number attended | Maximum possible | Number attended | Maximum possible | Number attended | Maximum possible | Number attended | Maximum possible | Number attended | Maximum possible |
| J-P Luksic | 7 | 8 | – | – | – | – | – | – | – | – |
| C H Bailey | 7 | 8 | 3 | 3 | 1 | 1 | 2 | 2 | 3 | 3 |
| G S Menéndez | 8 | 8 | 3 | 3 | 1 | 1 | 2 | 2 | – | – |
| R F Jara | 7 | 8 | – | – | – | 1 | – | – | – | – |
| D E Yarur[1] | 4 | 8 | 1 | 3 | – | – | 1 | 2 | – | – |
| G A Luksic | 4 | 8 | – | – | – | – | – | – | – | – |
| J W Ambrus | 8 | 8 | – | – | – | – | – | – | 3 | 3 |
| J G Claro | 6 | 8 | – | – | – | – | – | – | – | – |
| W M Hayes | 8 | 8 | – | – | – | – | – | – | 3 | 3 |

[1] All Directors in office at the time of the Annual General Meeting in June 2008 attended that meeting with the exception of Mr. D E Yarur, who was unable to attend due to flight disruptions.

Each Director withdrew from any meeting when his own position was being considered.

The Independent Committee is described above on page 60.

CORPORATE GOVERNANCE

# Corporate Governance continued

### Re-election

Each Director is elected by shareholders at the Annual General Meeting following his first appointment. The Company's Articles of Association provide that not less than one-third of the Directors must retire by rotation each year and that each Director is re-elected at least once every three years. Non-Executive Directors who have served for more than nine years are subject to annual re-election in accordance with provision A.7.2 of the Combined Code.

The Directors retiring and standing for re-election at this year's Annual General Meeting are Mr. C H Bailey, Mr. R F Jara and Mr G S Menéndez. Biographical details of these Directors are set out in the Directors' Report on page 53.

The Chairman confirms that the Board is satisfied that each of the Directors proposed for re-election continues to be effective and continues to demonstrate commitment to his role.

## Remuneration

The membership of the Remuneration Committee, a statement of the Company's policy on remuneration, and the remuneration details and shareholding interests of each Director are contained in the Remuneration Report on pages 65 to 68.

## Accountability and Audit

### Internal control

The Board has applied principle C.2 of the Combined Code by establishing a continuous process for identifying, evaluating and managing the significant risks the Group faces. The Board regularly reviews the process, which has been in place from the start of the 2008 financial year to the date of approval of this report and which is in accordance with revised guidance on internal control published in October 2005 ("the Turnbull Guidance"). The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

In compliance with Provision C.2.1 of the Combined Code, the Board regularly reviews the effectiveness of the Group's system of internal control. The Board's monitoring covers all controls, including financial, operational and compliance controls and risk management. It is based principally on reviewing reports from management to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied and indicate a need for more extensive monitoring. The Board has also performed a specific assessment for the purpose of this Annual Report. This assessment considers all significant aspects of internal control arising during the period covered by the report including the work of internal audit. The Audit Committee assists the Board in discharging its review responsibilities.

During the course of its review of the system of internal control, the Board has not identified nor been advised of any failings or weaknesses which it has determined to be significant. Therefore a confirmation in respect of necessary actions is not required.

Further information relating to the Group's risk and management systems is given in the Corporate Sustainability report on pages 44 to 51.

### Going concern

The Board's statement on going concern is included in the Financial Review on page 43.

### Corporate sustainability

The Board takes into account the community, social, environmental and ethical impact of its decisions and is responsible for the relevant policies of the Group. A Corporate Sustainability committee was formed during 2008, comprising Mr. J-P Luksic, Mr. G S Menéndez and Mr. R F Jara. It is intended that the committee will start to meet during 2009. The committee's purpose is to assist the Board in its responsibilities with respect to the Group's social responsibility. Key issues of social responsibility are identified and assessed through the Group's risk management processes described under "Internal Control" above. During 2008 the Group also published a separate Sustainability Report in respect of 2007 to provide further information on its social and environmental performance. More information on corporate sustainability is given on pages 44 to 51.

### "Whistleblowing" procedures

The Audit Committee, whose other functions are described below, is responsible for reviewing arrangements by which employees of the Group may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. An Ethics Code is in place across the Group, which includes a procedure to enable employees to raise concerns, anonymously if necessary. An Ethics Committee, comprising members of senior management, is responsible for implementing, developing and updating the Ethics Code and investigating any allegations of impropriety. The Ethics Committee reports directly to the Chief Executive of Antofagasta Minerals S.A. The Audit Committee considers the results of this work and the operation of the Ethics Code as part of its annual review of the effectiveness of internal control.

### Audit Committee and Auditors

The Audit Committee currently comprises Mr. C H Bailey (Chairman), Mr. G S Menéndez and Mr. D E Yarur, all of whom are considered by the Board to be independent Non-Executive Directors. All three members are considered to have recent and relevant financial experience.

The Audit Committee meets at least twice a year with the external auditors in attendance. The Audit Committee's purpose is to assist the Board in meeting its responsibilities relating to financial reporting and control matters. In particular, it reviews the scope and nature of the audit and issues arising from it and is responsible for ensuring the independence of the external auditors (including their objectivity and effectiveness), monitoring the provision of any non-audit services and for making recommendations to the Board for the appointment, reappointment or removal of the external auditors. It reviews the internal control and risk assessment procedures adopted by the Group described in the section under the heading "Internal Controls" above, including a review of the effectiveness of the internal audit function. It also monitors the integrity of the financial statements and Directors' statements on internal controls and reviews the going concern basis prior to its endorsement by the Board. The Committee also reviews the preliminary announcement, the interim report and any other public reports relating to the Group's financial performance. The terms of reference of the Audit Committee are available from the Company's registered office and may be viewed on the Company's website – www.antofagasta.co.uk.

The Audit Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employees and all employees are directed to co-operate with any request made by the Audit Committee.

The Company's external auditors, Deloitte LLP, have provided non-audit services to the Company, which amounted to US$225,000. This comprised the provision of services relating to the preparation for the adoption of IFRS by the Group's Chilean subsidiaries, tax compliance and other consultancy services.

The Audit Committee has reviewed the level of these services in the course of the year and is confident that the objectivity and independence of the auditors are not impaired by reason of such non-audit work. The Audit Committee has also considered the effectiveness of the external audit function through the year through meetings with Deloitte LLP, a review of their audit plan and a consideration of the results of work performed by the external auditors prior to release of the interim and full year results.

## Relations with Shareholders

Directors and senior management regularly meet with institutional shareholders and analysts in the United Kingdom, Europe, Chile and the United States. The senior independent Non-Executive Director, Mr. C H Bailey, also attends meetings with major shareholders when required. Other Non-Executive Directors are given the opportunity to meet with major shareholders and attend meetings if requested to do so by shareholders. These meetings ensure that the Board is able to develop and maintain an understanding of the views of several of the Company's major investors.

The Company carries out a formal programme of presentations to update institutional shareholders and analysts on developments in the Group after the announcement of the half year and full year results. In addition, quarterly production figures and financial results are published for the mining, transport and water divisions. Copies of these results and production announcements, presentations and other press releases issued by the Company are available on its website. As noted above, during the year the Group also published a separate Sustainability Report in respect of 2007 to provide further information on its social and environmental performance.

The Company's Annual General Meeting ("AGM") is also used as an opportunity to communicate with both institutional and private shareholders; the Board of Directors encourages all shareholders to attend. The notice of the AGM is sent to shareholders at least 20 working days in advance of the meeting. At the meeting, the Company complies with the Combined Code as it relates to voting, including votes withheld, the separation of the resolutions and the attendance of committee chairmen.

## Statement of Compliance with the Detailed Provisions of the Combined Code

As explained above, the Company complied with the detailed code provisions contained in the Combined Code throughout 2008 and to the date of this report except as follows:

- the Board does not have a separately identified Chief Executive and hence at Board level there is no formal separation of the functions of Chairman and Chief Executive (provision A.2.1). As explained above, the Group has separate chief executives for its mining, transport and water distribution divisions who report to their respective divisional boards and to the Chairman of the Group. The Board considers that its predominantly non-executive composition combined with the delegation of management responsibility to the chief executive officer of each division achieves an appropriate balance and prevents a concentration of power in its Executive Chairman; and
- performance related pay measures did not apply to Board members (provision B.1.1). The Board considers this appropriate given its predominantly Non-Executive composition and the role of the only Executive Director, who is a member of the controlling family, as Chairman of the Board. Performance related bonuses are paid to senior management in the Group based on a combination of personal, divisional and Group performance assessed against targets set at the start of each year.

# Remuneration Report

This report has been prepared in accordance with Schedule 7A of the Companies Act 1985. It also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the principles of good governance as set out in the Combined Code on Corporate Governance issued by the Financial Reporting Council in June 2006 ("the Combined Code") relating to Directors' remuneration.

During the year under review, the Company complied with the detailed code provisions set out in Section B of the Combined Code except, as explained on page 64, performance related pay measures did not apply to the Chairman, who was the only Executive Director (provision B.1.1).

The Companies Act 1985 requires the auditors to report to the Company's members on certain parts of this report and to state whether in their opinion those parts have been properly prepared in accordance with the Companies Act 1985. The report has therefore been divided into separate sections for unaudited and audited information.

## Unaudited Information

### Remuneration Committee

#### Membership

The Remuneration Committee currently comprises Mr. G S Menendez (Chairman), Mr. C H Bailey and Mr. D E Yarur, all of whom are considered by the Board to be independent Non-Executive Directors.

#### Responsibilities

The responsibilities of the Remuneration Committee are fully set out in its Terms of Reference which are available from the Company's registered office and may be viewed on the Company's website – www.antofagasta.co.uk. The Committee is responsible for setting remuneration policy and for reviewing the remuneration of any Executive Directors and, where appropriate, it consults the Chairman, Mr. J-P Luksic. The Committee used benchmarking data from various sources, but did not appoint external consultants to advise on Directors' remuneration during the year. The Remuneration Committee is also responsible for monitoring the level and structure of remuneration of Group senior management and evaluating management performance.

The remuneration of Non-Executive Directors is determined by the Board as a whole. No Director participates in the determination of his own remuneration.

### Company policy on Directors' pay and bonuses

The Company's policy is to ensure that Directors are fairly rewarded with regard to responsibilities undertaken, and considers comparable pay levels in the United Kingdom, in Chile, and in the international mining industry. Corporate and individual performance is taken into account in setting the pay level for the Chairman as an Executive Director, and this is reviewed on an annual basis to ensure it remains in line with companies of a similar nature, size and complexity. Remuneration levels for Non-Executive Directors are based on comparable levels for companies of a similar nature, size and complexity, and take into account specific responsibilities undertaken. Remuneration includes fees paid for non-executive directorships of subsidiary companies and joint ventures within the Group.

The Board does not consider it appropriate to make regular performance-related pay awards such as bonuses to the only Executive Director, Mr. J-P Luksic, given his role as Chairman of the Board and his interest in the Company's shares both directly and as a member of the Luksic family.

The Group has paid Mr. R F Jara for advisory services to the Group. The Board has taken these payments into account in determining his fees as a Non-Executive Director.

No Director currently receives pension contributions.

## Non-Executive Directors' fees

The fees payable to Non-Executive Directors were as follows:

| | 2008 US$000 | 2007 US$000 |
|---|---|---|
| Base fee | 100 | 100 |
| Audit committee chairman | 20 | 20 |
| Audit committee member | 10 | 10 |
| Remuneration committee chairman | 16 | 16 |
| Remuneration committee member | 10 | 10 |
| Nomination committee chairman | 10 | 10 |
| Nomination committee member | 4 | 4 |

These fees were redenominated into US dollars during 2008 in order to reflect the international nature of the Group's operations and the location of the majority of its Directors. Prior to this, fees paid were denominated in sterling. For the purposes of the table above, the amounts for 2008 represent the US dollar fees in place following the redenomination and the amounts for 2007 represent the sterling fees translated into US dollars at the average exchange rate for that year.

Fee levels will be unchanged for 2009.

In addition to the above amounts, Non-Executive Directors also receive fees in their capacity as Non-Executive Directors of the principal operating subsidiary companies and joint ventures within the Group. These additional fees are included within the amounts attributable to the Non-Executive Directors within the table of Directors' remuneration on page 68.

## Service contracts and letters of appointment

Mr. J-P Luksic has a contract for services with both the Antofagasta Railway Company plc and Antofagasta Minerals S.A. Both contracts for services can be terminated by either party on one month's notice. The contract with Antofagasta Minerals S.A. replaced a previous contract with Minera El Tesoro with effect from 1 April 2008 at the same monthly rate. No additional amounts were paid to Mr. Luksic on the termination of the contract with Minera El Tesoro. There is also a contract between Antofagasta Minerals S.A. and Asesorías Ramón F Jara Ltda for the provision of advisory services by Mr. R F Jara which can also be terminated on one month's notice. The amounts payable under these contracts for services are adjusted in line with Chilean inflation, and are also reviewed periodically in line with the Company's policy on Directors' pay. Amounts paid during 2007 and 2008 have been included in the table of Directors' remuneration on page 68.

All Non-Executive Directors have letters of appointment with the Company, for an initial period of three years from the date of their appointment, subject to reappointment at the Annual General Meeting ("AGM"). These letters require the Non-Executive Directors to undertake that they will have sufficient time to discharge their responsibilities. The appointments may be terminated by either party on one month's notice. The letters of appointment are available for inspection at the Company's registered office during normal business hours and at the AGM (for 15 minutes prior to and during the meeting).

The service contracts and letters of appointment do not provide for any compensation for loss of office beyond payments in lieu of notice, and therefore the maximum amount payable upon termination of these contracts is limited to one month's payment.

## Share options and long-term incentive schemes

No arrangements exist to enable Directors to acquire benefits through the acquisition of shares in the Company or any of its subsidiary undertakings, to benefit through profit-related pay or share option schemes or to participate in any long-term incentive schemes.

## Directors' interests

The Directors' interests in the shares of the Company at the beginning and end of the year were as follows:

| | Ordinary shares of 5p each 31 December 2008 | 1 January 2008 |
|---|---|---|
| J-P Luksic[1] | 41,963,110 | 41,963,110 |
| C H Bailey | 32,000 | 32,000 |

(1) Mr. J-P Luksic's interest relates to shares held by Aureberg Establishment, an entity which he controls.

The Directors had no interests in the shares of the Company during the year other than the interests in the table set out above. No Director had any material interest in any other contract with the Company or its subsidiary undertakings during the year other than in the ordinary course of business.

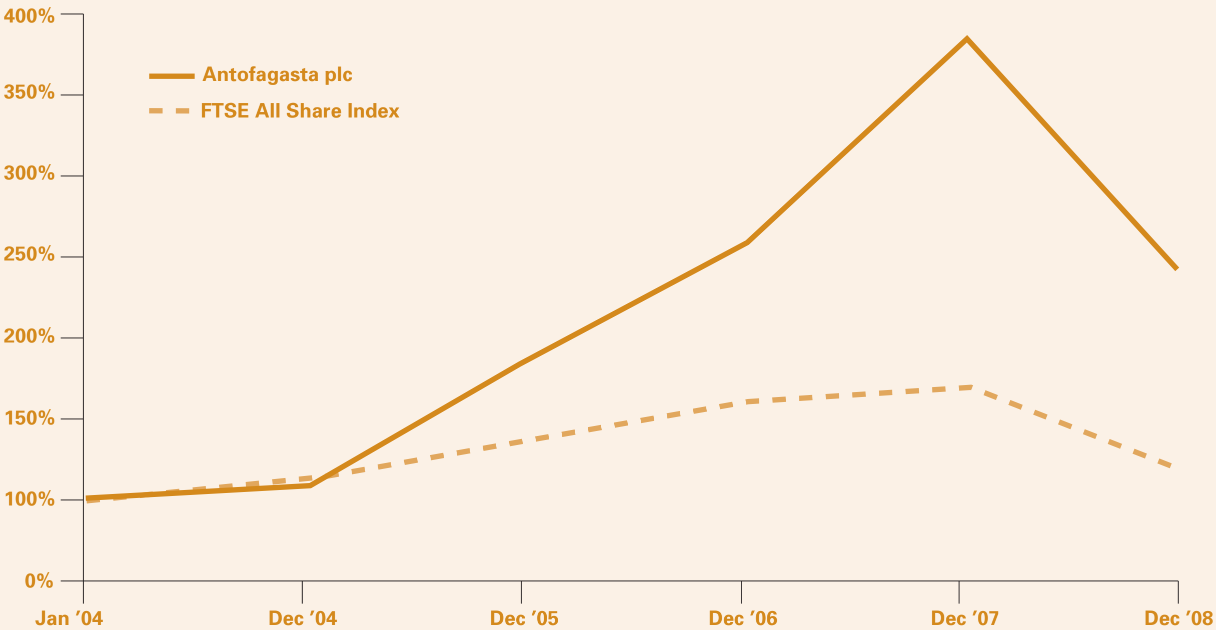
No changes took place in the interests of the Directors between 31 December 2008 and the date of this report.

## Performance graph

The following graph shows the Company's performance compared to the performance of the FTSE All Share Index over a five-year period, measured by total shareholder return (as defined below). The FTSE All Share Index has been selected as an appropriate benchmark as it is the most broadly based index to which the Company belongs and which relates to the London Stock Exchange, the market where the Company's ordinary shares are traded.

Total shareholder return is calculated to show a theoretical growth in the value of a shareholding over a specified period, assuming that dividends are reinvested to purchase additional shares at the closing price applicable on the ex-dividend date. Total shareholder return for the FTSE All-Share Index is calculated by aggregating the returns of all individual constituents of the FTSE at the end of the five-year period.

## Total Shareholder Return* – Antofagasta plc vs FTSE All Share Index




* Total Shareholder Return represents share price growth plus dividends reinvested over the period
Total Return Basis Index – 1 January 2004 = 100
Source: Datastream

REMUNERATION REPORT

# Remuneration Report continued

## Audited Information

### Directors' remuneration

The remuneration of the Directors in the year is set out below in US dollars. Amounts paid in sterling and Chilean pesos have been translated at average rates for the relevant year, which are set out in Note 37 to the financial statements. As explained above, during 2008 the Directors' fees paid by Antofagasta plc were redenominated from sterling into US dollars. Increases over 2007 result mainly from inflation-linked increases in respect of the amounts paid to Mr. J-P Luksic and Mr. R F Jara under their service contracts, and fees paid to Directors for additional services as directors of subsidiary companies and joint ventures of the Group.

| | Base salary and fees | | Benefits | | Total remuneration | |
|---|---|---|---|---|---|---|
| | 2008 US$000 | 2007 US$000 | 2008 US$000 | 2007 US$000 | 2008 US$000 | 2007 US$000 |
| Executive Chairman | | | | | | |
| J-P Luksic(1) | 3,154 | 2,900 | 77 | 82 | 3,231 | 2,982 |
| Non-Executive Directors | | | | | | |
| C H Bailey | 131 | 134 | – | – | 131 | 134 |
| G S Menéndez | 327 | 278 | – | – | 327 | 278 |
| R F Jara(2) | 767 | 683 | – | – | 767 | 683 |
| D E Yarur | 142 | 138 | – | – | 142 | 138 |
| G A Luksic | 122 | 116 | – | – | 122 | 116 |
| J W Ambrus(3) | 146 | 141 | – | – | 146 | 141 |
| J G Claro | 134 | 122 | – | – | 134 | 122 |
| W M Hayes | 150 | 124 | – | – | 150 | 124 |
| | 5,073 | 4,636 | 77 | 82 | 5,150 | 4,718 |

(1) During 2008, remuneration of US$981,000 (2007 – US$1,000,000) for the provision of services by Mr. J-P Luksic was paid to Goldstream Finance Limited. This amount is included in the amounts attributable to Mr. Luksic of US$3,154,000 (2007 – US$2,900,000). The benefits expense represents the provision of car usage to Mr. J-P Luksic.

(2) During 2008, remuneration of US$467,000 (2007 – US$434,000) for the provision of services by Mr. R F Jara was paid to Asesorías Ramón F Jara Ltda (formerly Asesorías Ramón F Jara EIRL). This amount is included in the amounts attributable to Mr. Jara of US$767,000 (2007 – US$683,000).

(3) Details of fees paid to Ingeniería y Servicios Computacionales Geovectra S.A. ("Geovectra"), a company controlled by Mr. J W Ambrus, are disclosed in Note 38 to the financial statements. These payments were on normal arm's length commercial terms for services performed by employees of Geovectra, and hence have not been included in Mr. Ambrus' fees as a Director in the table above.

(4) Mr. P J Adeane retired from the Board in 2006. Following retirement, Mr. Adeane has continued to serve the Board as a Senior Advisor under a contract for services at the rate of £10,000 per annum. This contract can be terminated on one month's notice. Mr. Adeane was paid £10,000 (approximately US$18,400) under this contract for services during 2008 (2007 – £10,000; approximately US$20,000).

Approved on behalf of the Board

G S Menéndez
Chairman of the Remuneration Committee
9 March 2009

# Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements. The Directors are required to prepare financial statements for the Group in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and have chosen to prepare Company financial statements in accordance with United Kingdom Generally Accepted Accounting Principles ("UK GAAP").

In the case of the Group's IFRS financial statements, International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's "Framework for the Preparation and Presentation of Financial Statements". In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS. Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

In the case of the Company's UK GAAP financial statements, the Directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit and loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of the Directors' Report and the Remuneration Report which comply with the requirements of the Companies Acts 1985 and 2006.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

## Directors' Responsibility Statement

We confirm to the best of our knowledge:

(a) the Group financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, and give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole;

(b) the Company financial statements have been prepared in accordance with UK GAAP, and give a true and fair view of the assets, liabilities, financial position and profit of the Company; and

(c) the Directors' Report, including those sections incorporated therein by reference, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

By order of the Board

**J-P Luksic**
Chairman
9 March 2009

**C H Bailey**
Director
9 March 2009

# Independent Auditors' Report on the Group Financial Statements to the Members of Antofagasta plc

We have audited the Group financial statements of Antofagasta plc for the year ended 31 December 2008 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of changes in equity and the related notes 1 to 41. These Group financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Remuneration Report that is described as having been audited.

We have reported separately on the Parent Company financial statements of Antofagasta plc for the year ended 31 December 2008.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report, the Remuneration Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view, whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation and whether the part of the Remuneration Report described as having been audited has been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Group financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement, the Business Review, the Financial Review, the Corporate Sustainability report and the Corporate Governance report that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding Director's remuneration and other transactions is not disclosed.

We review whether the Corporate Governance report reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited Group financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

## Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements and the part of the Remuneration

Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements and the part of the Remuneration Report to be audited.

## Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 31 December 2008 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the part of the Remuneration Report described as having been audited has been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the Group financial statements.

Deloitte LLP

**Deloitte LLP**
Chartered Accountants and Registered Auditors
London
9 March 2009

# Consolidated Income Statement

For the year ended 31 December 2008

| | Notes | 2008 US$m | 2007 US$m |
|---|---|---|---|
| Group turnover | 4,6 | 3,372.6 | 3,826.7 |
| Total operating costs (including exceptional items*) | | (1,846.6) | (1,173.3) |
| Operating profit from subsidiaries and joint ventures | 4,6 | 1,526.0 | 2,653.4 |
| Profit on part-disposal of subsidiaries (exceptional item*) | 5 | 1,024.9 | – |
| Share of income from associate | 4,6,17 | 2.3 | 1.4 |
| Total profit from operations and associates | 4,6 | 2,553.2 | 2,654.8 |
| Investment income | | 78.9 | 113.4 |
| Interest expense | | (13.7) | (20.4) |
| Other finance items | | (8.9) | 2.4 |
| Net finance income | 9 | 56.3 | 95.4 |
| Profit before tax | 6 | 2,609.5 | 2,750.2 |
| Income tax expense | 10 | (519.7) | (638.4) |
| Profit for the financial year | 6 | 2,089.8 | 2,111.8 |
| Attributable to: | | | |
| Minority interests | 30 | 383.3 | 729.7 |
| Equity holders of the Company (net earnings) | 11 | 1,706.5 | 1,382.1 |

| | | US cents | US cents |
|---|---|---|---|
| Basic earnings per share | 11 | 173.1 | 140.2 |

| Dividends to ordinary shareholders of the Company<br>Per share | 12 | US cents | US cents |
|---|---|---|---|
| Dividends per share proposed in relation to the year | | | |
| – ordinary dividend (interim) | | 3.4 | 3.2 |
| – ordinary dividend (final) | | 5.6 | 5.4 |
| – special dividend (interim) | | 3.0 | 3.0 |
| – special dividend (final) | | 48.0 | 38.0 |
| | | 60.0 | 49.6 |
| Dividends per share paid in the year and deducted from net equity | | | |
| – ordinary dividend (interim) | | 3.4 | 3.2 |
| – ordinary dividend (final) | | 5.4 | 5.0 |
| – special dividend (interim) | | 3.0 | 3.0 |
| – special dividend (final) | | 38.0 | 38.0 |
| | | 49.8 | 49.2 |

| In aggregate | 12 | US$m | US$m |
|---|---|---|---|
| Dividends proposed in relation to the year | | 591.5 | 489.0 |
| Dividends paid in the year and deducted from net equity | | 491.0 | 485.0 |

Turnover and operating profit are derived from continuing operations.

There was no potential dilution of earnings per share in either year set out above, and therefore diluted earnings per share did not differ from basic earnings per share as disclosed above.

*Exceptional items included in the consolidated income statement in respect of 2008 comprise: (i) an impairment charge of US$188.3 million relating to property, plant and equipment at El Tesoro and Michilla, which has been recorded within "Total operating costs" and (ii) a profit of US$1,024.9 million relating to the sale of a 30% interest in Esperanza and El Tesoro to Marubeni Corporation, which has been recorded within "Profit on part-disposal of subsidiaries". Excluding these items, operating profit from subsidiaries and joint ventures is US$1,714.3 million and profit before tax is US$1,772.9 million. Further details of these exceptional items are set out in Note 5.

# Consolidated Balance Sheet

At 31 December 2008

| | Notes | 2008 US$m | 2007 US$m |
|---|---|---|---|
| **Non-current assets** | | | (restated)* |
| Intangible assets | 13 | 233.6 | 263.6 |
| Property, plant and equipment | 14 | 3,679.7 | 2,623.9 |
| Investment property | 15 | 2.7 | 3.5 |
| Investment in associate | 17 | 3.0 | 2.5 |
| Trade and other receivables | 21 | 34.1 | 32.0 |
| Derivative financial instruments | 25 | – | 1.4 |
| Available for sale investments | 19 | 0.7 | 3.3 |
| Deferred tax assets | 27 | 12.7 | 14.7 |
| | | 3,966.5 | 2,944.9 |
| **Current assets** | | | |
| Inventories | 20 | 155.9 | 130.3 |
| Trade and other receivables | 21 | 313.8 | 540.4 |
| Current tax assets | | 109.0 | 26.9 |
| Derivative financial instruments | 25 | 51.7 | 0.5 |
| Cash and cash equivalents | 22 | 3,358.0 | 2,212.5 |
| | | 3,988.4 | 2,910.6 |
| **Total assets** | | 7,954.9 | 5,855.5 |
| **Current liabilities** | | | |
| Short-term borrowings | 23 | (319.0) | (101.8) |
| Derivative financial instruments | 25 | (1.4) | (1.4) |
| Trade and other payables | 24 | (594.4) | (246.5) |
| Current tax liabilities | | (59.9) | (16.9) |
| | | (974.7) | (366.6) |
| **Non-current liabilities** | | | |
| Medium and long-term borrowings | 23 | (119.9) | (164.2) |
| Trade and other payables | 24 | (12.6) | (2.6) |
| Post-employment benefit obligations | 26 | (29.0) | (29.1) |
| Long-term provisions | 28 | (18.0) | (10.9) |
| Deferred tax liabilities | 27 | (368.1) | (375.6) |
| | | (547.6) | (582.4) |
| **Total liabilities** | | (1,522.3) | (949.0) |
| **Net assets** | | 6,432.6 | 4,906.5 |
| **Equity** | | | |
| Share capital | 29 | 89.8 | 89.8 |
| Share premium | 29 | 199.2 | 199.2 |
| Hedging, translation and fair value reserves | 29 | 11.4 | 25.1 |
| Retained earnings | 29 | 4,966.4 | 3,750.9 |
| **Equity attributable to equity holders of the Company** | | 5,266.8 | 4,065.0 |
| Minority interests | 30 | 1,165.8 | 841.5 |
| **Total equity** | | 6,432.6 | 4,906.5 |

* The comparative information has been restated due to a change in accounting policy as set out in Note 1(b).

Approved by the Board and signed on its behalf on 9 March 2009.

J-P Luksic
Chairman

CH Bailey
Director

# Consolidated Cash Flow Statement

For the year ended 31 December 2008

| | Notes | 2008 US$m | 2007 US$m |
|---|---|---|---|
| Cash flows from operations | 34 | 2,454.3 | 2,817.7 |
| Interest paid | | (12.5) | (20.2) |
| Dividends from associate | 17 | 1.8 | 2.4 |
| Income tax paid | | (561.4) | (806.0) |
| Net cash from operating activities | | 1,882.2 | 1,993.9 |
| Investing activities | | | |
| Disposal and part-disposal of subsidiaries | 31 | 1,401.2 | 4.9 |
| Disposal of joint-venture interest | 18 | – | 6.0 |
| Disposal of available for sale investments | 19 | – | 16.6 |
| Acquisition of minority interest in subsidiary | 32 | (243.1) | – |
| Recovery of Chilean VAT paid on purchase of water concession | | 5.3 | 8.8 |
| Purchases of property, plant and equipment | | (1,135.0) | (481.7) |
| Purchases of intangible assets | | (10.7) | – |
| Interest received | | 78.8 | 111.3 |
| Net cash used in investing activities | | 96.5 | (334.1) |
| Financing activities | | | |
| Dividends paid to equity holders of the Company | 12 | (491.0) | (485.0) |
| Dividends paid to preference shareholders of the Company | 12 | (0.2) | (0.2) |
| Dividends paid to minority interests | | (495.6) | (681.2) |
| Capital increase from minority interest | | 57.7 | – |
| Net proceeds from issue of new borrowings | 34 | 229.5 | 7.0 |
| Repayments of borrowings | 34 | (99.7) | (99.3) |
| Repayments of obligations under finance leases | 34 | (9.8) | (0.9) |
| Net cash used in financing activities | | (809.1) | (1,259.6) |
| Net increase in cash and cash equivalents | | 1,169.6 | 400.2 |

| | Notes | 2008 US$m | 2007 US$m |
|---|---|---|---|
| Cash and cash equivalents at beginning of the year | | 2,212.5 | 1,805.5 |
| Net increase in cash and cash equivalents | | 1,169.6 | 400.2 |
| Effect of foreign exchange rate changes | | (24.1) | 6.8 |
| Cash and cash equivalents at end of the year | 22,34 | 3,358.0 | 2,212.5 |

FINANCIAL STATEMENTS

# Consolidated Statement of Changes in Equity

For the years ended 31 December 2007 and 2008

| | Notes | Share capital US$m | Share premium US$m | Hedging reserves US$m | Fair value reserves US$m | Translation reserves US$m | Retained earnings US$m | Net equity US$m | Minority interests US$m | Total US$m |
|---|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2007 | | 89.8 | 199.2 | – | – | 12.3 | 2,853.8 | 3,155.1 | 793.0 | 3,948.1 |
| Profit for the financial year | | – | – | – | – | – | 1,382.1 | 1,382.1 | 729.7 | 2,111.8 |
| Currency translation adjustment | | – | – | – | – | 13.5 | – | 13.5 | – | 13.5 |
| Losses in fair value of cash flow hedges deferred in reserves | | – | – | (6.9) | – | – | – | (6.9) | – | (6.9) |
| Losses in fair value of cash flow hedges transferred to the income statement | | – | – | 6.7 | – | – | – | 6.7 | – | 6.7 |
| Gains in fair value of available for sale investments | 19 | – | – | – | 10.0 | – | – | 10.0 | – | 10.0 |
| Gains in fair value of available for sale investments transferred to the income statement | | – | – | – | (10.5) | – | – | (10.5) | – | (10.5) |
| Dividends | | – | – | – | – | – | (485.0) | (485.0) | (681.2) | (1,166.2) |
| At 31 December 2007 and 1 January 2008 | | 89.8 | 199.2 | (0.2) | (0.5) | 25.8 | 3,750.9 | 4,065.0 | 841.5 | 4,906.5 |
| Profit for the financial year | | – | – | – | – | – | 1,706.5 | 1,706.5 | 383.3 | 2,089.8 |
| Capital increase from minority interest | | – | – | – | – | – | – | – | 57.7 | 57.7 |
| Currency translation adjustment | | – | – | – | – | (41.8) | – | (41.8) | – | (41.8) |
| Gains in fair value of cash flow hedges deferred in reserves | | – | – | 39.5 | – | – | – | 39.5 | 12.9 | 52.4 |
| Losses in fair value of cash flow hedges transferred to the income statement | | – | – | 0.2 | – | – | – | 0.2 | – | 0.2 |
| Losses in fair value of available for sale investments | | – | – | – | (2.6) | – | – | (2.6) | – | (2.6) |
| Deferred tax effects arising from hedge accounting | | – | – | (9.0) | – | – | – | (9.0) | – | (9.0) |
| Part-disposal of subsidiaries | | – | – | – | – | – | – | – | 366.0 | 366.0 |
| Dividends | | – | – | – | – | – | (491.0) | (491.0) | (495.6) | (986.6) |
| **At 31 December 2008** | | **89.8** | **199.2** | **30.5** | **(3.1)** | **(16.0)** | **4,966.4** | **5,266.8** | **1,165.8** | **6,432.6** |

FINANCIAL STATEMENTS

# Notes to the Financial Statements

## 1 Basis of Preparation

### a) Accounting standards applied

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. For these purposes, IFRS comprise the Standards issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") that have been endorsed by the European Union ("EU").

The financial statements have been prepared on the going concern basis. Details of the factors which have been taken into account in assessing the Group's going concern status are set out on page 43 of the Financial Review.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

– IFRS 1 (amended) / IAS 27 (amended) Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate.

– IFRS 2 (amended) Share-based Payment – Vesting Conditions and Cancellations.

– IFRS 3 (revised 2008) Business Combinations.

– IFRS 8 Operating Segments.

– IAS 1 (revised 2007) Presentation of Financial Statements.

– IAS 23 (revised 2007) Borrowing Costs.

– IAS 27 (revised 2008) Consolidated and Separate Financial Statements.

– IAS 32 (amended) / IAS 1 (amended) Puttable Financial Instruments and Obligations Arising on Liquidation.

– IFRIC 13 Customer Loyalty Programmes.

– IFRIC 15 Agreements for the Construction of Real Estate.

– IFRIC 16 Hedges of a Net Investment in a Foreign Operation.

– IFRIC 17 Distributions of Non-cash Assets to Owners.

– IFRIC 18 Transfers of Assets from Customers.

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group except for:

– IFRS 8 "Operating Segments". This standard will require different disclosures relating to the Group's operating segments and how these are identified when it comes into effect for periods commencing on or after 1 January 2009.

– IFRS 3 "Business Combinations (revised)". This standard will affect the treatment of business combinations which take place in periods commencing on or after 1 July 2009, when the revised standard comes into effect.

### b) Adoption of new accounting standard

In the current financial year the Group has adopted IFRIC 12 "Service Concession Arrangements", which has resulted in a restatement of the comparative figures. This Interpretation requires all infrastructure assets relating to the Water concession to be recorded within intangible assets; previously, certain infrastructure assets were recorded within property, plant and equipment. Accordingly, the comparative figures have been restated to reclassify these infrastructure assets into the Concession right and assets category within intangible assets. This reclassification has no effect on net earnings or net equity in either year. Further details are set out in Note 13.

## 2 Principal Accounting Policies

### a) Accounting convention

These financial statements have been prepared under the historical cost convention as modified by the use of fair values to measure certain financial instruments, principally provisionally priced sales as explained in Note 2(d) and financial derivative contracts as explained in Note 2(s).

### b) Basis of consolidation

The financial statements comprise the consolidated financial statements of Antofagasta plc ("the Company") and its subsidiaries (collectively "the Group").

(i) *Subsidiaries* – A subsidiary is an entity over which the Group has power to govern the operating and financial policies in order to obtain benefits from its activities. The consolidated financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating inter-company balances and transactions. For partly-owned subsidiaries, the net assets and net earnings attributable to minority shareholders are presented as "Minority Interests" in the consolidated balance sheet and consolidated income statement.

(ii) *Associates* – An associate is an entity over which the Group is in a position to exercise significant influence, but not control or jointly control, through the power to participate in the financial and operating policy decisions of that entity. The Group's share of the net assets, the results post tax and post acquisition reserves of associates are included in the financial statements. This requires recording the investment initially at cost to the Group and then, in subsequent periods, adjusting the carrying amount of the investment to reflect the Group's share of the associate's results less any impairment of goodwill and any other changes to the associate's net assets such as dividends.

(iii) *Jointly controlled entities* – A jointly controlled entity is an entity in which the Group holds a long-term interest and shares joint control over the operating and financial decisions with one or more other venturers under a contractual arrangement.

Jointly controlled entities are accounted for using proportionate consolidation, which combines the Group's share of the results of the jointly controlled entity on a line by line basis with similar items in the Group's financial statements.

(iv) *Other investments* – The accounting treatment of investments which are not subsidiaries, associates or jointly controlled entities is set out in Note 2(s) relating to other financial instruments.

(v) *Acquisitions and disposals* – Acquisitions and disposals are treated as explained in Note 2(e) relating to business combinations and goodwill.

### c) Currency translation

The functional currency for each entity in the Group is determined as the currency of the primary economic environment in which it operates. Transactions other than those in the functional currency of the entity are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in currencies other than the functional currency are retranslated at year end exchange rates. Gains and losses on retranslation are included in net profit or loss for the period within other finance items.

## 2 Principal Accounting Policies continued

### c) Currency translation continued

The presentational currency of the Group and the functional currency of the Company is the US dollar. On consolidation, income statement items for entities with a functional currency other than the US dollar are translated into US dollars at average rates of exchange. Balance sheet items are translated at period end exchange rates. Exchange differences on translation of the net assets of such entities are taken to equity and recorded in a separate currency translation reserve. Cumulative translation differences arising after the transition date to IFRS are recognised as income or as expenses in the income statement in the period in which an operation is disposed.

On consolidation, exchange gains and losses which arise on balances between Group entities are taken to reserves where that balance is, in substance, part of the net investment in a foreign operation, i.e. where settlement is neither planned nor likely to occur in the foreseeable future. All other exchange gains and losses on Group balances are dealt with in the income statement.

Fair value adjustments and any goodwill arising on the acquisition of a foreign entity are treated as assets of the foreign entity and translated at the period end rate.

### d) Revenue recognition

Turnover represents the value of goods and services supplied to third parties during the year. Turnover is measured at the fair value of consideration received or receivable, and excludes any applicable sales tax.

A sale is recognised when the significant risks and rewards of ownership have passed. This is generally when title and any insurance risk has passed to the customer, and the goods have been delivered to a contractually agreed location or when any services have been provided.

Turnover from mining activities is recorded at the invoiced amounts with an adjustment for provisional pricing at each reporting date, as explained below. For copper and molybdenum concentrates, which are sold to smelters and roasting plants for further processing, the invoiced amount is the market value of the metal payable by the customer, net of deductions for tolling charges. Turnover includes revenues from the sale of by-products.

Copper and molybdenum concentrate sale agreements and copper cathode sale agreements generally provide for provisional pricing of sales at the time of shipment, with final pricing based on the monthly average London Metal Exchange ("LME") copper price or the monthly average market molybdenum price for specified future periods. This normally ranges from 30 to 180 days after delivery to the customer. Such a provisional sale contains an embedded derivative which is required to be separated from the host contract. The host contract is the sale of metals contained in the concentrate or cathode at the provisional invoice price less tolling charges deducted, and the embedded derivative is the forward contract for which the provisional sale is subsequently adjusted. At each reporting date, the provisionally priced metal sales together with any related tolling charges are marked-to-market, with adjustments (both gains and losses) being recorded in turnover in the consolidated income statement and in trade debtors in the balance sheet. Forward prices at the period end are used for copper concentrate and cathode sales, while period-end average prices are used for molybdenum concentrate sales due to the absence of a futures market.

Interest income is accrued on a time basis, by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' right to receive payment have been established.

## 2 Principal Accounting Policies continued

### e) Business combinations and goodwill

(i) *Acquisitions* – The results of businesses acquired during the year are brought into the consolidated financial statements from the effective date of acquisition. The identifiable assets, liabilities and contingent liabilities of a subsidiary, joint venture entity or an associate which can be measured reliably are recorded at their provisional fair values at the date of acquisition. Provisional fair values are finalised within 12 months of the acquisition date.

(ii) *Goodwill* – Goodwill represents the difference between the cost of acquisition and the fair value of the identifiable net assets acquired. Any goodwill on the acquisition of subsidiaries is separately disclosed, while any goodwill on the acquisition of associates is included within investments in equity accounted entities. Internally generated goodwill is not recognised.

Where the fair values of the identifiable net assets acquired exceed the cost of the acquisition, the surplus (which represents the discount on the acquisition) is credited to the income statement in the period of acquisition.

(iii) *Disposals* – The results of businesses sold during the year are included in the consolidated financial statements for the period up to the effective date of disposal. Gains or losses on disposal are calculated as the difference between the sales proceeds (net of expenses) and the net assets attributable to the interest which has been sold. Where a disposal represents a separate major line of business or geographical area of operations, the net results attributable to the disposed entity are shown separately in the income statement.

### f) Intangible assets

(i) *Concession right* – In 2003, the Group's wholly owned subsidiary, Aguas de Antofagasta S.A., was awarded a 30 year concession to operate the water rights and facilities in the Antofagasta Region of Chile previously controlled by Empresa de Servicios Sanitarios de Antofagasta S.A. ("ESSAN").

All infrastructure assets relating to the Water concession are recorded within intangible assets, as part of the "concession right". The concession right also includes an amount recognised in respect of the right to use those assets not recognised as their lives extend substantially beyond the period of the concession. The concession right is measured as the difference between the cost of the concession and the fair values of the assets and liabilities recognised on acquisition plus the fair value of any further assets transferred to the Group by way of concession subsequent to acquisition.

(ii) *Exploration licences* – In 2006, the Group acquired Tethyan Copper Company Limited ("Tethyan"), a company with copper-gold interests in Pakistan, and entered into a joint venture over Tethyan's mineral interests with Barrick Gold Corporation through the disposal of a 50% interest in Tethyan. An intangible asset has been recognised for the Group's proportionate share of the full unencumbered value attributed to the interest in the exploration licences held by Tethyan in Pakistan, along with related rights acquired subsequently. In addition, the intangible asset balance also includes amounts relating to interests in other prospecting licences.

### g) Exploration expenditure

Exploration is expensed in the year in which it is incurred. When a decision is taken that a mining project is commercially viable (normally when the project has reached the pre-feasibility stage) all further directly attributable pre-production expenditure is capitalised. Capitalisation of pre-production expenditure ceases when commercial levels of production are achieved.

## 2 Principal Accounting Policies continued

### h) Property, plant and equipment

The costs of mining properties and leases, which include the costs of acquiring and developing mining properties and mineral rights, are capitalised as property, plant and equipment in the year in which they are incurred.

The cost of plant, property and equipment comprises the purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended. Once a project has been established as commercially viable, related development expenditure is capitalised. This includes costs incurred in preparing the site for mining operations, including pre-stripping costs. Capitalisation ceases when the mine is capable of commercial production, with the exception of development costs which give rise to a future benefit.

Interest on borrowings directly related to construction or development of projects is capitalised, until such time as the assets are substantially ready for their intended use or sale which, in the case of mining properties, is when they are capable of commercial production.

### i) Depreciation of property, plant and equipment and amortisation of intangible assets

Property, plant and equipment is depreciated over its useful life, or over the remaining life of the operation if shorter, to residual value. The major categories of property, plant and equipment are depreciated as follows:

(i) *Land* – Freehold land is not depreciated. Any leasehold land is depreciated on a straight-line basis over the life of the lease.

(ii) *Mining properties* – mining properties, including capitalised financing costs, are depreciated on a unit of production basis, in proportion to the volume of ore extracted in the year compared with total proven and probable reserves at the beginning of the year.

(iii) *Buildings and infrastructure* – straight-line basis over 10 to 25 years.

(iv) *Railway track (including trackside equipment)* – straight-line basis over 20 to 25 years.

(v) *Wagons and rolling stock* – straight-line basis over 10 to 20 years.

(vi) *Machinery, equipment and other assets* – straight-line basis over 5 to 10 years.

(vii) *Assets under construction* – no depreciation until asset is available for use.

(viii) *Assets held under finance lease* – are depreciated over the shorter of the lease term and their useful life.

Residual values and useful lives are reviewed, and adjusted if appropriate, at least annually, and changes to residual values and useful lives are accounted for prospectively.

The concession right is amortised on a straight-line basis over the life of the concession, or the useful life of any component part if less.

### j) Impairment of property, plant and equipment and intangible assets (excluding goodwill)

Property, plant and equipment and finite life intangible assets are reviewed for impairment if there is any indication that the carrying amount may not be recoverable. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Any intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted.

## 2 Principal Accounting Policies continued

### j) Impairment of property, plant and equipment and intangible assets (excluding goodwill) continued

For mining properties, estimates of future cash flows are based on assumptions as to expected production levels, commodity prices, cash costs of production and capital expenditure. IAS 36 "Impairment of Assets" includes a number of restrictions on the future cash flows that can be recognised in respect of future restructurings and improvement related expenditure. When calculating value in use, it also requires that calculations should be based on exchange rates current at the time of assessment. For operations with a functional currency other than the US dollar, the impairment review is conducted in the relevant functional currency.

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount is reduced to the recoverable amount. An impairment charge is recognised in the income statement immediately. Where an impairment subsequently reverses, the carrying amount is increased to the revised estimate of recoverable amount, but so that the increased carrying amount does not exceed the carrying value that would have been determined if no impairment had previously been recognised. A reversal is recognised in the income statement immediately.

### k) Investment property

Investment property is property held to earn rentals and/or for capital appreciation and includes land held for a currently undetermined future use. The Group has elected to adopt the cost model in IAS 40 "Investment Property". Accordingly, investment property is measured initially at cost, which includes transaction costs for the acquisition of the property and, as detailed in Note 2(i) relating to property, plant and equipment, is not depreciated.

### l) Inventory

Inventory and work-in-progress are valued at the lower of cost and net realisable value. Net realisable value represents estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. The production cost of inventory includes an appropriate proportion of depreciation and production overheads. Raw materials an consumables are valued at cost on a weighted average basis. Finished products are valued at raw material cost, plus labour cost and a proportion of manufacturing overhead expenses including depreciation.

### m) Taxation

Tax expense comprises the charges or credits for the period relating to both current and deferred tax.

Current tax is based on taxable profit for the year. Taxable profit may differ from net profit as reported in the income statement because it excludes items of income or expense that are taxable and deductible in different years and also excludes items that are not taxable or deductible. The liability for current tax is calculated using tax rates for each entity in the consolidated financial statements which have been enacted or substantively enacted at the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on temporary differences (i.e. differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit). Deferred tax is accounted for using the balance sheet liability method and is provided on all temporary differences with certain limited exceptions as follows:

(i) tax payable on undistributed earnings of subsidiaries, associates and joint ventures is provided except where the Group is able to control the remittance of profits and it is probable that there will be no remittance of past profits earned in the foreseeable future;

(ii) deferred tax is not provided on the initial recognition of an asset or liability in a transaction that does not affect accounting profit or taxable profit and is not a business combination; nor is deferred tax provided on subsequent changes in the carrying value of such assets and liabilities, for example where they are depreciated; and

## 2 Principal Accounting Policies continued

### m) Taxation continued

(iii) the initial recognition of any goodwill.

Deferred tax assets are recognised only to the extent that it is probable that they will be recovered through sufficient future taxable profit. The carrying amount of deferred tax assets is reviewed at each balance sheet date.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also taken directly to equity.

### n) Provisions for decommissioning and site restoration costs

An obligation to incur decommissioning and site rehabilitation costs occurs when environmental disturbance is caused by the development or ongoing production of a mining property. Costs are estimated on the basis of a formal closure plan and are subject to regular formal review.

Such costs arising from the installation of plant and other site preparation work, discounted to their net present value, are provided and capitalised at the start of each project, as soon as the obligation to incur such costs arises. These decommissioning costs are charged against profits over the life of the mine, through depreciation of the asset and unwinding or amortisation of the discount on the provision. Depreciation is included in operating costs while the unwinding of the discount is included as financing costs. Changes in the measurement of a liability relating to the decommissioning of plant or other site preparation work are added to, or deducted from, the cost of the related asset in the current period.

The costs for restoration of site damage, which is created on an ongoing basis during production, are provided for at their net present values and charged against operating profits as extraction progresses. Changes in the measurement of a liability relating to site damage created during production is charged against operating profit.

### o) Provision for termination of water concession

Under the terms of the water concession from ESSAN, certain items of working capital recognised by Aguas de Antofagasta (as described in Note 2(f) above) are to be transferred to the state-owned operator ESSAN at the end of the concession period for nil consideration. Provision is made for the estimated net present value of these assets and liabilities which are expected to be in existence when the concession comes to an end. The unwinding of the discount is charged within financing costs.

### p) Post-employment benefits

The Group operates defined contribution schemes for a limited number of employees. For such schemes, the amount charged to the income statement is the contributions paid or payable in the year.

Employment terms may also provide for payment of a severance indemnity when an employment contract comes to an end. This is typically at the rate of one month for each year of service (subject in most cases to a cap as to the number of qualifying years of service) and based on final salary level. The severance indemnity obligation is treated as an unfunded defined benefit plan, and the calculation is based on valuations performed by an independent actuary using the projected unit credit method which are regularly updated. The obligation recognised in the balance sheet represents the present value of the severance indemnity obligation. Actuarial gains and losses are immediately recognised in the income statement within operating cost.

### q) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held on call with banks, highly liquid investments that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value, net of bank overdrafts which are repayable on demand. Cash and cash equivalents normally have a maturity period of three months or less.

## 2 Principal Accounting Policies continued

### r) Leases

Rental costs under operating leases are charged to the income statement account in equal annual amounts over the term of the lease.

Assets under finance leases are recognised as assets of the Group at inception of the lease at the lower of fair value or the present value of the minimum lease payments derived by discounting at the interest rate implicit in the lease. The interest element is charged within financing costs so as to produce a constant periodic rate of interest on the remaining balance of the liability.

### s) Other financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

(i) *Investments* – Investments which are not subsidiaries, associates or joint ventures are initially measured at cost, including transaction costs.

Investments are classified as either held for trading or available for sale, and are normally measured at subsequent reporting dates at fair value. Fair value is determined in the manner described in Note 25(b). Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

Securities are classified as "held-for-trading" when they are acquired principally for the purpose of sale in the short-term, and gains and losses arising from changes in fair value are included in the income statement for the period. Other investments are classified as "available-for-sale", and gains and losses arising from changes in fair value are recognised directly in equity, within the "Fair value reserve", until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the income statement for the period.

Dividends on available for sale equity investments are recognised in the income statement when the right to receive payment is established.

(ii) *Trade and other receivables* – Trade and other receivables do not generally carry any interest and are normally stated at their nominal value less any impairment. Impairment losses on trade receivables are recognised within an allowance account unless the Group considers that no recovery of the amount is possible, in which case the carrying value of the asset is reduced directly.

(iii) *Trade and other payables* – Trade and other payables are generally not interest bearing and are normally stated at their nominal value.

(iv) *Borrowings (loans and preference shares)* – Interest-bearing loans and bank overdrafts are initially recorded at the proceeds received, net of direct issue costs. They are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis using the effective interest rate method. Amounts are either recorded as financing costs in the income statement or capitalised in accordance with the accounting policy set out in Note 2(h). Finance charges are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

## 2 Principal Accounting Policies continued

### s) Other financial instruments continued

The sterling-denominated preference shares issued by the Company carry a fixed rate of return without the right to participate in any surplus. They are accordingly classified within borrowings and translated into US dollars at period end rates of exchange. Preference share dividends are included within finance costs.

(v) *Equity instruments* – Equity instruments issued are recorded at the proceeds received, net of direct issue costs. Equity instruments of the Company comprise its sterling-denominated issued ordinary share capital and related share premium.

As explained in Note 2(c), the presentational currency of the Group and the functional currency of the Company is US dollars, and ordinary share capital and share premium are translated into US dollars at historical rates of exchange based on dates of issue.

(vi) *Derivative financial instruments* – As explained in Note 25(e), the Group uses derivative financial instruments to reduce exposure to foreign exchange, interest rate and commodity price movements. The Group does not use such derivative instruments for trading purposes.

The Group applies the hedge accounting provisions and changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity, with such amounts subsequently recognised in the income statement in the period when the hedged item affects profit or loss. Any ineffective portion is recognised immediately in the income statement. Realised gains and losses on commodity derivatives recognised in the income statement are recorded within turnover.

The time value element of changes in the fair value of derivative options is excluded from the designated hedging relationship, and is therefore recognised directly in the income statement within other finance items.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value. Changes in fair value are reported in the income statement for the period. The treatment of embedded derivatives arising from provisionally-priced commodity sales contracts is set out in further detail in Note 2(d) relating to turnover.

(vii) *Impairment of financial assets* – Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For loans and receivables the amount of the impairment is the difference between the asset's carrying value and the present value of estimated future cash flows, discounted at the original effective interest rate. Any impairment loss is recognised in the income statement immediately.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the income statement immediately to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised. In respect of available-for-sale equity instruments, any increase in fair value subsequent to an impairment loss is recognised directly in equity.

## 3 Critical Accounting Judgements and Key Sources of Estimation Uncertainty

Determining many of the amounts included in the financial statements involves the use of judgement and/or estimation. These judgements and estimates are based on management's best knowledge of the relevant facts and circumstances having regard to prior experience, but actual results may differ from the amounts included in the financial statements. Information about such judgements and estimates is included in the principal accounting policies in Note 2 or the other notes to the financial statements, and the key areas are set out below.

### a) Useful economic lives of property, plant and equipment and ore reserves estimates

As explained in Note 2(i), mining properties, including capitalised financing costs, are depreciated in proportion to the volume of ore extracted in the year compared with total proven and probable reserves at the beginning of the year.

There are numerous uncertainties inherent in estimating ore reserves, and assumptions that were valid at the time of estimation may change when new information becomes available. These include assumptions as to grade estimates and cut-off grades, recovery rates, commodity prices, exchange rates, production costs, capital costs, processing and reclamation costs and discount rates. The actual volume of ore extracted and any changes in these assumptions could affect prospective depreciation rates and carrying values.

The majority of other items of property, plant and equipment are depreciated on a straight line basis over their useful economic lives. Management reviews the appropriateness of useful economic lives at least annually and, again, any changes could affect prospective depreciation rates and asset carrying values.

### b) Impairment of assets

As explained in Note 2(j), the Group reviews the carrying value of its intangible assets and property, plant and equipment to determine whether there is any indication that those assets are impaired. In making assessments for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash generating unit ("CGU"). The recoverable amount of those assets, or CGU, is measured at the higher of their fair value less costs to sell and value in use.

Management necessarily applies its judgement in allocating assets to CGUs, in estimating the probability, timing and value of underlying cash flows and in selecting appropriate discount rates to be applied within the value in use calculation. The key assumptions are set out in Note 2(j) and Note 5. Subsequent changes to CGU allocation or estimates and assumptions in the value in use calculation could impact the carrying value of the respective assets.

### c) Provisions for decommissioning and site restoration costs

As explained in Note 2(n), provision is made, based on net present values, for decommissioning and site rehabilitation costs as soon as the obligation arises following the development or ongoing production of a mining property. The provision is based on a closure plan prepared with the assistance of external consultants.

Management uses its judgement and experience to provide for and (in the case of capitalised decommissioning costs) amortise these estimated costs over the life of the mine. The ultimate cost of decommissioning and site rehabilitation cost is uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other mine sites. The expected timing and extent of expenditure can also change, for example in response to changes in ore reserves or processing levels. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

## 3 Critical Accounting Judgements and Key Sources of Estimation Uncertainty continued

### d) Post employment benefits

As explained in Note 2(p), the expected costs of severance indemnities relating to employee service during the period are charged to the income statement. Any actuarial gains or losses, which can arise from differences between expected and actual outcomes or changes in actuarial assumptions, are recognised immediately within operating costs in the income statement.

Assumptions in respect of the expected costs are set in consultation with an independent actuary. These include the selection of the discount rate used, service lives and expected rates of salary increases. While management believes the assumptions used are appropriate, a change in the assumptions used would impact the earnings of the Group.

### e) Deferred taxation

As explained in Note 2(m), deferred tax is not provided for future tax payable on undistributed earnings where the Group is able to control the remittance of profits and it is probable that there will be no remittance of past profits earned in the foreseeable future.

Management uses its judgement in estimating the probability of such remittances. These are based on Group forecasts and include assumptions as to future profits and cash flows (which depend on several factors including commodity prices, operating costs, production levels, capital expenditures, interest costs, debt repayment and tax rates) and cash requirements (which may also depend on several factors including future dividend levels). A change in the assumptions used or in the estimate as to the probability that past profits will be remitted would impact the deferred tax charge and balance sheet provision.

## 4 Revenue and Total Profit from Operations and Associates

An analysis of the Group's total revenue is as follows:

| | 2008<br>US$m | 2007<br>US$m |
|---|---|---|
| Sales of goods | 3,229.0 | 3,716.0 |
| Rendering of services | 143.6 | 110.7 |
| Group turnover | 3,372.6 | 3,826.7 |
| Other operating income | 9.8 | 31.2 |
| Investment income | 78.9 | 113.4 |
| Total revenue | 3,461.3 | 3,971.3 |

## 4 Revenue and Total Profit from Operations and Associates continued

Operating profit from subsidiaries and joint ventures and total profit from operations and associates is derived from Group turnover by deducting operating cost as follows:

| | 2008 US$m | 2007 US$m |
|---|---|---|
| Turnover | 3,372.6 | 3,826.7 |
| Cost of sales (including exceptional items) | (1,496.8) | (966.5) |
| Gross profit | 1,875.8 | 2,860.2 |
| Administrative and distribution expenses | (274.1) | (183.1) |
| Closure provision | (5.0) | (0.5) |
| Severance charges | (10.6) | (5.3) |
| Exploration costs | (54.9) | (38.1) |
| Other operating income | 9.8 | 31.2 |
| Other operating expenses | (15.0) | (11.0) |
| Operating profit from subsidiaries and joint ventures | 1,526.0 | 2,653.4 |
| Profit on part-disposal of subsidiaries (exceptional item) | 1,024.9 | – |
| Share of income from associate | 2.3 | 1.4 |
| Total profit from operations and associates | 2,553.2 | 2,654.8 |

### Notes to total profit from operations and associates

(i) In 2008, cost of sales includes an impairment charge of US$188.3 million relating to property, plant and equipment at El Tesoro and Michilla (see Note 5).

(ii) In 2008, profit on part-disposal of subsidiaries comprises a profit of US$ 1,024.9 million relating to the sale of a 30% interest in Esperanza and El Tesoro to Marubeni Corporation (see Note 5).

(iii) In 2007, cost of sales included an inventory write-off of US$18.8 million relating to high carbonate ore inventories at El Tesoro (see Note 20).

(iv) In 2007, other operating income included a gain of US$10.5 million relating to the disposal of shares held in Mercator Minerals Ltd (see Note 19), a gain of US$9.7 million relating to the disposal of the Cordillera de las Minas joint venture to Panoro Minerals Ltd (see Note 18(c)), and a gain of US$1.6 million from a settlement in respect to the remaining consideration receivable for the disposal of Minera Tamaya S.A. in 2002. These items totalled US$21.8 million.

## 5 Exceptional Items

| | Operating profit | | Profit before tax | | Earnings per share | |
|---|---|---|---|---|---|---|
| | 2008 US$m | 2007 US$m | 2008 US$m | 2007 US$m | 2008 US cents | 2007 US cents |
| Before exceptional items | 1,714.3 | 2,653.4 | 1,772.9 | 2,750.2 | 85.5 | 140.2 |
| Impairments | (188.3) | – | (188.3) | – | (11.1) | – |
| Marubeni transaction | – | – | 1,024.9 | – | 98.7 | – |
| After exceptional items | 1,526.0 | 2,653.4 | 2,609.5 | 2,750.2 | 173.1 | 140.2 |

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## 5 Exceptional Items continued

### a) Total operating cost – impairments

An impairment charge of US$188.3 million relating to property, plant and equipment at El Tesoro (US$160.0 million) and Michilla (US$28.3 million) has been recorded within total operating costs, following an impairment review undertaken in light of the current commodity market environment. The recoverable amounts in the impairment review were determined by a value in use calculation prepared using management's current forecasts as to future commodity prices, operating costs and production volumes. The present value of the forecast future cash flows was calculated using a discount rate of 9.9%.

### b) Profit on part-disposal of subsidiaries – Marubeni transaction

As explained in Note 31, in August 2008 the Group disposed of a 30% interest in both Esperanza and El Tesoro to Marubeni Corporation for a consideration of US$1,401.2 million, resulting in a profit before tax of US$1,024.9 million.

## 6 Segment Information

Based on risks and returns, the Directors consider the primary reporting format is by business segment and the secondary reporting format is by geographical segment. The Group considers its business segments to be Los Pelambres, El Tesoro, Michilla, Esperanza, Exploration, Railway and other transport services and the Water concession. Corporate and other items principally relate to costs incurred by the Company and Antofagasta Minerals S.A., the Group's mining corporate centre, but which are not allocated to any individual business segment. The classification reflects the Group's management structure. The amounts presented for each business segment exclude any amounts relating to the investment in Antofagasta Terminal Internacional S.A., an associate which is held through the Railway and other transport services segment.

### a) Primary reporting format – business segment

(i) Turnover, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) and operating profit/(loss) from subsidiaries and joint ventures analysed by business segment

| | Turnover | | EBITDA | | Operating profit/(loss) from subsidiaries and joint ventures excluding exceptional items | | Operating profit/(loss) from subsidiaries and joint ventures including exceptional items | |
|---|---|---|---|---|---|---|---|---|
| | 2008 US$m | 2007 US$m | 2008 US$m | 2007 US$m | 2008 US$m | 2007 US$m | 2008 US$m | 2007 US$m |
| Los Pelambres | 2,172.0 | 2,651.9 | 1,429.7 | 2,178.0 | 1,347.7 | 2,098.6 | 1,347.7 | 2,098.6 |
| El Tesoro | 632.4 | 673.9 | 342.8 | 430.9 | 284.9 | 380.3 | 124.9 | 380.3 |
| Michilla | 332.7 | 316.8 | 118.4 | 169.2 | 99.6 | 154.0 | 71.3 | 154.0 |
| Exploration | – | – | (54.9) | (38.1) | (54.9) | (38.1) | (54.9) | (38.1) |
| Corporate and other items | – | – | (54.2) | (5.6) | (55.7) | (6.8) | (55.7) | (6.8) |
| Mining | 3,137.1 | 3,642.6 | 1,781.8 | 2,734.4 | 1,621.6 | 2,588.0 | 1,433.3 | 2,588.0 |
| Railway and other transport services | 151.0 | 117.0 | 64.2 | 48.9 | 50.4 | 35.0 | 50.4 | 35.0 |
| Water concession | 84.5 | 67.1 | 53.8 | 40.7 | 42.3 | 30.4 | 42.3 | 30.4 |
| Group turnover (segment revenue), EBITDA and operating profit from subsidiaries and joint ventures (segment result) | 3,372.6 | 3,826.7 | 1,899.8 | 2,824.0 | 1,714.3 | 2,653.4 | 1,526.0 | 2,653.4 |

## 6 Segment Information continued

### a) Primary reporting format – business segment continued

Segment result is reconciled to profit for the financial year as follows:

| | 2008 US$m | 2007 US$m |
|---|---|---|
| Segment result | 1,526.0 | 2,653.4 |
| Profit on part-disposal of subsidiaries | 1,024.9 | – |
| Share of income from associate | 2.3 | 1.4 |
| Total profit from operations and associates | 2,553.2 | 2,654.8 |
| Net finance income | 56.3 | 95.4 |
| Profit before tax | 2,609.5 | 2,750.2 |
| Income tax expense | (519.7) | (638.4) |
| Profit for the financial year (including amounts attributable to minority interests) | 2,089.8 | 2,111.8 |

#### Notes to turnover by business segment (segment revenue)

i) Turnover by business segment equates to segment revenue as defined by IAS 14. Turnover from the Railway and other transport services is stated after eliminating inter-segmental sales to the mining division of US$13.2 million (2007 – US$10.5 million). Turnover from the Water concession is stated after eliminating inter-segmental sales to the mining division of US$2.7 million (2007 – US$0.4 million) and after eliminating sales to the Railway and other transport services of US$0.2 million (2007 – US$0.2 million).

ii) Turnover includes the effect of both final pricing and mark-to-market adjustments to provisionally priced sales of copper and molybdenum concentrates and copper cathodes. Further details of such adjustments are given in Note 25(d).

iii) Turnover includes realised gains on commodity derivatives at El Tesoro of US$16.1 million (2007 – US$0.2 million) and realised gains at Michilla of US$13.9 million (2007 – losses of US$14.2 million). Further details of such gains or losses are given in Note 25(e).

iv) Los Pelambres produces and sells copper and molybdenum concentrates. It is also credited for the gold and silver content in the copper concentrate it sells. Turnover by type of metal is analysed in the table below to show separately the amounts prior to deduction of tolling charges, the tolling charges incurred and the net amounts included in turnover. El Tesoro and Michilla do not generate by-products from their copper cathode operations.

v) On a Group basis, total copper revenues amounted to US$2,702.9 million (2007 – US$2,915.9 million) comprising copper concentrate sales at Los Pelambres of US$1,737.8 million (2007 – US$1,925.2 million) and copper cathode sales at El Tesoro and Michilla of US$965.1 million (2007 – US$990.7 million).

#### Notes to EBITDA and operating profit/(loss) from subsidiaries and joint ventures (segment result)

vi) Operating profit for the separate businesses equates to segment result as defined by IAS 14. This excludes the share of income from associate of US$2.3 million (2007 – US$1.4 million). Operating profit is shown before and after exceptional items (see Note 5).

vii) EBITDA is calculated by adding back depreciation, amortisation and disposals of property, plant and equipment and impairment charges (see Note 5) to operating profit from subsidiaries and joint ventures.

viii) As explained above and in Note 25(e), in the current year EBITDA and operating profit include realised gains on commodity derivatives at El Tesoro of US$16.1 million (2007 – US$0.2 million) and realised gains at Michilla of US$13.9 million (2007 – losses of US$14.2 million).

## 6 Segment Information continued

### a) Primary reporting format – business segment continued

ix) Exploration costs relating to Tethyan Copper Company Limited ("Tethyan") (see Note 18(a)) have been included within the Exploration category. All other income and expenditure relating to Tethyan has been included within corporate and other items.

x) As explained in Note 20, 2007 EBITDA and operating profit at El Tesoro include an inventory write-off of US$18.8 million.

xi) As explained in Note 4(iv), 2007 EBITDA and operating profit in the corporate and other items category includes gains of US$21.8 million relating to various items.

xii) Exceptional items affecting operating profit relate to impairments at El Tesoro and Michilla (see Note 5).

Turnover at Los Pelambres by mineral

| | Before deducting tolling charges 2008 US$m | 2007 US$m | Tolling charges 2008 US$m | 2007 US$m | Net of tolling charges 2008 US$m | 2007 US$m |
|---|---|---|---|---|---|---|
| Copper | 1,850.9 | 2,094.6 | (113.1) | (169.4) | 1,737.8 | 1,925.2 |
| Molybdenum | 407.0 | 699.8 | (12.2) | (23.4) | 394.8 | 676.4 |
| Gold and silver | 39.9 | 51.0 | (0.5) | (0.7) | 39.4 | 50.3 |
| Los Pelambres | 2,297.8 | 2,845.4 | (125.8) | (193.5) | 2,172.0 | 2,651.9 |

(ii) Capital expenditure, depreciation and amortisation, loss on disposal of property, plant and equipment and impairments by business segment

| | Capital expenditure 2008 US$m | 2007 US$m | Depreciation and amortisation 2008 US$m | 2007 US$m | Loss on disposals 2008 US$m | 2007 US$m | Impairments 2008 US$m | 2007 US$m |
|---|---|---|---|---|---|---|---|---|
| Los Pelambres | 463.9 | 323.4 | (81.5) | (79.3) | (0.5) | (0.1) | – | – |
| El Tesoro | 125.7 | 28.0 | (55.5) | (49.3) | (2.4) | (1.3) | (160.0) | – |
| Michilla | 21.0 | 11.4 | (17.6) | (11.2) | (1.2) | (4.0) | (28.3) | – |
| Esperanza | 460.6 | 43.7 | – | – | – | – | – | – |
| Corporate and other items | 65.4 | 15.2 | (1.5) | (0.9) | – | (0.3) | – | – |
| Mining | 1,136.6 | 421.7 | (156.1) | (140.7) | (4.1) | (5.7) | (188.3) | – |
| Railway and other transport services | 38.5 | 38.9 | (12.6) | (11.3) | (1.2) | (2.6) | – | – |
| Water concession | 14.5 | 5.4 | (11.5) | (10.2) | – | (0.1) | – | – |
| | 1,189.6 | 466.0 | (180.2) | (162.2) | (5.3) | (8.4) | (188.3) | – |

Capital expenditure represents purchases of property, plant and equipment stated on an accruals basis (see Note 14) and may therefore differ from the amount included in the cash flow statement.

Impairments relate to write-offs of property, plant and equipment (see Note 5 and Note 14).

Other non-cash expenses relate to severance and closure costs (see Note 26 and Note 28).

## 6 Segment Information continued

### a) Primary reporting format – business segment continued

(iii) Other non-cash expenses by business segment

| | Severance 2008 US$m | Severance 2007 US$m | Closure 2008 US$m | Closure 2007 US$m | Total other non-cash expenses 2008 US$m | Total other non-cash expenses 2007 US$m |
|---|---|---|---|---|---|---|
| Los Pelambres | (4.0) | (2.2) | (0.2) | (0.1) | (4.2) | (2.3) |
| El Tesoro | (1.5) | 0.1 | (0.2) | (0.2) | (1.7) | (0.1) |
| Michilla | (2.1) | (0.2) | (4.5) | (0.1) | (6.6) | (0.3) |
| Corporate and other items | (1.5) | (1.3) | – | – | (1.5) | (1.3) |
| Mining | (9.1) | (3.6) | (4.9) | (0.4) | (14.0) | (4.0) |
| Railway and other transport services | (0.6) | (1.3) | – | – | (0.6) | (1.3) |
| Water concession | (0.9) | (0.4) | (0.1) | (0.1) | (1.0) | (0.5) |
| | (10.6) | (5.3) | (5.0) | (0.5) | (15.6) | (5.8) |

(iv) Assets and liabilities by business segment

| | Segment assets 2008 US$m | Segment assets 2007 US$m | Segment liabilities 2008 US$m | Segment liabilities 2007 US$m | Segment net assets/(liabilities) 2008 US$m | Segment net assets/(liabilities) 2007 US$m |
|---|---|---|---|---|---|---|
| Los Pelambres | 2,440.8 | 2,338.4 | (419.5) | (137.9) | 2,021.3 | 2,200.5 |
| El Tesoro | 603.0 | 563.5 | (71.4) | (61.1) | 531.6 | 502.4 |
| Michilla | 45.2 | 77.2 | (46.2) | (28.8) | (1.0) | 48.4 |
| Esperanza | 770.4 | 92.8 | (41.5) | (2.2) | 728.9 | 90.6 |
| Corporate and other items | 258.0 | 155.1 | (38.4) | (21.4) | 219.6 | 133.7 |
| Mining | 4,117.4 | 3,227.0 | (617.0) | (251.4) | 3,500.4 | 2,975.6 |
| Railway and other transport services | 209.1 | 184.0 | (25.1) | (27.7) | 184.0 | 156.3 |
| Water concession | 142.3 | 181.1 | (13.3) | (11.4) | 129.0 | 169.7 |
| | 4,468.8 | 3,592.1 | (655.4) | (290.5) | 3,813.4 | 3,301.6 |

Segment assets and liabilities are reconciled to entity assets and liabilities through unallocated items as follows:

| | Segment assets 2008 US$m | Segment assets 2007 US$m | Segment liabilities 2008 US$m | Segment liabilities 2007 US$m | Segment net assets/(liabilities) 2008 US$m | Segment net assets/(liabilities) 2007 US$m |
|---|---|---|---|---|---|---|
| Segment assets/(liabilities) | 4,468.8 | 3,592.1 | (655.4) | (290.5) | 3,813.4 | 3,301.6 |
| Investment property | 2.7 | 3.5 | – | – | 2.7 | 3.5 |
| Investment in associate | 3.0 | 2.5 | – | – | 3.0 | 2.5 |
| Available for sale investments | 0.7 | 3.3 | – | – | 0.7 | 3.3 |
| Deferred tax assets/(liabilities) | 12.7 | 14.7 | (368.1) | (375.6) | (355.4) | (360.9) |
| Current tax assets/(liabilities) | 109.0 | 26.9 | (59.9) | (16.9) | 49.1 | 10.0 |
| Cash and cash equivalents/(borrowings) | 3,358.0 | 2,212.5 | (438.9) | (266.0) | 2,919.1 | 1,946.5 |
| Entity assets/(liabilities) | 7,954.9 | 5,855.5 | (1,522.3) | (949.0) | 6,432.6 | 4,906.5 |

## 6 Segment Information continued

### a) Primary reporting format – business segment continued

Notes to segment assets, liabilities and capital expenditure

i) Segment assets are operating assets and at 31 December 2008 comprise the intangible assets of US$233.6 million (2007 – US$263.6); property, plant and equipment of US$3,679.7 million (2007 – US$2,623.9 million); inventories of US$155.9 million (2007 – US$130.3 million); trade and other receivables of US$347.9 million (2007 – US$572.4 million); and current and non-current derivative financial instruments relating to commodities of US$51.7 million (2007 – US$1.9 million).

ii) Segment liabilities are operating liabilities and at 31 December 2008 comprise derivative financial instruments principally relating to exchange of US$1.4 million (2007 – US$1.4 million relating to commodities); trade and other payables of US$607.0 million (2007 – US$249.1 million); post retirement benefits of US$29.0 million (2007 – US$29.1 million) and other long-term provisions of US$18.0 million (2007 – US$10.9 million).

iii) Assets and liabilities of Tethyan Copper Company Limited (see Note 18(a)) have been included within corporate and other items.

### b) Secondary reporting format – by geographical segment

(i) Geographical analysis of turnover by location of customer

| | 2008 US$m | 2007 US$m |
|---|---|---|
| Europe | | |
| – United Kingdom | 3.7 | 0.1 |
| – Switzerland | 373.9 | 321.9 |
| – Rest of Europe | 603.0 | 742.1 |
| Latin America | | |
| – Chile | 419.6 | 377.8 |
| – Rest of Latin America | 250.6 | 190.3 |
| North America | | |
| – United States | 382.3 | 503.4 |
| – Rest of North America | 16.5 | 8.0 |
| Asia | | |
| – Japan | 707.5 | 1,000.6 |
| – China | 353.5 | 416.8 |
| – Rest of Asia | 262.0 | 265.7 |
| | 3,372.6 | 3,826.7 |

(ii) Geographical analysis of segment assets, segment liabilities and capital expenditure by location of assets and liabilities.

| | Segment assets | | Segment liabilities | | Segment net assets/(liabilities) | | Capital expenditure | |
|---|---|---|---|---|---|---|---|---|
| | 2008 US$m | 2007 US$m | 2008 US$m | 2007 US$m | 2008 US$m | 2007 US$m | 2008 US$m | 2007 US$m |
| Chile | 4,271.5 | 3,436.6 | (642.7) | (282.6) | 3,628.8 | 3,154.0 | 1,170.2 | 457.2 |
| Bolivia | 38.9 | 35.5 | (3.3) | (3.3) | 35.6 | 32.2 | 4.1 | 6.7 |
| Pakistan | 138.9 | 119.5 | (7.8) | (3.5) | 131.1 | 116.0 | 15.3 | 2.1 |
| Other | 19.5 | 0.5 | (1.6) | (1.1) | 17.9 | (0.6) | – | – |
| | 4,468.8 | 3,592.1 | (655.4) | (290.5) | 3,813.4 | 3,301.6 | 1,189.6 | 466.0 |

Segment assets and segment liabilities are reconciled to entity assets and liabilities in Note 6(a)(iv).

## 7 Profit for the Year

Profit for the year is stated after (charging)/crediting:

| | 2008 US$m | 2007 US$m |
|---|---|---|
| Foreign exchange (losses)/gains | | |
| – included in net finance costs | (3.9) | 2.9 |
| – included in income tax expense | (66.3) | 28.5 |
| Amortisation of intangible asset included in cost of sales (restated)* | (10.0) | (9.1) |
| Depreciation of property, plant and equipment (restated)* | | |
| – owned assets | (169.8) | (152.7) |
| – assets held under finance leases | (0.4) | (0.4) |
| Property and equipment written-off | (5.3) | (8.4) |
| Impairments of property, plant and equipment (exceptional items) | (188.3) | – |
| Cost of inventories recognised as expense | (1,020.0) | (700.1) |
| Employee benefit expense | (183.1) | (145.8) |
| Auditors' remuneration | | |
| – audit services | (0.6) | (0.7) |
| – non-audit services | (0.2) | (0.1) |

* As explained in Note 13, balances of property, plant and equipment have been restated due to adoption of IFRIC 12 "Service Concession Arrangements".

Impairment charges (and the unwinding of these amounts) are included in other operating profits.

The amounts disclosed above in relation to auditors' remuneration include fees payable to Deloitte LLP and its associates by the Group including UK and overseas subsidiaries. Fees paid for audit services to Deloitte LLP by the Company and its UK subsidiaries in 2008 were US$0.2 million (2007 – US$0.2 million). Fees paid for non-audit services to Deloitte LLP by the Company in 2008 were less than US$0.1 million (2007 less than US$0.1 million). There were no fees paid for non-audit services by the Group's other UK subsidiaries to Deloitte LLP in either 2007 or 2008.

A more detailed analysis of auditors' remuneration on a worldwide basis is provided below:

| | 2008 US$000 | 2007 US$000 |
|---|---|---|
| Statutory audit | | |
| – Antofagasta plc Annual Report | (308) | (377) |
| – Subsidiary entities | (284) | (315) |
| | (592) | (692) |
| Non-audit services | | |
| – Tax services | (42) | (27) |
| – Other consultancy services | (183) | (68) |
| | (817) | (787) |

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## 8 Employee Benefit Expense

### a) Average number of employees

| | 2008 Number | 2007 Number |
|---|---|---|
| Los Pelambres | 697 | 645 |
| El Tesoro | 534 | 458 |
| Michilla | 524 | 444 |
| Esperanza | 282 | – |
| Exploration | 28 | 25 |
| Corporate and other employees | | |
| – Chile | 121 | 136 |
| – United Kingdom | 7 | 8 |
| – Other | 39 | 20 |
| **Mining** | 2,232 | 1,736 |
| **Railway and other transport services** | 1,509 | 1,338 |
| **Water concession** | 264 | 249 |
| | 4,005 | 3,323 |

(i) The average number of employees for the year includes all the employees of subsidiaries and the Group's share of employees of jointly controlled entities. The average number of employees does not include contractors who are not directly employed by the Group.

(ii) The average numbers of employees does not include employees from associate.

(iii) The average number of employees includes the Executive Director but does not include non-executive Directors.

(iv) At 31 December 2007 corporate and other employees (Chile) included 43 employees related to the Esperanza project, who were employed by Antofagasta Minerals S.A.

### b) Aggregated remuneration

The aggregated remuneration of the employees included in the table above was as follows:

| | 2008 US$m | 2007 US$m |
|---|---|---|
| Wages and salaries | (176.5) | (138.1) |
| Social security costs | (3.2) | (2.4) |
| Post-employment benefits – severance charge in the year | (10.6) | (5.3) |
| | (190.3) | (145.8) |

The amount relating to Esperanza of US$7.2 million has been capitalised.

### c) Key management personnel

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any Directors (Executive and Non-Executive) of the Company.

Compensation for key management personnel (including Directors) was as follows:

| | 2008 US$m | 2007 US$m |
|---|---|---|
| Salaries and short-term employee benefits | 7.5 | 6.6 |
| Post-employment benefits – severance charge in the year | 0.1 | – |
| | 7.6 | 6.6 |

Disclosures on Directors' remuneration required by Schedule 7A of the Companies Act 1985 including those specified for audit by that Schedule are included in the Remuneration Report on pages 65 to 68.

## 9 Net Finance Income

Net finance income was as follows:

| | 2008 US$m | 2007 US$m |
|---|---|---|
| **Investment income** | | |
| Interest receivable | 78.9 | 113.4 |
| **Interest expense** | | |
| Interest payable | (13.1) | (19.8) |
| Amortisation of deferred finance costs | (0.4) | (0.4) |
| Preference dividends | (0.2) | (0.2) |
| | (13.7) | (20.4) |
| **Other finance items** | | |
| Time value effect of derivatives | (1.6) | 0.7 |
| Foreign exchange derivatives not hedge accounted for under IAS 39 | (1.4) | – |
| Unwinding of discount on provisions | (2.0) | (1.2) |
| Foreign exchange | (3.9) | 2.9 |
| | (8.9) | 2.4 |
| **Net finance income** | 56.3 | 95.4 |

Net interest expense and other finance items of US$6.2 million loss relating to the Esperanza project were capitalised within the development expenditure of that project during the year.

## 10 Taxation

| | 2008 US$m | 2007 US$m |
|---|---|---|
| **Current tax charge** | | |
| – Corporate tax (principally first category tax in Chile) | (284.8) | (441.3) |
| – Mining tax (Royalty) | (70.3) | (50.6) |
| – Withholding tax provision | (120.3) | (135.3) |
| – Exchange (losses)/gains on corporate tax balances | (66.3) | 28.5 |
| | (541.7) | (598.7) |
| **Deferred tax charge** | | |
| – Corporate tax (principally first category tax in Chile) | (30.3) | (8.1) |
| – Mining tax (Royalty) | 4.1 | (0.8) |
| – Withholding tax provision | 48.2 | (30.8) |
| | 22.0 | (39.7) |
| **Total tax charge (Income tax expense)** | (519.7) | (638.4) |

The current tax charge of US$541.7 million (2007 – US$598.7 million) comprises Chilean taxes of US$540.9 million (2007 – US$598.1 million) and other overseas taxes of US$0.9 million (2007 – US$0.6 million).

Current tax is based on taxable profit for the year. Deferred tax is the tax expected to be payable or recoverable on temporary differences (i.e. differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit). Deferred tax is accounted for using the balance sheet liability method and is provided on all temporary differences with certain limited exceptions. The Group incurs withholding taxes on the remittance of profits from Chile and the other countries in which it operates and deferred tax is provided on undistributed earnings to the extent that remittance is probable in the foreseeable future.

## 10 Taxation continued

The rate of first category (i.e. corporation) tax in Chile was 17% for both 2008 and 2007. Los Pelambres, El Tesoro and Michilla are also subject to a mining tax (royalty) which imposes an additional tax of 4% of tax-adjusted operating profit. Until 2007, 50% of the mining tax could be offset against first category tax and the remaining 50% was tax deductible (i.e. an allowable expense in determining liability to first category tax). From 2008, the ability to offset was is no longer available, but 100% of the mining tax will be tax deductible. The effect is to increase the effective tax rate of these three operations (before taking into account deductibility against corporation tax) by approximately 2% in 2007 and 4% from 2008 and thereafter.

In addition to first category tax and the mining tax, the Group incurs withholding taxes on the remittance of profits from Chile. Withholding tax is levied on remittances of profits from Chile at 35% less first category tax already paid. Accordingly, the effective tax rate of withholding tax for the purpose of paying dividends to Group shareholders is approximately 18% of the amount remitted or expected to be remitted.

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | US$m | % | US$m | % |
| Profit before tax | 2,609.5 | | 2,750.2 | |
| Tax at the Chilean corporation tax rate of 17% | (443.6) | 17.0 | (467.5) | 17.0 |
| Tax effect of share of results of associate | (0.4) | – | (0.3) | – |
| Deferred tax assets not recognised in the year | (5.9) | 0.2 | (2.7) | 0.1 |
| Effect of items not subject to or deductible from first category tax | 134.8 | (5.2) | 21.1 | (0.8) |
| Royalty | (66.2) | 2.5 | (51.4) | 1.9 |
| Withholding taxes provided in year | (72.1) | 2.8 | (166.1) | 6.0 |
| Exchange differences | (66.3) | 2.6 | 28.5 | (1.0) |
| Tax expense and effective tax rate for the year | (519.7) | 19.9 | (638.4) | 23.2 |

The tax charge for the year was US$519.7 million and the effective tax rate was 19.9%. This rate varies from the standard rate principally due to the provision of withholding tax of US$72.1 million, the effect of mining tax which resulted in a charge of US$66.2 million, exchange losses of US$66.3 million on Chilean peso denominated tax prepayments due to the weakening of the Chilean peso during the year, and the effect of items which are not subject to or deductible from first category tax.

In 2007 the total tax charge was US$638.4 million and the effective tax rate was 23.2%. This was principally due to the provision of withholding tax of US$166.1 million, and the effect of the mining tax, which resulted in a charge of US$51.4 million, partly offset by exchanges gains of US$28.5 million on Chilean-peso denominated tax prepayments due to the weakening of the US dollar during the year.

## 11 Earnings Per Share

| | 2008 | 2007 |
|---|---|---|
| | US$m | US$m |
| Profit for the year attributable to equity holders of the Company (Net earnings) | 1,706.5 | 1,382.1 |
| Profit for the year attributable to equity holders of the Company (Net earnings) – excluding exceptional items | 842.9 | 1,382.1 |

| | 2008 | 2007 |
|---|---|---|
| | Number | Number |
| Ordinary shares in issue throughout each year | 985,856,695 | 985,856,695 |

| | 2008 | 2007 |
|---|---|---|
| | US cents | US cents |
| Basic earnings per share | 173.1 | 140.2 |
| Basic earnings per share – excluding exceptional items | 85.5 | 140.2 |

## 11 Earnings Per Share continued

Basic earnings per share is calculated as profit after tax and minority interest, based on 985,856,695 ordinary shares.

There was no potential dilution of earnings per share in either year set out above, and therefore diluted earnings per share did not differ from basic earnings per share as disclosed above.

Basic earnings per share excluding exceptional items is calculated on profit after tax and minority interest excluding exceptional items giving net earnings excluding exceptional items of US$842.9 million. Further details together with the reconciliation of earnings per share to earnings per share excluding exceptional items is giving in Note 5.

## 12 Dividends

Amounts recognised as distributions to equity holders in the year:

| | 2008 US$m | 2007 US$m | 2008 US cents per share | 2007 US cents per share |
|---|---|---|---|---|
| Final dividend paid in June (proposed in relation to the previous year) | | | | |
| – ordinary | 53.3 | 49.3 | 5.4 | 5.0 |
| – special | 374.6 | 374.6 | 38.0 | 38.0 |
| | 427.9 | 423.9 | 43.4 | 43.0 |
| Interim dividend paid in October | | | | |
| – ordinary | 33.5 | 31.5 | 3.4 | 3.2 |
| – special | 29.6 | 29.6 | 3.0 | 3.0 |
| | 63.1 | 61.1 | 6.4 | 6.2 |
| | 491.0 | 485.0 | 49.8 | 49.2 |

The proposed final dividend for each year, which is subject to approval by shareholders at the Annual General Meeting and has therefore not been included as a liability in this financial statements, is as follows:

| | 2008 US$m | 2007 US$m | 2008 US cents per share | 2007 US cents per share |
|---|---|---|---|---|
| Final dividend proposed in relation to the year | | | | |
| – ordinary | 55.2 | 53.3 | 5.6 | 5.4 |
| – special | 473.2 | 374.6 | 48.0 | 38.0 |
| | 528.4 | 427.9 | 53.6 | 43.4 |

This gives total dividends proposed in relation to 2008 (including the interim dividend) of 60.0 cents per share or US$591.5 million (2007 – 49.6 cents per share or US$489.0 million).

In accordance with IAS 32, preference dividends have been included within interest expense (see Note 9) and amounted to US$0.2 million (2007 – US$0.2 million).

Further details relating to dividends for each year are given in the Directors' Report on pages 52 and 53.

## 13 Intangible Assets

| | Concession right 2008 US$m | Exploration licences 2008 US$m | Total intangible assets 2008 US$m | Total intangible assets (restated)* 2007 US$m |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance at the beginning of the year | 184.8 | 115.0 | 299.8 | 287.9 |
| Additions | – | 10.7 | 10.7 | – |
| Foreign currency exchange difference | (40.5) | – | (40.5) | 11.9 |
| Balance at the end of the year | 144.3 | 125.7 | 270.0 | 299.8 |
| **Amortisation** | | | | |
| Balance at the beginning of the year | (36.2) | – | (36.2) | (25.2) |
| Charge for the year | (10.0) | – | (10.0) | (9.1) |
| Foreign currency exchange difference | 9.8 | – | 9.8 | (1.9) |
| Balance at the end of the year | (36.4) | – | (36.4) | (36.2) |
| **Carrying amount** | | | | |
| Balance at the end of the year | 107.9 | 125.7 | 233.6 | 263.6 |

* IFRIC 12 "Service Concession Arrangements" has been adopted during 2008. This interpretation requires all infrastructure assets relating to the Water concession to be recorded within Intangible assets. Previously, certain infrastructure asset were recorded within property, plant and equipment. Accordingly, the comparative figures have been restated to reclassify the infrastructure asset into the Concession right and asset category within intangible assets. This has resulted in a reclassification from property, plant and equipment into intangible assets of US$55.9 million at 31 December 2007 (comprising cost of US$76.6 million and amortisation of US$20.7 million).

The concession right relates to the 30-year concession to operate the water rights and facilities in the Antofagasta Region of Chile which the Group's wholly-owned subsidiary, Aguas de Antofagasta S.A., acquired in December 2003. This intangible asset is being amortised on a straight-line basis over the life of the concession, or the useful life of any component part if less. Amortisation is included within operating costs.

At 31 December 2008, US$120.7 million of the exploration licences mainly relate to the value attributed to the rights acquired in the Reko Diq area of south-west Pakistan on the purchase of Tethyan Copper Company Limited in 2006, and related rights of US$5.7 million acquired during 2008. The remaining US$5.0 million relate to the acquisition of an initial interest in prospecting licences in Zambia from TEAL Exploration & Mining Incorporated as disclosed in Note 33. This intangible asset will be amortised in accordance with the Group's policy for mining properties when the related mining properties enter into production.

## 14 Property, Plant and Equipment

| | Land and mining properties US$m | Buildings and infra-structure US$m | Railway track US$m | Wagons and rolling stock US$m | Machinery, equipment and others US$m | Assets under construc-tion US$m | Total US$m |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| At 1 January 2007 (restated)* | 631.8 | 1,060.4 | 39.6 | 73.9 | 997.2 | 481.9 | 3,284.8 |
| Additions | 0.3 | 1.1 | – | 17.4 | 34.8 | 412.4 | 466.0 |
| Reclassifications | 0.9 | 19.5 | 6.0 | 5.6 | 130.4 | (162.4) | – |
| Asset disposals | (0.1) | (3.2) | (0.5) | (1.7) | (35.7) | (1.0) | (42.2) |
| Foreign currency exchange difference | (0.1) | 0.8 | – | 2.0 | 1.4 | 0.3 | 4.4 |
| At 31 December 2007 (restated) and 1 January 2008 | 632.8 | 1,078.6 | 45.1 | 97.2 | 1,128.1 | 731.2 | 3,713.0 |
| Acquisition (see Note 31) | 243.1 | – | – | – | – | – | 243.1 |
| Additions | 28.1 | 18.4 | – | 6.2 | 316.2 | 820.7 | 1,189.6 |
| Reclassifications | (6.5) | 719.5 | 3.1 | 11.8 | 144.8 | (872.7) | – |
| Asset disposals | (22.6) | (7.2) | – | (3.2) | (13.3) | (15.8) | (62.1) |
| Eliminated on disposals | – | – | – | – | – | – | – |
| Foreign currency exchange difference | 0.3 | (9.6) | – | (1.7) | (0.9) | (1.8) | (13.7) |
| **At 31 December 2008** | **875.2** | **1,799.7** | **48.2** | **110.3** | **1,574.9** | **661.6** | **5,069.9** |
| **Accumulated depreciation and impairment** | | | | | | | |
| At 1 January 2007 (restated)* | (132.5) | (305.1) | (6.3) | (38.2) | (482.4) | (4.0) | (968.5) |
| Charge for the year | (38.4) | (41.8) | (1.4) | (7.2) | (64.3) | – | (153.1) |
| Asset disposals | – | 0.1 | 0.1 | 1.4 | 32.2 | – | 33.8 |
| Foreign currency exchange difference | – | (0.1) | – | (0.9) | (0.3) | – | (1.3) |
| At 31 December 2007 (restated) and 1 January 2008 | (170.9) | (346.9) | (7.6) | (44.9) | (514.8) | (4.0) | (1,089.1) |
| Charge for the year | (39.7) | (43.3) | (1.6) | (8.0) | (77.6) | – | (170.2) |
| Depreciation capitalised | – | – | – | – | (6.9) | – | (6.9) |
| Impairments | (69.9) | (55.9) | – | – | (62.5) | – | (188.3) |
| Asset disposals | – | 13.1 | – | 2.1 | 41.6 | – | 56.8 |
| Foreign currency exchange difference | – | 5.8 | – | 1.0 | 0.7 | – | 7.5 |
| **At 31 December 2008** | **(280.5)** | **(427.2)** | **(9.2)** | **(49.8)** | **(619.5)** | **(4.0)** | **(1,390.2)** |
| **Net book value** | | | | | | | |
| **At 31 December 2008** | **594.7** | **1,372.5** | **39.0** | **60.5** | **955.4** | **657.6** | **3,679.7** |
| At 31 December 2007 | 461.9 | 731.7 | 37.5 | 52.3 | 613.3 | 727.2 | 2,623.9 |
| **Assets under finance leases included in the totals above** | | | | | | | |
| **Net book value** | | | | | | | |
| **At 31 December 2008** | **–** | **57.3** | **–** | **–** | **1.8** | **–** | **59.1** |
| At 31 December 2007 | – | – | – | – | 1.1 | – | 1.1 |

* As explained in Note 13, balances of property, plant and equipment have been restated due to adoption of IFRIC 12 "Service Concession Arrangements".

The Group has pledged assets with a carrying value of US$12.5 million (2007 – US$32.0 million) as security against bank loans provided to the Group.

At 31 December 2008 the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to US$ 447.0 million (2007 US$432.6 million). Commitments at 31 December 2008 included US$ 221.3 million relating to the Esperanza project and US$167.6 million relating to the plant expansion project at Los Pelambres.

Compensation from insurance companies related to property, plant and equipment included in the consolidated income statement was US$5.0 million in 2008 (2007 – US$2.3 million).

## 15 Investment Property

| Cost | 2008 US$m | 2007 US$m |
|---|---|---|
| Balance at the beginning of the year | 3.5 | 3.2 |
| Foreign currency exchange difference | (0.8) | 0.3 |
| Balance at the end of the year | 2.7 | 3.5 |

Investment property represents the Group's forestry properties, which are held for long-term potential and accordingly classified as investment property and held at cost as permitted by IAS 40.

The fair value of the Group's investment property at 31 December 2008 was US$11.0 million (2007 – US$11.0 million), based on an independent valuation carried out during 2008 by Gabriel Durán, who is not connected with the Group. Mr. Durán is a Forestry Engineer, Valuer and Assessor of forestry properties for Banco Itau in Chile, with extensive experience of valuation in the region where the assets are located. The valuation was based on market evidence of transaction prices for similar properties.

Direct operating expenses (principally on-going maintenance costs) arising on these properties amounted to US$0.1 million (2007 – US$0.1 million).

## 16 Investments in Subsidiaries

The principal subsidiaries of the Group and the percentage of equity owned are set out below. These interests are consolidated within these financial statements. The Group has restricted the information to its principal subsidiaries as full compliance with section 231(5) of the Companies Act 1985 would result in a statement of excessive length.

| | Country of incorporation | Country of operations | Nature of business | Economic interest |
|---|---|---|---|---|
| **Direct subsidiaries of the Parent Company** | | | | |
| Antofagasta Railway Company plc | Great Britain | Chile | Railway | 100% |
| Minera Anaconda Perú S.A. | Peru | Peru | Mining | 100% |
| Chilean Northem Mines Limited | Great Britain | Chile | Investment | 100% |
| Sierra Gorda Investment Company Limited | Jersey | Jersey | Investment | 100% |
| **Indirect subsidiaries of the Parent Company** | | | | |
| Antofagasta Minerals S.A. | Chile | Chile | Mining | 100% |
| Minera Los Pelambres | Chile | Chile | Mining | 60% |
| Minera El Tesoro | Chile | Chile | Mining | 70% |
| Minera Michilla S.A. | Chile | Chile | Mining | 74.2% |
| Minera Esperanza | Chile | Chile | Mining | 70% |
| Equatorial Mining Limited | Australia | Chile | Mining | 100% |
| Antofagasta Services Limited | Great Britain | Great Britain | Group services | 100% |
| Los Pelambres Investment Company Limited | Jersey | Jersey | Investment | 100% |
| Inversiones Los Pelambres Chile Limitada | Chile | Chile | Investment | 100% |
| Aguas de Antofagasta S.A. | Chile | Chile | Water distribution | 100% |
| Servicios de Transportes Integrados Limitada | Chile | Chile | Road transport | 100% |
| Empresa Ferroviaria Andina S.A. | Bolivia | Bolivia | Railway | 50% |
| Forestal S.A. | Chile | Chile | Forestry | 100% |

The Group exercises management control over and has the right to appoint the majority of the board of Empresa Ferroviaria Andina S.A.. Accordingly, this investment is treated as a subsidiary and is consolidated in these Group financial statements.

## 17 Investment in Associate

| | 2008 US$m | 2007 US$m |
|---|---|---|
| Balance at the beginning of the year | 2.5 | 3.5 |
| Share of profit before tax | 2.7 | 1.7 |
| Share of tax | (0.4) | (0.3) |
| Share of income from associate | 2.3 | 1.4 |
| Dividends received | (1.8) | (2.4) |
| Balance at the end of the year | 3.0 | 2.5 |

The investment in associate refers to the Group's 30% interest in Antofagasta Terminal Internacional S.A. ("ATI"), which operates a concession to manage installations in the port of Antofagasta.

The Group's share of the summarised financial information of ATI, which is unlisted, is as follows:

| | 2008 US$m | 2007 US$m |
|---|---|---|
| Total assets (net of fair value adjustments) | 4.3 | 3.8 |
| Total liabilities | (1.3) | (1.3) |
| Turnover | 9.5 | 7.2 |
| Profit after tax and minorities | 2.3 | 1.4 |

## 18 Joint Venture Agreements

### a) Tethyan Copper Company Limited

In 2006 the Group acquired 100% of the issued share capital of Tethyan Copper Company Limited ("Tethyan") for cash consideration (including transaction costs) of US$170.4 million. In the same year, the Group subsequently entered into a joint venture agreement with Barrick Gold Corporation ("Barrick Gold"), to establish a 50:50 joint venture in relation to Tethyan's mineral interests in Pakistan.

During 2008 and 2007 Tethyan was wholly engaged in mineral exploration activities and did not generate any revenue. Tethyan's operating loss resulting during the year was US$54.6 million (2007 – US$34.0 million), which relates mainly to exploration costs expensed in accordance with the Group's accounting policy and of which 50% is attributable to the Group.

The following amounts represent the Group's 50% share of the assets and liabilities, and results of the jointly controlled entity, and are included in the consolidated balance sheet and in the consolidated income statement of the Group under the proportionate consolidation method:

| | 2008 US$m | 2007 US$m |
|---|---|---|
| Total non-current assets | 137.7 | 117.5 |
| Total current assets | 5.9 | 2.1 |
| Total current liabilities | (8.0) | (4.4) |
| Total non-current liabilities | (0.2) | (0.1) |
| Group's share of jointly controlled entity's net assets | 135.4 | 115.1 |
| Operating loss | (27.3) | (17.0) |
| Net finance income | 1.5 | 0.1 |
| Tax | – | (0.6) |
| Group's share of jointly controlled entity's results | (25.8) | (17.5) |

In addition to these amounts, the Group incurred US$2.7 million (2007 – US$0.7 million) relating to Tethyan which is included in Corporate and other items.

## 18 Joint Venture Agreements continued

### b) Energía Andina S.A.

In October 2008 Energía Andina S.A. was formed as a vehicle for the exploration and exploitation of potential sources of geothermal energy. The company is 60% owned by the Group and 40% owned by Empresa Nacional del Petróleo ("ENAP") of Chile. Control over the key operational and financial decisions in respect of the company are jointly exercised by the Group and ENAP, and accordingly the company is accounted for as a jointly controlled entity, with results included in the consolidated balance sheet and in the consolidated income statement of the Group under the proportionate consolidation method.

From the date of incorporation to the year end, Energía Andina S.A. was wholly engaged in geothermal exploration activities and did not generate any revenue in the period after its incorporation. The operation loss resulting from Energía Andina S.A. for the year was US$ 0.7 million, which relates mainly to exploration costs expensed in accordance with the Group's accounting policy, and of which 60% is attributable to the Group.

The following amounts represent the Group's 60% share of the assets and liabilities, and results of the jointly controlled entity, and are included in the consolidated balance sheet and in the consolidated income statement of the Group under proportional consolidated method:

| | 2008<br>US$m |
|---|---|
| Total current assets | 8.6 |
| **Group's share of jointly controlled entity's net assets** | **8.6** |
| Operating loss | (0.4) |
| **Group's share of jointly controlled entity's results** | **(0.4)** |

In addition to these amounts, the Group incurred US$ 0.1 million relating to Energía Andina S.A. which is included in Corporate and other items.

### c) Cordillera de las Minas S.A.

The Group had a joint venture agreement, entered into during 2002, with Companhia Vale do Rio Doce ("Vale") of Brazil, with the objective of developing mineral exploration activities in a defined area of interest in southern Peru. In June 2007 the Group sold its 50% interest in the joint venture vehicle Cordillera de Las Minas S.A. ("CMSA") to Panoro Minerals Limited ("Panoro"), a company listed on the TSX Venture Exchange. The fair value of the consideration received, being US$6.0 million in cash plus six million common shares in Panoro, was US$9.7 million. The joint venture had a nil carrying value in the Group's balance sheet, and accordingly the disposal resulted in a gain of US$9.7 million being recognised during 2007, recorded within other operating income.

## 19 Available for Sale Investments

Available for sale investments represent those investments which are not subsidiaries, associates or joint ventures and are not held for trading purposes.

The movement in available for sale assets during the year was as follows:

| | 2008 US$m | 2007 US$m |
|---|---|---|
| Balance at the beginning of the year | 3.3 | 6.2 |
| Additions | – | 3.7 |
| Movements in fair value | (2.6) | 10.0 |
| Disposal | – | (16.6) |
| Balance at the end of the year | 0.7 | 3.3 |

At 31 December 2008, the balance of US$0.7 million comprises mainly the market value of Panoro Minerals Limited's shares which were acquired as part consideration for the disposal of the Group's share of the joint venture entity Cordillera de las Minas S.A. (see Note 18). The fair value of these shares decreased by US$2.6 million during the year (2007 – US$0.5 million).

During 2007 the shares in Mercator Minerals Limited, which had been acquired through the acquisition of Equatorial Mining Limited in 2006, were disposed of resulting in a gain of US$10.5 million recognised in the income statement.

The fair value of the remaining available for sale investments of less than US$0.1 million held by the Group at 31 December 2008 are mainly Chilean-peso denominated and did not differ materially from cost at the year end.

## 20 Inventories

| | 2008 US$m | 2007 US$m |
|---|---|---|
| Raw materials and consumables | 49.6 | 41.1 |
| Work in progress | 87.1 | 71.1 |
| Finished goods | 19.2 | 18.1 |
| | 155.9 | 130.3 |

Work in progress includes US$6.6 million (2007 – US$9.6 million) related to high carbonate ore inventories at El Tesoro which are expected to be processed more than twelve months after the balance sheet date. During 2007 a write-off of US$18.8 million was recorded in respect of these inventories.

During 2008 a write-off of US$0.9 million was recorded at Michilla to reduce inventories to their expected net realisable value.

## 21 Trade and Other Receivables

| | Due in one year | | Due after one year | | Total | |
|---|---|---|---|---|---|---|
| | 2008 US$m | 2007 US$m | 2008 US$m | 2007 US$m | 2008 US$m | 2007 US$m |
| Trade debtors | 79.5 | 403.5 | 0.7 | 0.6 | 80.2 | 404.1 |
| Other debtors | 234.3 | 136.9 | 33.4 | 31.4 | 267.7 | 168.3 |
| | 313.8 | 540.4 | 34.1 | 32.0 | 347.9 | 572.4 |

There is no significant concentration of credit risk with respect to trade receivables as the exposure is spread over a large number of customers. The average credit period given on sale of goods and rendering of service is 37 days (2007 – 54 days). There is no material element which is interest-bearing. Trade debtors include mark-to-market adjustments in respect of provisionally priced sales of copper and molybdenum concentrates which remain open as to final pricing; where these have resulted in credit balances, these have been reclassified to trade creditors as disclosed in Note 24.

## 21 Trade and Other Receivables continued

Movements in the provision for doubtful debts were as follows:

| | 2008 US$m | 2007 US$m |
|---|---|---|
| Balance at the beginning of the year | (3.1) | (2.7) |
| Charge for the year | (0.2) | (0.5) |
| Amounts written off | 0.5 | – |
| Unused amounts reversed | 0.5 | 0.1 |
| Balance at the end of the year | (2.3) | (3.1) |

The ageing analysis of the trade receivables balance is as follows:

| | | Past due but not impaired | | | |
|---|---|---|---|---|---|
| | Neither past due nor impaired US$m | Up to 3 months past due US$m | 3-6 months past due US$m | More than 6 months past due US$m | Total US$m |
| 2008 | 338.2 | 6.9 | 0.2 | 2.6 | 347.9 |
| 2007 | 561.6 | 9.1 | 0.7 | 1.0 | 572.4 |

With respect to the trade receivables that are neither past due nor impaired, there are no indications that the debtors will not meet their payment obligations. The carrying value of the trade receivables recorded in the financial statements represents the maximum exposure to credit risk. The Group does not hold any collateral as security.

Other debtors include US$46.1 million (2007 – US$40.2 million) relating to prepayments for the purchase of property, plant and equipment and nil (2007 – US$4.7 million) of Chilean VAT relating to the acquisition of the water concession in 2003.

## 22 Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand, deposits held on call with banks and highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents had a maturity period of three months or less from the date of acquisition at both 31 December 2008 and 31 December 2007, and carried floating rates of interest. The fair value of cash and cash equivalents is not materially different from the carrying values presented. The credit risk on cash and cash equivalents is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The currency exposure of cash and cash equivalents was as follows:

| | 2008 US$m | 2007 US$m |
|---|---|---|
| US dollars | 3,017.6 | 2,148.0 |
| Chilean pesos | 289.6 | 40.2 |
| Australian dollars | 49.3 | 23.5 |
| Euros | – | 0.3 |
| Sterling | 1.0 | – |
| Other | 0.5 | 0.5 |
| | 3,358.0 | 2,212.5 |

Details of cross-currency swaps in place at the end of the year end are given in Note 25 (e)(ii).

## 23 Borrowings

### a) Analysis by type of borrowing

Borrowings may be analysed by business segment and type as follows:

| | Notes | 2008 US$m | 2007 US$m |
|---|---|---|---|
| **Los Pelambres** | | | |
| Corporate loans | (i) | (152.6) | (229.0) |
| Short term loans | (ii) | (224.0) | – |
| Other loans | | – | (4.7) |
| **El Tesoro** | | | |
| Corporate loans | | – | (14.0) |
| Finance leases | (iii) | (0.4) | (0.1) |
| **Michilla** | | | |
| Finance leases | | – | (0.1) |
| **Esperanza** | | | |
| Finance leases | (iv) | (19.5) | – |
| **Corporate and other items** | | | |
| Finance leases | (v) | (32.4) | – |
| **Railway and other transport services** | | | |
| Loans | (vi) | (7.1) | (14.1) |
| **Other** | | | |
| Preference shares | (vii) | (2.9) | (4.0) |
| | | (438.9) | (266.0) |

(i) Corporate loans at Los Pelambres are unsecured and US dollar denominated. The balance of US$152.6 million represents syndicated loans of US$153.3 million less deferred financing costs of US$0.7 million. These loans are repayable in semi-annual instalments with 2 years remaining and carry interest at approximately LIBOR six-month rate plus 0.24%.

(ii) Short term loans at Los Pelambres have an average duration of 5 months and a weighted average interest rate of LIBOR six-month rate plus spread average of 3.63%.

(iii) Finance leases at El Tesoro are US dollar denominated, and are fixed rate with an average interest rate of 1.09%.

(iv) Finance leases at Esperanza are denominated in US dollars, Chilean Pesos and Unidades de Fomento (i.e. inflation-linked Chilean pesos) with a maximum duration of 5 years and fixed rate with an average interest rate of 3.27%.

(v) Finance leases at Corporate and other items are denominated in Unidades de Fomento (i.e. inflation-linked Chilean pesos) and have a duration of 20 years and a fixed rate of 5.29%.

(vi) Railway and other transport services includes a balance of US$6.9 million denominated in US dollars with a weighted average floating interest rate (Bolivian Reference Interest Rate Index) of 10.45% which is repayable over 1.66 years. The balance at 31 December 2008 also includes US dollar customer advances of US$0.2 million.

(vii) The preference shares are sterling-denominated and issued by the Company. There were 2,000,000 shares of £1 each authorised, issued and fully paid at both 31 December 2008 and 31 December 2007. The preference shares are non-redeemable and are entitled to a fixed cumulative dividend of 5% per annum. On winding up they are entitled to repayment and any arrears of dividend in priority to ordinary shareholders, but are not entitled to participate further in any surplus. Each preference share carries 100 votes (see Note 29) in any general meeting of the Company.

## 23 Borrowings continued

### b) Analysis of borrowings by currency

The exposure of the Group's borrowings to currency risk is as follows:

| At 31 December 2008 | Pesos US$m | Euros US$m | Sterling US$m | US dollars US$m | 2008 Total US$m |
|---|---|---|---|---|---|
| Corporate loans | – | – | – | (152.6) | (152.6) |
| Other loans (including short-term loans) | – | – | – | (231.1) | (231.1) |
| Finance leases | (46.1) | – | – | (6.2) | (52.3) |
| Preference shares | – | – | (2.9) | – | (2.9) |
| | (46.1) | – | (2.9) | (389.9) | (438.9) |

| At 31 December 2007 | Pesos US$m | Euros US$m | Sterling US$m | US dollars US$m | 2007 Total US$m |
|---|---|---|---|---|---|
| Corporate loans | – | – | – | (243.0) | (243.0) |
| Other loans (including short-term loans) | – | (0.7) | – | (18.1) | (18.8) |
| Finance leases | – | – | – | (0.2) | (0.2) |
| Preference shares | – | – | (4.0) | – | (4.0) |
| | – | (0.7) | (4.0) | (261.3) | (266.0) |

### c) Analysis of borrowings by type of interest rate

The exposure of the Group's borrowings to interest rate risk is as follows:

| At 31 December 2008 | Fixed US$m | Floating US$m | Interest free US$m | 2008 Total US$m |
|---|---|---|---|---|
| Corporate loans | – | (152.6) | – | (152.6) |
| Other loans (including short-term loans) | – | (231.1) | – | (231.1) |
| Finance leases | (52.3) | – | – | (52.3) |
| Preference shares | (2.9) | – | – | (2.9) |
| | (55.2) | (383.7) | – | (438.9) |

| At 31 December 2007 | Fixed US$m | Floating US$m | Interest free US$m | 2007 Total US$m |
|---|---|---|---|---|
| Corporate loans | – | (243.0) | – | (243.0) |
| Other loans (including short-term loans) | (0.7) | (17.8) | (0.3) | (18.8) |
| Finance leases | (0.2) | – | – | (0.2) |
| Preference shares | (4.0) | – | – | (4.0) |
| | (4.9) | (260.8) | (0.3) | (266.0) |

## 23 Borrowings continued

### d) Maturity profile

The maturity profile of the Group's borrowings is as follows:

| At 31 December 2008 | Within 1 year US$m | Between 1-2 years US$m | Between 2-5 years US$m | After 5 years US$m | 2008 Total US$m |
|---|---|---|---|---|---|
| Corporate loans | (76.3) | (76.3) | – | – | (152.6) |
| Other loans (including short-term loans) | (229.8) | (1.3) | – | – | (231.1) |
| Finance leases | (12.9) | (6.4) | (33.0) | – | (52.3) |
| Preference shares | – | – | – | (2.9) | (2.9) |
| | (319.0) | (84.0) | (33.0) | (2.9) | (438.9) |

| At 31 December 2007 | Within 1 year US$m | Between 1-2 years US$m | Between 2-5 years US$m | After 5 years US$m | 2007 Total US$m |
|---|---|---|---|---|---|
| Corporate loans | (90.5) | (76.3) | (76.2) | – | (243.0) |
| Other loans (including short-term loans) | (11.1) | (7.2) | (0.5) | – | (18.8) |
| Finance leases | (0.2) | – | – | – | (0.2) |
| Preference shares | – | – | – | (4.0) | (4.0) |
| | (101.8) | (83.5) | (76.7) | (4.0) | (266.0) |

The amounts included above for finance leases are based on the present value of minimum lease payments.

The total minimum lease payments for these finance leases may be analysed as follows:

| | Within 1 year US$m | Between 1-2 years US$m | Between 2-5 years US$m | After 5 years US$m | 2008 Total US$m |
|---|---|---|---|---|---|
| 2008 | | | | | |
| Finance leases | (9.6) | (6.4) | (36.3) | – | (52.3) |
| 2007 | | | | | |
| Finance leases | (0.2) | – | – | – | (0.2) |

All leases are on a fixed payment basis and no arrangements have been entered into for contingent rental payments.

### e) Borrowings facilities

The undrawn committed borrowing facilities available at the end for each year, in respect of which all conditions precedent had been met at those dates, were as follows:

| | 2008 US$m | 2007 US$m |
|---|---|---|
| Expiring in one year or less | 456.4 | 355.3 |
| Expiring in more than one but not more than two years | 2.0 | 20.0 |
| Expiring in more than two years | – | 25.0 |
| | 458.4 | 400.3 |

The available facilities comprise general working capital facilities at the Group's operating subsidiaries all of which were undrawn at the end of each year. Of these facilities, US$379.2 million (2007 – US$357.6 million) are denominated in US dollars, US$16.9 million (2007 – US$39.5 million) in Unidades de Fomento (i.e. inflation-linked Chilean pesos), US$7.9 million (2007 – nil) in Euro and US$54.4 million (2007 – US$3.2 million) in Chilean pesos.

## 24 Trade and Other Payables

| | Due in one year | | Due after one year | | Total | |
|---|---|---|---|---|---|---|
| | 2008 US$m | 2007 US$m | 2008 US$m | 2007 US$m | 2008 US$m | 2007 US$m |
| Trade creditors | (415.1) | (85.2) | – | (2.6) | (415.1) | (87.8) |
| Other creditors and accruals | (179.3) | (161.3) | (12.6) | – | (191.9) | (161.3) |
| | (594.4) | (246.5) | (12.6) | (2.6) | (607.0) | (249.1) |

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 39 days (2007 – 33 days).

At 31 December 2008 trade and other creditors includes US$274.2 million (2007 – nil) related to amounts to be reimbursed to clients as a result of mark-to-market adjustment on provisional sales of copper and molybdenum concentrates and copper cathodes.

## 25 Financial Instruments and Financial Risk Management

### a) Categories of financial instruments

The Group's financial instruments, grouped according to the categories defined in IAS 39 "Financial instruments: Recognition and Measurement", were as follows:

| | 2008 US$m | 2007 US$m |
|---|---|---|
| Financial assets | | |
| Derivatives in designated hedge accounting relationships | 51.7 | 1.9 |
| Available for sale investments | 0.7 | 3.3 |
| Loans and receivables (including cash and cash equivalents) | 3,705.9 | 2,784.9 |
| Financial liabilities | | |
| Derivatives in designated hedge accounting relationships | (1.4) | (1.4) |
| Financial liabilities measured at amortised cost | (1,045.9) | (515.1) |
| | 2,711.0 | 2,273.6 |

### b) Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- the fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- the fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and
- the fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis based on the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

The fair value of each category of financial asset and liability is not materially different from the carrying values presented for either 2008 or 2007.

## 25 Financial Instruments and Financial Risk Management continued

### c) Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including commodity price risk, currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The Group uses derivative financial instruments to reduce exposure to commodity price, foreign exchange and interest rate movements. The Group does not use such derivative instruments for speculative trading purposes.

The Board of Directors is responsible for overseeing the Group's risk management framework. The Board has established the Risk Management Committee, which is responsible for developing and monitoring the Group's risk management policies. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Risk Management Committee.

(i) Commodity price risk

The Group generally sells its copper and molybdenum concentrate and copper cathodes output at prevailing market prices, subject to final pricing adjustments which may be 30 to 180 days after delivery to the customer, and it is therefore exposed to changes in market prices for copper and molybdenum both in respect of future sales and previous sales which remain open as to final pricing. In 2008, sales of copper and molybdenum concentrate and copper cathodes represented 91.8% of Group turnover and therefore revenues and earnings depend significantly on LME and realised copper prices.

The Group uses futures, min-max instruments and options to manage its exposure to copper prices. These instruments may give rise to accounting volatility due to fluctuations in their fair value prior to the maturity of the instruments. Details of those copper and molybdenum concentrate sales and copper cathode sales which remain open as to final pricing are given in Note 25(d). Details of commodity rate derivatives entered into by the Group are given in Note 25(e).

*Commodity price sensitivity*

The sensitivity analysis below shows the impact of a movement in the copper price on the financial instruments held as at the reporting date. A movement in the copper forward price as at the reporting date will affect the final pricing adjustment to sales which remain open at that date, impacting the trade receivables balance and consequently the income statement. A movement in the copper forward price will also affect the valuation of commodity derivatives, impacting the hedging reserve in equity if the fair value movement relates to an effective designated cash flow hedge, and impacting the income statement if it does not. The calculation assumes that all other variables, such as currency rates, remain constant.

- If the copper forward price as at the reporting date had increased by 10 cents, net earnings would have increased by US$0.1 million (2007 – US$6.5 million) and hedging reserves in equity would have decrease by US$ 3.6 million (2007 – nil).
- If the copper forward price as at the reporting date had decreased by 10 cents, net earnings would have decreased by US$0.1 million (2007 – US$6.5 million) and hedging reserves in equity would have increase by US$ 3.6 million (2007 – nil).

In addition to the above analysis of the impact of a movement in the forward copper price on the financial instruments held at the reporting date, a movement in the average copper price during the year would impact revenue and earnings. A one cent change in the average copper price during the year would affect net earnings by US$ 5.6 million (2007 – US$5.3 million) and earnings per share by 0.6 cents (2007 – 0.5 cents), based on production volumes in 2008, without taking into account the effects of provisional pricing and hedging activity. A one dollar change in the average molybdenum price for the year would affect net earnings by US 8.2 million (2007 – US$10.7 million), and earnings per share by 0.8 cents (2007 – 1.1 cents), based on production volumes in 2008, and without taking into account the effects of provisional pricing.

## 25 Financial Instruments and Financial Risk Management continued

### c) Financial risk management continued

(ii) Currency risk

The Group is exposed to a variety of currencies. The US dollar, however, is the currency in which the majority of the Group's sales are denominated. Operating costs are influenced by the countries in which the Group's operations are based (principally in Chile) as well as those currencies in which the costs of imported equipment and services are determined. After the US dollar, the Chilean peso is the most important currency influencing costs and to a lesser extent sales.

Given the significance of the US dollar to the Group's operations, this is the presentational currency of the Group for internal and external reporting. The US dollar is also the currency for borrowing and holding surplus cash, although a portion of this may be held in other currencies, notably Chilean pesos and sterling, to meet short term operational and capital commitments and dividend payments.

When considered appropriate, the Group uses forward exchange contracts and currency swaps to limit the effects of movements in exchange rates in foreign currency denominated assets and liabilities. The Group may also use these instruments to reduce currency exposure on future transactions and cash flows. Details of any exchange rate derivatives entered by the Group in the year are given in Note 25(e).

The currency exposure of the Group's cash and cash equivalents is given in Note 22, and the currency exposure of the Group's borrowings is given in Note 23. The effect of exchange gains and losses included in the income statement are given in Note 7. Exchange differences on translation of the net assets of entities with a functional currency other than the US dollar (the most material of which is Aguas de Antofagasta S.A.) are taken to the currency translation reserve and are disclosed in the Consolidated Statement of Changes in Equity on page 75.

*Currency sensitivity*

The sensitivity analysis below shows the impact of a movement in the US dollar / Chilean peso exchange rate on the financial instruments held as at the reporting date.

The impact on profit or loss is as a result of the retranslation of monetary financial instruments (including cash, trade receivables, trade payables, current tax balances and borrowings). The impact on equity is as a result of changes in the fair value of derivative instruments which are effective designated cash flow hedges, and changes in the fair value of available for sale equity investments. The calculation assumes that all other variables, such as interest rates, remain constant.

If the US dollar had strengthened by 10% against the Chilean peso as at the reporting date, net earnings would have decreased by US$ 6.8 million (2007 – US$3.2 million); there would have been no additional impact on equity. If the US dollar had weakened by 10% against the Chilean Peso as at the reporting date, net earnings would have increased by US$ 8.3 million (2007 – US$3.9 million increase); there would have been no additional impact on equity.

(iii) Interest rate risk

The Group's policy is generally to borrow and invest cash at floating rates. Fluctuations in interest rates may impact the Group's net finance income or cost, and to a lesser extent on the value of financial assets and liabilities. The Group occasionally uses interest rate swaps and collars to manage interest rate exposures on a portion of its existing borrowings. Details of any interest rate derivatives entered into by the Group are given in Note 25(e).

## 25 Financial Instruments and Financial Risk Management continued

### c) Financial risk management continued

The interest rate exposure of the Group's cash and cash equivalents is given in Note 22, and the interest rate exposure of the Group's borrowings is given in Note 23.

*Interest rate sensitivity*

The sensitivity analysis below shows the impact of a movement in interest rates in relation to the financial instruments held as at the reporting date. The impact on profit or loss is as a result of the effect on interest expense in respect of floating rate borrowings, and interest income in respect of cash and cash equivalents. The impact on equity is as a result of changes in the fair value of derivative instruments which are effective designated cash flow hedges. The calculation assumes that all other variables, such as currency rates, remain constant.

If the interest rate increased by 1%, based on the financial instruments held as at the reporting date, net earnings would have increased by US$ 22.5 million (2007 – US$15.1 million). There would have been no additional impact on equity.

(iv) Other price risk

The Group is exposed to equity price risk on its available for sale equity investments.

*Equity price sensitivity*

The sensitivity analysis below shows the impact of a movement in the equity values of the available for sale financial assets held as at the reporting date.

If the value of the available for sale investments had increased by 10% as at the reporting date, equity would have increased by US$ 0.1 million (2007 – US$0.3 million). There would have been no impact on the income statement.

(v) Cash flow risk

The Group's future cash flows depend on a number of factors, including commodity prices, production and sales levels, operating costs, capital expenditure levels and financial income and costs. Its cash flows are therefore subject to the exchange, interest rate and commodity price risks described above as well as operational factors and input costs. Further information on production and sales levels and operating costs are given in the Business Review on pages 14 to 26.

(vi) Credit risk

Credit risk arises from trade and other receivables, cash and cash equivalents and derivative financial instruments. The Group's credit risk is primarily to trade receivables. The credit risk on cash and cash equivalents and on derivative financial instruments is limited as the counterparties are banks with high credit ratings assigned by international credit agencies.

All customers are subject to credit review procedures, including the use of external credit ratings where available. Credit is provided only within set limits, which are regularly reviewed. Outstanding receivable balances are monitored on an ongoing basis.

The carrying value of financial assets recorded in the financial statements represents the maximum exposure to credit risk. The amounts presented in the balance sheet are net of allowances for any doubtful receivables.

(vii) Liquidity risk

The Group manages liquidity risk by maintaining adequate cash reserves and financing facilities, through the review of forecast and actual cash flows.

The Group typically holds surplus cash balances in either demand deposits or short-term deposits, while the

## 25 Financial Instruments and Financial Risk Management continued

### c) Financial risk management continued

majority of borrowings comprise short term loans at Los Pelambres which are repayable in average 4 months after the year end and corporate loans at Los Pelambres which are payable in semi-annual instalments over two years remaining.

At the end of both 2008 and 2007, the Group was in a net cash position, as disclosed in Note 34. Details of cash and cash equivalents are given in Note 22, while details of borrowings including the maturity profile are given in Note 23. Details of undrawn committed borrowing facilities are also given in Note 23.

The following table analyses the maturity of the Group's contractual commitments in respect of its financial liabilities and derivative financial instruments. The table has been drawn up based on the undiscounted cash flows on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

| At 31 December 2008 | Less than 6 months US$m | Between 6 months to 1 year US$m | Between 1-2 years US$m | After 2 years US$m | 2008 Total US$m |
|---|---|---|---|---|---|
| Corporate loans | – | (76.7) | (76.6) | – | (153.3) |
| Other loans (including short-term loans) | (230.6) | (0.8) | (1.3) | (0.1) | (232.8) |
| Finance leases | (1.9) | (1.9) | (7.8) | (43.5) | (55.1) |
| Preference shares | (0.1) | (0.1) | (0.2) | (*) | (0.4) |
| Trade and other payables | (593.8) | (3.3) | (7.0) | (3.0) | (607.1) |
| Derivative financial instruments | (1.4) | – | – | – | (1.4) |
| | (827.8) | (82.8) | (92.9) | (46.6) | (1,050.1) |

| At 31 December 2007 | Less than 6 months US$m | Between 6 months to 1 year US$m | Between 1-2 years US$m | After 2 years US$m | 2007 Total US$m |
|---|---|---|---|---|---|
| Corporate loans | (54.2) | (52.9) | (83.6) | (79.6) | (270.3) |
| Other loans (including short-term loans) | (5.3) | (7.0) | (1.2) | (0.7) | (14.2) |
| Finance leases | (0.2) | – | – | – | (0.2) |
| Preference shares | (0.1) | (0.1) | (0.2) | (*) | (0.4) |
| Trade and other payables | (246.1) | (0.3) | (0.3) | (2.3) | (249.0) |
| Derivative financial instruments | (0.1) | (0.1) | – | – | (0.2) |
| | (306.0) | (60.4) | (85.3) | (82.6) | (534.3) |

* The preference shares pay an annual dividend of £100,000 (US$144,280) in perpetuity, and accordingly it is not possible to determine total amounts payable for periods without a fixed end date.

(viii) Capital risk management

The Group's objective when managing its capital is to safeguard the Group's ability to continue as a going concern while maximising the return to stakeholders through the optimal capital structure.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 23, cash and cash equivalents as disclosed in Note 22 and equity attributable to minority interest and equity holders of the Company, comprising issued capital, reserves and retained earnings as disclosed in Note 29.

The Group reviews its capital structure on a regular basis. Based on this, the Group will balance its overall capital structure through the payment of ordinary and special dividends, the issue of new shares or repurchase of existing shares, the raising of additional debt or the redemption of existing debt. The Group's overall strategy remains unchanged from the prior year.

## 25 Financial Instruments and Financial Risk Management continued

### d) Embedded derivatives – provisionally priced sales

Copper and molybdenum concentrate sale agreements and copper cathode sale agreements generally provide for provisional pricing of sales at the time of shipment, with final pricing being based on the monthly average London Metal Exchange copper price or monthly average molybdenum price for specified future periods. This normally ranges from 30 to 180 days after delivery to the customer.

Under IFRS, both gains and losses from the marking-to-market of open sales are recognised through adjustments to turnover in the income statement and to trade debtors in the balance sheet. The Group determines mark-to-market prices using forward prices at each period end for copper concentrate and cathode sales, and period-end month average prices for molybdenum concentrate sales due to the absence of a futures market for that commodity.

The mark-to-market adjustments at the end of each period and the effect on turnover in the income statement for each period are as follows:

| | Balance sheet net mark to market effect on debtors 2008 US$m | 2007 US$m |
|---|---|---|
| Los Pelambres – copper concentrate | (257.6) | (72.8) |
| Los Pelambres – tolling charges for copper concentrates | 4.5 | 2.6 |
| Los Pelambres – molybdenum concentrate | (13.3) | 0.1 |
| El Tesoro – copper cathodes | (0.8) | (1.0) |
| Michilla – copper cathodes | 0.2 | 0.1 |
| | (267.0) | (71.0) |

## 25 Financial Instruments and Financial Risk Management continued

### d) Embedded derivatives – provisionally priced sales continued

(i) Copper sales

| | Los Pelambres Copper concentrate 2008 US$m | El Tesoro Copper cathodes 2008 US$m | Michilla Copper cathodes 2008 US$m | Los Pelambres Copper concentrate 2007 US$m | El Tesoro Copper cathodes 2007 US$m | Michilla Copper cathodes 2007 US$m |
|---|---|---|---|---|---|---|
| Provisionally invoiced gross sales | 2,392.8 | 644.2 | 331.0 | 2,041.8 | 678.8 | 332.2 |
| Effects of pricing adjustments to previous year invoices | | | | | | |
| Reversal of mark-to-market adjustments at the end of the previous year | 72.8 | 1.0 | (0.1) | 110.1 | (1.3) | 0.6 |
| Settlement of copper sales invoiced in the previous year | 58.3 | 1.9 | 1.0 | (88.1) | (6.5) | (3.3) |
| Total effect of adjustments to previous year invoices in the current year | 131.1 | 2.9 | 0.9 | 22.0 | (7.8) | (2.7) |
| Effects of pricing adjustments to current year invoices | | | | | | |
| Settlement of copper sales invoiced in the current year | (415.4) | (30.0) | (13.3) | 103.6 | 3.7 | 1.4 |
| Mark-to-market adjustments at the end of the current year | (257.6) | (0.8) | 0.2 | (72.8) | (1.0) | 0.1 |
| Total effects of adjustments to current year invoices | (673.0) | (30.8) | (13.1) | 30.8 | 2.7 | 1.5 |
| Realised gains/(losses) on commodity derivatives | – | 16.1 | 13.9 | – | 0.2 | (14.2) |
| Turnover before deducting tolling charges | 1,850.9 | 632.4 | 332.7 | 2,094.6 | 673.9 | 316.8 |
| Tolling charges | (113.1) | – | – | (169.4) | – | – |
| Turnover net of tolling charges | 1,737.8 | 632.4 | 332.7 | 1,925.2 | 673.9 | 316.8 |

i) Copper concentrate

Copper concentrate sales at Los Pelambres have an average settlement period of approximately four months from shipment date. At 31 December 2008, sales totalling 123,800 tonnes remained open as to price, with an average mark-to-market price of US 138.9 cents per pound compared with an average provisional invoice price of US 233.3 cents per pound. At 31 December 2007, copper concentrate sales totalling 99,400 tonnes remained open as to price, with an average mark-to-market price of US 302.4 cents per pound compared with an average provisional invoice price of US 335.7 cents per pound.

Tolling charges include a mark-to-market gain for copper concentrate sales open as to price at 31 December 2008 of US$1.9 million (31 December 2007 – mark-to-market loss of US$5.1 million).

ii) Copper cathodes

Copper cathode sales at El Tesoro and Michilla have an average settlement period of approximately one month from shipment date. At 31 December 2008, sales totalling 13,200 tonnes remained open as to price, with an average mark-to-market price of US 138.3 cents per pound compared with an average provisional invoice price of US 140.3 cents per pound. At 31 December 2007, sales totalling 11,000 tonnes remained open as to price with an average mark-to-market price of US 301.7 cents per pound compared with an average provisional invoice price of US 305.4 cents per pound.

## 25 Financial Instruments and Financial Risk Management continued

### d) Embedded derivatives – provisionally priced sales continued

(ii) Molybdenum sales

| | Los Pelambres Molybdenum concentrate 2008 US$m | Los Pelambres Molybdenum concentrate 2007 US$m |
|---|---|---|
| Provisionally invoiced gross sales | 508.2 | 670.9 |
| Effects of pricing adjustments to previous year invoices | | |
| Reversal of mark-to-market adjustments at the end of the previous year | (0.1) | 2.4 |
| Settlement of molybdenum sales invoiced in the previous year | 2.7 | (1.0) |
| Total effect of adjustments to previous year invoices in the current year | 2.6 | 1.4 |
| Effects of pricing adjustments to current year invoices | | |
| Settlement of molybdenum sales invoiced in the current year | (90.5) | 27.4 |
| Mark-to-market adjustments at the end of the current year | (13.3) | 0.1 |
| Total effects of adjustments to current year invoices | (103.8) | 27.5 |
| Turnover before deducting tolling charges | 407.0 | 699.8 |
| Tolling charges | (12.2) | (23.4) |
| Turnover net of tolling charges | 394.8 | 676.4 |

Molybdenum sales at Los Pelambres have an average settlement period of approximately three months after shipment date. At 31 December 2008, sales totalling 2,000 tonnes remained open as to price, with an average mark-to-market price of US$ 9.5 per pound compared with an average provisional invoice price of US$ 12.5 per pound. At 31 December 2007 sales totalling 2,100 tonnes remained open as to price, with an average mark-to-market price of US$32.5 per pound compared with an average provisional invoice price of US$32.4 per pound.

### e) Derivative financial instruments

The Group periodically uses derivative financial instruments to reduce its exposure to commodity price, foreign exchange and interest rate movements. The Group does not use such derivative instruments for speculative trading purposes.

The Group has applied the hedge accounting provisions of IAS 39 "Financial Instruments: Recognition and Measurement" with effect from 1 January 2007. From that date, changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows have been recognised directly in equity, with such amounts subsequently recognised in the income statement in the period when the hedged item affects profit or loss. Any ineffective portion is recognised immediately in the income statement. Realised gains and losses on commodity derivatives recognised in the income statement have been recorded within turnover. Prior to 1 January 2007 derivatives were measured at fair value through the income statement, with gains or losses on commodity derivatives being recorded within other operating income or expense.

## 25 Financial Instruments and Financial Risk Management continued

### e) Derivative financial instruments continued

The balance sheet mark-to-market adjustments in respect of commodity derivatives at the end of each period, and the total effect on turnover and finance income in the income statement for each period, are as follows:

| | Balance sheet Net financial asset | | Income statement Total effect | |
|---|---|---|---|---|
| | 2008 US$m | 2007 US$m | 2008 US$m | 2007 US$m |
| El Tesoro | 51.7 | – | 15.0 | 0.4 |
| Michilla | – | 0.5 | 13.4 | (13.7) |
| Railway and other transport services | (1.4) | – | (1.4) | – |
| | 50.3 | 0.5 | 27.0 | (13.3) |

| | 2008 US$m | 2007 US$m |
|---|---|---|
| Analysed between: | | |
| Non-current assets | – | 1.4 |
| Current assets | 51.7 | 0.5 |
| Current liabilities | (1.4) | (1.4) |
| Non-current liabilities | – | – |
| | 50.3 | 0.5 |

#### (i) Commodity derivatives

The Group periodically uses commodity derivatives to reduce its exposure to the copper price.

The Group has applied the hedge accounting provisions of IAS 39 "Financial Instruments: Recognition and Measurement" to its commodity derivatives. Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows have been recognised directly in equity, with such amounts subsequently recognised in the income statement in the period when the hedged item affects profit or loss. Any ineffective portion is recognised immediately in the income statement. Realised gains and losses on commodity derivatives recognised in the income statement have been recorded within turnover. The time value element of changes in the fair value of derivative options is excluded from the designated hedging relationship, and is therefore recognised directly in the income statement within other finance items.

During the year ended 31 December 2008 a gain of US$30.0 million was recognised within turnover, comprising a gain of US$16.1 million at El Tesoro and a gain of US$13.9 million at Michilla, in respect of derivative instruments which matured during the year. A loss of US$1.6 million was recognised within other finance items, comprising a loss of US$1.1 million at El Tesoro and a loss of US$0.5 million at Michilla, in respect of the time value element of the mark-to-market adjustments, which is excluded from the designated hedging relationship. A gain of US$52.6 million was recognised within reserves, relating to El Tesoro, in respect of the intrinsic value element of the mark-to-market adjustments, which forms part of the designated effective hedging relationship.

During the year ended 31 December 2007 a net loss of US$14.0 million was recognised within turnover, comprising a gain of US$0.2 million at El Tesoro and a loss of US$14.2 million at Michilla, in respect of derivative instruments which matured during the year. A gain of US$0.7 million was recognised within other finance items, comprising a gain of US$0.2 million at El Tesoro and a gain of US$0.5 million at Michilla, in respect of the time value element of the mark-to-market adjustments, which is excluded from the designated hedging relationship. A loss of US$0.2 million was recognised within reserves, relating to El Tesoro, in respect of the intrinsic value element of the mark-to-market adjustments, which forms part of the designated effective hedging relationship.

## 25 Financial Instruments and Financial Risk Management continued

### e) Derivative financial instruments continued

At 31 December 2008, the Group had min/max instruments for 27,600 tonnes of copper production related to El Tesoro covering a total period up to 31 December 2009. The weighted average remaining period covered by these hedges calculated with effect from January 2009 is 7 months. The instruments have a weighted average floor of 224.3 cents per pound and a weighted average cap of 374.4 cents per pound.

At 31 December 2008, the Group also had futures for 6,500 tonnes, to both buy and sell copper production at El Tesoro, with the effect of swapping COMEX prices for LME prices without eliminating underlying market price exposure, covering a period up to 31 January 2010. The remaining weighted average period covered by these instruments was 7 months.

Between 31 December 2008 and 28 February 2009, the Group entered into further min/max instruments for 29,800 tonnes (of which 12,000 tonnes relate to El Tesoro and 17,800 tonnes relate to Michilla) of copper production, covering a total period up to 31 December 2009. The weighted average remaining period covered by these hedges calculated with effect from 1 January 2009 is 9 months. The instruments have a weighted average floor of 133.1 cents per pound and a weighted average cap of 176.5 cents per pound. The Group also has entered into further futures instruments for 18,050 tonnes (of which 7,850 tonnes relate to El Tesoro and 10,200 tonnes relate to Michilla) covering a total period up to 31 January 2010. The weighted average remaining period covered by these hedges calculated with effect from 1 January 2009 is 4 months. The instruments have a weighted average price of 151.5 cents per pound.

The following table indicates the periods in which the cash flows from the above hedging instruments are expected to occur. These estimates are calculated based on the commodity forward prices as at the reporting date. These hedges are expected to impact profit or loss in the same period that the cash flow occurs.

| | Carrying amount US$m | Expected cash flows US$m | Less than 6 months US$m | Between 6 months to 1 year US$m | Between 1-2 years US$m | After 2 years US$m |
|---|---|---|---|---|---|---|
| 2008 | 50.3 | 50.0 | 24.7 | 25.3 | – | – |
| 2007 | 0.5 | (0.2) | (0.1) | (0.1) | – | – |

(ii) Exchange derivatives

The Group periodically uses foreign exchange derivatives to reduce its exposure to fluctuations in the fair value of non US dollar denominated assets or liabilities.

During the year ended 31 December 2008 a loss of US$1.4 million was recognised within other finance items, relating to the Railway and other transport services business (2007 – nil).

At 31 December 2008 the Group had cross currency swaps with a principal value of US$35.1 million, to swap Chilean Pesos for US dollars, at an average rate of Ch$663.0 / US$1, covering a total period up to 12 February 2009. The weighted average remaining period covered by these hedges calculated with effect from 1 January 2009 is 1 month.

(iii) Interest derivatives

There were no outstanding interest derivative instruments at 31 December 2008 or 2007.

## 26 Post-Employment Benefit Obligations

### a) Defined contribution schemes

The Group operates defined contribution schemes for a limited number of employees. The amount charged to the income statement in 2008 was less than US$0.1 million (2007 – less than US$0.1 million), representing the amount paid in the year. There were no outstanding amounts which remain payable at the end of either year.

### b) Severance provisions

Employment terms at some of the Group's operations provide for payment of a severance indemnity when an employment contract comes to an end. This is typically at the rate of one month for each year of service (subject in most cases to a cap as to the number of qualifying years of service) and based on final salary level. The severance indemnity obligation is treated as an unfunded defined benefit plan, and the obligation recognised is based on valuations performed by an independent actuary using the projected unit credit method, which are regularly updated. The obligation recognised in the balance sheet represents the present value of the severance indemnity obligation. Actuarial gains and losses are immediately recognised in the income statement within operating cost.

The most recent valuation was carried out in 2008 by Raúl Benavente, a qualified actuary in Santiago, Chile who is not connected with the Group. The main assumptions used to determine the actuarial present value of benefit obligations were as follows:

| | 2008 | 2007 |
|---|---|---|
| Average nominal discount rate | 5.5% | 5.5% |
| Average rate of increase in salaries | 2.0% | 2.0% |
| Average staff turnover | 3.0% | 4.5% |

Amounts included in the income statement in respect of severance provisions are as follows:

| | 2008 US$m | 2007 US$m |
|---|---|---|
| Current service cost (charge to operating profit) | (10.1) | (1.8) |
| Actuarial losses (charge to operating costs) | (0.5) | (3.5) |
| Interest cost (charge to interest expenses) | (1.2) | (0.7) |
| Foreign exchange credit/(charge) to other finance items | 9.4 | (2.1) |
| Total charge to income statement | (2.4) | (8.1) |

Movement in the present value of severance provisions were as follows:

| | 2008 US$m | 2007 US$m |
|---|---|---|
| Balance at the beginning of the year | (29.1) | (24.1) |
| Current service cost | (10.1) | (1.8) |
| Actuarial gains and losses | (0.5) | (3.5) |
| Charge capitalised | (0.5) | – |
| Interest cost | (1.2) | (0.7) |
| Paid in the year | 3.0 | 3.1 |
| Foreign currency exchange difference | 9.4 | (2.1) |
| Balance at the end of the year | (29.0) | (29.1) |

## 27 Deferred Tax

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during 2007 and 2008.

| | Accelerated capital allowances US$m | Timing differences on provisions US$m | Withholding tax US$m | Short-term differences US$m | Mining tax (Royalty) US$m | Tax losses US$m | Total US$m |
|---|---|---|---|---|---|---|---|
| At 1 January 2007 | (198.9) | 3.8 | (124.6) | (1.8) | 0.7 | 0.7 | (320.1) |
| (Charge)/credit to income | (36.0) | 17.3 | (30.8) | 0.7 | (0.8) | 8.8 | (40.8) |
| At 1 January 2008 | (234.9) | 21.1 | (155.4) | (1.1) | (0.1) | 9.5 | (360.9) |
| (Charge)/credit to income | (67.2) | 37.9 | 48.2 | 6.2 | 4.1 | (2.5) | 26.7 |
| Charge capitalised | (12.2) | – | – | – | – | – | (12.2) |
| Charge deferred in equity | – | – | – | (9.0) | – | – | (9.0) |
| At 31 December 2008 | (314.3) | 59.0 | (107.2) | (3.9) | 4.0 | 7.0 | (355.4) |

The credit to the income statement of US$26.7million (2007 – US$40.8 million charge) includes a credit for foreign exchange differences of US$4.7 million (2007 – includes a charge of US$1.1 million).

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balance (after offset):

| | 2008 US$m | 2007 US$m |
|---|---|---|
| Deferred tax assets | 12.7 | 14.7 |
| Deferred tax liabilities | (368.1) | (375.6) |
| Net deferred tax balances | (355.4) | (360.9) |

At 31 December 2008, the Group had unused tax losses of US$41.2 million (2007 – US$72.1 million) available for offset against future profits. A deferred tax asset has been recognised in respect of the full US$41.2 million (2007 – US$55.8 million). In 2007, no deferred tax asset had been recognised in respect of the remaining US$16.3 million due to the unpredictability of future profit streams. These losses may be carried forward indefinitely.

At 31 December 2008, there were no other deductible temporary differences, for which no deferred tax assets were recognised in the balance sheet (2007 – US$5.7 million).

At 31 December 2008, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries of which deferred tax liabilities have not been recognised was US$3,440.9 million (2007 – US$2,882.4 million). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is likely that such differences will not reverse in the foreseeable future.

Temporary differences arising in connection with interests in associates are insignificant.

# Notes to the Financial Statements continued

## 28 Long-term Provisions

| | 2008 US$m | 2007 US$m |
|---|---|---|
| Balance at the beginning of the year | (10.9) | (9.8) |
| Charge to operating profit in the year | (5.0) | (0.5) |
| Release of discount to net interest in the year | (0.8) | (0.5) |
| Reclassification | (0.7) | – |
| Charge capitalised | (0.7) | – |
| Foreign currency exchange difference | 0.1 | (0.1) |
| Balance at the end of the year | (18.0) | (10.9) |
| Analysed as follows: | | |
| Decommissioning and restoration | (17.5) | (10.4) |
| Termination of water concession | (0.5) | (0.5) |
| Balance at the end of the year | (18.0) | (10.9) |

### a) Decommissioning and site rehabilitation

Decommissioning and restoration costs relate to the Group's mining operations. Costs are estimated on the basis of a formal closure plan and are subject to regular independent formal review. The most recent formal review was conducted during 2005.

It is estimated that the provision will be utilised over a period of up to 28 years based on current mine plans.

### b) Termination of water concession

A provision for the termination of the water concession has been created for the property, plant and equipment and working capital items under Aguas de Antofagasta's ownership to be transferred to the previous state-owned operator ESSAN at the end of the concession period. The provision is based on the net present value of the estimated value of these assets and liabilities expected to be in existence at the end of the concession.

The release of the discount applied in establishing the net present value of future costs is charged to the income statement in each accounting period and is disclosed within other finance items.

## 29 Share Capital and Other Reserves

### a) Share capital

The ordinary share capital of the Company is as follows:

| | 2008 Number | 2007 Number | 2008 US$m | 2007 US$m |
|---|---|---|---|---|
| Authorised | | | | |
| Ordinary shares of 5p each | 1,300,000,000 | 1,300,000,000 | 118.9 | 118.9 |

| | 2008 Number | 2007 Number | 2008 US$m | 2007 US$m |
|---|---|---|---|---|
| Issued and fully paid | | | | |
| Ordinary shares of 5p each | 985,856,695 | 985,856,695 | 89.8 | 89.8 |

The Company has one class of ordinary shares which carry no right to fixed income. Each ordinary share carries one vote at any general meeting.

There were no changes in the authorised or issued share capital of the Company in either 2007 or 2008. Details of the Company's preference share capital, which is included within borrowings in accordance with IAS 32, are given in Note 23(vii).

### b) Other reserves

Details of the share premium account, hedging, fair value and translation reserves and retained earnings for both 2007 and 2008 are included within the Consolidated Statement of Changes in Equity on page 75.

## 30 Minority Interests

The minority interests of the Group are as follows:

| | At 01.01.08 US$m | Share of profit for the financial year US$m | Capital increase US$m | Part-disposal of minority interests US$m | Share of dividends US$m | Hedging reserves US$m | At 31.12.08 US$m |
|---|---|---|---|---|---|---|---|
| Los Pelambres | 807.0 | 408.4 | – | – | (472.0) | – | 743.4 |
| El Tesoro | – | (37.5) | – | 254.1 | – | 12.9 | 229.5 |
| Michilla | 21.3 | 11.7 | – | – | (22.7) | – | 10.3 |
| Esperanza | – | – | 57.7 | 111.9 | – | – | 169.6 |
| Caracoles | – | (1.4) | – | – | – | – | (1.4) |
| Railway and other transport services | 13.2 | 2.1 | – | – | (0.9) | – | 14.4 |
| Total | 841.5 | 383.3 | 57.7 | 366.0 | (495.6) | 12.9 | 1,165.8 |

The minority share of movements in reserves was US$12.9 million.

## 31 Disposal and Part-Disposal of Subsidiaries

### a) Sale of 30% interest in Minera Esperanza and Minera El Tesoro to Marubeni Corporation

On 24 April 2008 the Group entered into an agreement with Marubeni Corporation ("Marubeni") under which Marubeni would enter as an investment partner in the Sierra Gorda district by acquiring a 30% interest in both Minera Esperanza and Minera El Tesoro and agreeing to fund its 30% share of the development costs of the Esperanza project. Following completion of all conditions precedent, the transaction closed on 25 August 2008. The Group in turn is responsible for funding its retained share (70%) of the development costs of the Esperanza project after any project financing.

The final cash consideration received by Antofagasta from Marubeni was US$1,401.2 million, reflecting the base consideration of US$1,310 million plus interest and other adjustments specified in the agreement signed on 24 April. The profit on the part-disposal was as follows:

| | 2008 US$m |
|---|---|
| Consideration received | 1,401.2 |
| Net assets disposed | (366.0) |
| Transaction costs (including taxes) | (62.1) |
| Net profit from transaction | 973.1 |

As explained in Note 32, in order to facilitate the transaction, the Group acquired Mineralinvest Establishment's interest in properties required for the Marubeni Transaction together with other properties including part of the Antucoya project.

### b) Prior year disposals and part disposals

No disposals or part-disposals of subsidiaries or associates were made during 2007.

## 32 Acquisition of Minority Interest in Subsidiary

### a) Acquisition of minority interest in Antomin

On 24 April 2008, together with the Marubeni transaction (see Note 31) the Group announced that it had entered into an agreement with Mineralinvest Establishment ("Mineralinvest") in respect of Antomin Limited ("Antomin"). Under this agreement, the Group acquired the 49% minority stake in certain mining properties held through Antomin, for a consideration of US$243.1 million.

Completion of the Antomin transaction was achieved on closing of the Marubeni transaction, which was completed on 25 August 2008.

Prior to the completion of this transaction Mineralinvest owned approximately 49% of Antomin. The remaining approximately 51% of Antomin was owned indirectly by the Group. The Group acquired its interest in Antomin pursuant to an agreement in 2001 for a nominal consideration from Mineralinvest, which continued to hold the remaining approximately 49% of Antomin. Mineralinvest is a company which is controlled by the Luksic family. The immediate parent of Antofagasta is Metalinvest Establishment, which is controlled by E Abaroa Foundation, in which members of the Luksic family are interested. As explained in Note 38(d), Mineralinvest is a related party of Antofagasta.

Pursuant to this agreement, the Group acquired Mineralinvest's interest in properties required for the Marubeni Transaction together with other properties including part of the Antucoya project. The Antomin properties acquired by Antofagasta principally included the Tesoro North-East properties, a portion of the Esperanza properties and the Buey Muerto properties, which form part of the Antucoya project.

The remaining properties formerly owned by Antomin were separated into newly created indirect subsidiaries of the Group, which are owned approximately 51% by the Group and approximately 49% by Mineralinvest. The Group have the exclusive right to acquire at fair value under certain conditions, the shareholding of Mineralinvest in those entities, or the underlying properties, for a period of five years from completion of the separation of the assets.

Under the terms of this agreement, Antofagasta Minerals S.A., a wholly owned subsidiary of the Group, following separation of the assets, acquired Mineralinvest's Antomin shares for a cash payment of US$243.1 million, an amount that reflected the portion of value to be paid to Antofagasta by Marubeni as part of the Marubeni transaction (as explained in Note 31) which can be ascribed to properties required by the Marubeni transaction, which are the subject of this transaction. This amount has been capitalised as a mining property asset within property, plant and equipment.

### b) Prior year acquisitions

No acquisitions of subsidiaries or associates were made during 2007.

## 33 Other Transactions

### a) 2008 transactions

In April 2008 the Group entered into an agreement with TEAL Exploration & Mining Incorporated ("TEAL") to acquire an initial 30% interest in two of TEAL's exploration licences on the Zambian Copperbelt covering an area of approximately 2,067 sq. km. for a consideration of US$5 million. The agreement gives the Group the right to earn an additional 20% interest by incurring US$4.5 million of exploration expenditure (of which US$2 million is committed expenditure) over a period of 4 years. TEAL is a company listed on the Toronto Stock Exchange and the JSE Limited with exploration and project interests in Africa.

In June 2008 the Group signed an agreement with Minera Metallica Resources Chile Limitada, a subsidiary of New Gold Inc. (formerly Metallica Resources Inc.), to acquire a 30% interest in Río Figueroa, an exploration project located in Chile's Atacama Region, approximately 80 km east of Copíapo city, for consideration of US$2.6 million payable in instalments. Under the agreement the Group has the right to increase its interest up to 70% in successive stages over a number of years by first incurring exploration expenditures of US$7 million and subsequently completing a feasibility study and making a further payment of US$5 million to Minera Metallica Resources Chile Limitada.

In September 2008 the Group acquired an option in respect of Mulpún, a coalfield situated near Valdivia in southern Chile, with the potential to undertake a coal gasification project. The initial payment for the option was US$2.5 million, with potential further payments of up to US$9.5 million over the next four years.

### b) Prior year acquisitions

During 2007, the Group decided not to continue with the exploration agreements with Ascendent Copper Corporation in respect of the Chaucha deposit in Ecuador and with AngloGold Ashanti in the area of interest in southern Colombia, following a review of drilling results achieved to date. This decision did not have any material impact on any of the amounts included within these financial statements.

## 34 Notes to the Consolidated Cash Flow Statement

### a) Reconciliation of profit before tax to net cash inflow from operating activities

| | 2008<br>US$m | 2007<br>US$m |
|---|---|---|
| Profit before tax | 2,609.5 | 2,750.2 |
| Depreciation and amortisation | 180.2 | 162.2 |
| Loss on disposal of property, plant and equipment | 5.3 | 8.4 |
| Asset impairments | 188.3 | – |
| Profit on part-disposal of subsidiaries | (1,024.9) | – |
| Profit on disposal of joint venture interest | – | (9.6) |
| Profit on disposal of available for sale investments | – | (10.5) |
| Net finance income | (56.3) | (95.4) |
| Share of profit of associate | (2.3) | (1.4) |
| Increase in inventories | (26.0) | (9.9) |
| Decrease/(increase) in debtors | 133.0 | (11.7) |
| Increase in creditors and provisions | 447.5 | 35.4 |
| Cash flows from operations | 2,454.3 | 2,817.7 |

## 34 Notes to the Consolidated Cash Flow Statement continued

### b) Analysis of changes in net cash

| | At 1.1.08 US$m | Cash flows US$m | Other US$m | Exchange US$m | At 31.12.08 US$m |
|---|---|---|---|---|---|
| Cash and cash equivalents | 2,212.5 | 1,169.6 | – | (24.1) | 3,358.0 |
| Bank borrowings due within one year | (101.6) | (129.8) | (74.8) | 0.2 | (306.0) |
| Bank borrowings due after one year | (160.2) | – | 82.6 | – | (77.6) |
| Finance leases due within one year | (0.2) | 9.8 | (22.6) | – | (13.0) |
| Finance leases due after one year | – | – | (38.2) | (1.2) | (39.4) |
| Preference shares | (4.0) | – | – | 1.1 | (2.9) |
| Total borrowings | (266.0) | (120.0) | (53.0) | 0.1 | (438.9) |
| Net cash | 1,946.5 | 1,049.6 | (53.0) | (24.0) | 2,919.1 |

| | At 1.1.07 US$m | Cash flows US$m | Other US$m | Exchange US$m | At 31.12.07 US$m |
|---|---|---|---|---|---|
| Cash and cash equivalents | 1,805.5 | 400.2 | – | 6.8 | 2,212.5 |
| Bank borrowings due within one year | (96.7) | 92.3 | (97.0) | (0.2) | (101.6) |
| Bank borrowings due after one year | (256.8) | – | 96.6 | – | (160.2) |
| Finance leases due within one year | (0.9) | 0.9 | (0.2) | – | (0.2) |
| Finance leases due after one year | (0.2) | – | 0.2 | – | – |
| Preference shares | (4.1) | – | – | 0.1 | (4.0) |
| Total borrowings | (358.7) | 93.2 | (0.4) | (0.1) | (266.0) |
| Net cash | 1,446.8 | 493.4 | (0.4) | 6.7 | 1,946.5 |

### c) Net cash

| | 2008 US$m | 2007 US$m |
|---|---|---|
| Cash and cash equivalents | 3,358.0 | 2,212.5 |
| Total borrowings | (438.9) | (266.0) |
| | 2,919.1 | 1,946.5 |

## 35 Operating Lease Arrangements

| | 2008 US$m | 2007 US$m |
|---|---|---|
| Minimum lease payments under operating leases recognised in income for the year | 11.4 | 10.9 |

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

| | 2008 US$m | 2007 US$m |
|---|---|---|
| Within one year | 9.1 | 6.1 |
| In the second to fifth years inclusive | 10.7 | 4.6 |
| | 19.8 | 10.7 |

Operating lease payments relate mainly to rental of plant and equipment by operating subsidiaries of the Group.

## 36 Concession Arrangements

In 2003, the Group was awarded a 30 year concession to operate the water rights and facilities in the Antofagasta Region of Chile previously controlled by Empresa de Servicios Sanitarios de Antofagasta S.A. ("ESSAN"). The concession consists of two businesses, one an unregulated business supplying mines and other industrial users and the other a regulated water business supplying domestic customers. The concession contract was signed and control of the assets and operation assumed on 29 December 2003 by Aguas de Antofagasta S.A., a wholly-owned subsidiary of the Group.

Under the concession contract, certain assets and liabilities (mainly certain specific tangible fixed assets and working capital items) were transferred to Aguas de Antofagasta by way of sale. Other assets (mainly water rights and infrastructure) were transferred by way of concession and will devolve to ESSAN at the end of the 30 year period.

Aguas de Antofagasta will also be required to transfer to ESSAN any tangible fixed assets and working capital items under its ownership at the end of the 30 year concession period. A provision for the termination of the water concession has been created for the fixed assets and working capital items under Aguas de Antofagasta's ownership to be transferred to ESSAN at the end of the concession period. The provision is based on the net present value of the estimated value of these assets and liabilities in existence at the end of the concession. The release of the discount applied in establishing the net present value of future costs is charged to the income statement in each accounting period and is disclosed as a financing cost. Further details of this provision are given in Note 28(d).

The Chilean Water Regulator (Superintendencia de Servicios Sanitarios) sets domestic tariffs every five years following a regulatory review including representations from the operator of the concession. The last regulatory review was completed during 2006, which resulted in an average reduction in tariffs (compared with previous levels) of approximately 5% from July 2006.

IFRIC 12 "Service Concession Arrangements" has been adopted during 2008. This Interpretation requires all infrastructure assets relating to the Water concession to be recorded within intangible assets. Previously, certain infrastructure assets were recorded within property, plant and equipment. Accordingly, the comparative figures have been restated to reclassify these infrastructure assets into the Concession right and assets category within intangible assets. This has resulted in a reclassification from property, plant and equipment into intangible assets of US$55.9 million at 31 December 2007.

## 37 Exchange Rates in US Dollars

The principal exchange rates expressed in US dollars used in the preparation of the 2008 financial statements are as follows:

| | 2008 | 2007 |
|---|---|---|
| Year end rates | US$1.4428 = £1; US$1 = Ch$636 | US$1.9912 = £1; US$1 = Ch$497 |
| Average rates | US$1.8386 = £1; US$1 = Ch$522 | US$2.0004 = £1; US$1 = Ch$523 |

## 38 Related Party Transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its associate are disclosed below.

The transactions which Group companies entered into with related parties who are not members of the Group are set out below.

### a) Quiñenco S.A.

Quiñenco S.A. ("Quiñenco") is a Chilean financial and industrial conglomerate the shares of which are traded on the Santiago Stock Exchange. The Group and Quiñenco are both under the control of the Luksic family, and three Directors of the Company, Mr. J-P Luksic, Mr. G A Luksic and Mr. G S Menéndez, are also directors of Quiñenco.

The following material transactions took place between the Group and the Quiñenco group of companies, all of which were on normal commercial terms:

- the Group sold copper cathodes during the year for US$8.9 million (2007 – US$2.9 million) to Madeco S.A., a subsidiary of Quiñenco. The balance due from Madeco at the end of the year was US$0.8 million (2007 – US$0.2 million);
- the Group bought copper wire from Madeco for US$0.3 million (2007 – US$0.1 million);
- the Group earned interest income of US$0.3 million (2007 – US$0.2 million) during the year on deposits with Banco de Chile S.A., a subsidiary of Quiñenco. Deposit balances at the end of the year were nil (2007 – US$4.7 million); and
- the Group's transport division provided trucking services for beverages amounting to US$1.3 million (2007 – US$3.2 million) to CCU S.A., an associate of Quiñenco. The balance due from CCU S.A. at the end of the year was less than US$0.1million (2007 – US$0.6 million).

### b) Compañía de Inversiones Adriático S.A.

In 2008, the Group leased office space on normal commercial terms from Compañía de Inversiones Adriático S.A., a company controlled by the Luksic family, at a cost of US$0.6 million (2007 – US$0.6 million).

### c) Compañía Antofagasta Terminal Internacional S.A.

As explained in Note 17, the Group acquired a 30% interest in Antofagasta Terminal Internacional S.A. ("ATI") on 16 December 2004, which has been treated in these financial statements as an associate.

During 2008, the Group received a dividend of US$1.8 million from ATI (2007 – US$2.4 million).

### d) Antomin Limited

As set out in Note 32, in August 2008 the Group acquired Mineralinvest Establishment's ("Mineralinvest's") interest in mining properties required for the Marubeni transaction together with certain other properties. Prior to the completion of this transaction these properties were held in Antomin Limited ("Antomin"), in which the Group held an approximately 51% interest and Mineralinvest held an approximately 49% interest. The consideration payable by the Group to Mineralinvest under the terms of this agreement was US$243 million. Mineralinvest is an entity ultimately controlled by the Luksic family, and is a related party of Antofagasta for the purposes of the Listing Rules. Due to the size of the transaction it fell within the modified requirements for smaller related party transactions set out in Listing Rule 11.1.10. This transaction was approved by a committee of Independent Directors of Antofagasta.

## 38 Related Party Transactions continued

### d) Antomin Limited continued

The Group acquired its original interest in Antomin pursuant to an agreement in 2001 for a nominal consideration from Mineralinvest. Under the terms of the acquisition agreement, the Group committed to meet in full the exploration costs relating to those properties held by Antomin. During the year the Group did not incur any exploration costs (2007 – US$3.1 million) in respect of these properties (some of which, as explained above, were wholly acquired by the Group during 2008). The cumulative amount incurred to 31 December 2008 (including expenditure relating to those properties wholly acquired by the Group during the year) was US$11.8 million.

The remaining properties owned by Antomin which were not to be 100% acquired by the Group under the terms of this agreement were separated into newly created indirect subsidiaries of Antofagasta (Antomin 2 Limited ("Antomin 2") and Antomin Investors Limited ("Antomin Investors")), which will continue to be owned approximately 51% by Antofagasta and approximately 49% by Mineralinvest. With respect to Antomin 2 and Antomin Investors, Antofagasta will have the exclusive right to acquire at fair value under certain conditions, the shareholding of Mineralinvest in those entities, or the underlying properties, for a period of five years from August 2008. The Group has also committed to meet in full any exploration costs relating to the properties held by these entities. No exploration expenditure was incurred in respect of these properties during the year (2007 – nil). Further details of the mining properties held by Antomin 2 and Antomin Investors is included within the Ore Reserve and Mineral Resource Estimates.

### e) Tethyan Copper Company Limited

As explained in Note 18(a), during 2006 the Group entered into a joint venture agreement with Barrick Gold Corporation ("Barrick Gold") to establish a 50:50 joint venture over Tethyan's mineral interests in Pakistan.

During the year the Group contributed US$46.1 million (2007 – US$15.1 million) to Tethyan, to provide funds for Tethyan's on-going exploration programme. The balance due from Tethyan to Group companies at the end of the year was US$1.4 million (2007 – US$ 2.2 million). Details of amounts relating to Tethyan included in the consolidated financial statements of the Group under the proportionate consolidation method are set out in Note 18(a).

### f) Energía Andina S.A.

In October 2008 Energía Andina S.A. was formed, a joint venture between the Group and Empresa Nacional del Petróleo ("ENAP") of Chile. During the year the Group contributed US$9.0 million to Energía Andina S.A. to provide funds for its operations (comprising US$8.5 million in cash and US$0.5 million relating to exploration licences and other expenses incurred by the Group). The balance due from Energía Andina S.A. to the Group at the end of the year was US$0.2 million.

### g) Ingeniería y Servicios Computacionales Geovectra S.A.

In 2008, the Group paid fees of approximately US$61,771 (2007 – US$66,000) for geological and technology services to Ingeniería y Servicios Computacionales Geovectra S.A. ("Geovectra"), a company controlled by Mr. J W Ambrus. Mr. Ambrus was a Director of the Company in both 2007 and 2008. These services were on normal arm's length commercial terms for services performed by employees of Geovectra.

### h) Directors and other key management personnel

Information relating to Directors' remuneration and interests are given in the Remuneration Report on pages 65 to 68. Information relating to the remuneration of key management personnel including the Directors is given in Note 8).

## 39 Contingent Assets and Contingent Liabilities

There are a number of claims currently outstanding to which Antofagasta plc or its subsidiaries ("the Group") is a party, for which no provision has been made in the financial statements and are currently not expected to result in any material loss to the Group. Details of the principal claims in existing either during or at the end of the year and their current status are set out below:

### a) Los Pelambres – Mauro tailings dam

Litigation relating to the Mauro tailings dam which was pending at the beginning of 2008 was resolved during the year. On 7 May 2008 a case concerning the validity of a sectoral permit issued by the Chilean Water Authority (Direccion General de Aguas) and other cases relating to water rights was settled at a cost to Los Pelambres of US$23 million, and as part of this court-endorsed settlement Los Pelambres acquired an area of land and related water rights adjacent to the tailings dam belonging to one of the claimants. On 23 October 2008, a separate case concerning the validity of a purchase and sale agreement for land in the area of the Mauro tailings dam was settled at a cost to Los Pelambres of Ch$15 billion (approximately US$23 million). The settlement of these cases allowed construction to be completed as described above and for the tailings dam to be put into operation in November 2008.

In December 2008, Los Pelambres became aware of further recent legal proceedings of which had been initiated in first instance courts in Santiago and in Los Vilos by certain members of the Caimanes community located near the Mauro valley. These claims, some of which have already been rejected by the relevant courts, sought to prevent the operation of the Mauro tailings dam. Los Pelambres is taking necessary steps to protect its position and remains confident of its rights to continue the operation of the dam.

### b) Tethyan Copper Company Limited – Chagai Hills Exploration Joint Venture

On 26 June 2007 the High Court of Balochistan at Quetta dismissed a petition which had sought to declare that the Chagai Hills Exploration Joint Venture of 1993 and the exploration licences granted to Tethyan were null and void and overturned an injunction passed earlier by the Court. The petition had been filed in November 2006 and was directed at several parties including the Group, the Government of Pakistan and the Government of Balochistan.

The petitioners have filed a Civil Petition for Leave to Appeal ("CPLA") against the judgement and this will be heard by the Supreme Court to decide whether the appeal should be heard on its merits.

### c) Equatorial Mining Limited – Errigal

In December 2008 a deed of settlement was agreed between the Group and Errigal Limited ("Errigal"). Errigal had instigated a claim in July 2006 claiming that amounts were owed to it under the terms of the 1993 acquisition agreement between Errigal and Equatorial Mining Limited ("Equatorial"), which the Group acquired in August 2006. The Supreme Court of New South Wales issued the relevant consent orders in respect of this settlement on 6 January 2009.

## 40 Events After the Balance Sheet Date

### a) Acquisition of minority interest in Compañía Contractual Minera Caracoles

In February 2009 the Group required the 18.5% minority interest in its subsidiary Compañía Contractual Minera Caracoles from Compañía Minera Milpo of Peru, for a consideration of US$25 million.

### b) Acquisition of desalination plant by Aguas de Antofagasta ("ADASA")

In March 2009, ADASA acquired the desalination plant located in the city of Antofagasta from the current owner, Desalant S.A. ("Desalant") for a purchase price of US$52.5 million. As part of this agreement, on-going arbitration proceedings between ADASA and Desalant were also terminated. The desalination plant, when acquired, will be held under the terms of the 30-year concession from the previous state-owned operator Empresa de Servicios Sanitarios de Antofagasta S.A. ("ESSAN").

## 41 Ultimate Parent Company

The immediate parent of the Group is Metalinvest Establishment, which is controlled by E. Abaroa Foundation, in which members of the Luksic family are interested.

Both Metalinvest Establishment and the E. Abaroa Foundation are domiciled in Liechtenstein. Information relating to the interests of Metalinvest Establishment and the E. Abaroa Foundation are given in the Directors' Report on page 56.

## 42 Antofagasta plc – Balance Sheet of the Parent Company and Related Notes

### Parent Company Balance Sheet
At 31 December 2008

| | Notes | 2008 US$m | 2007 US$m |
|---|---|---|---|
| **Fixed assets** | | | |
| Investment in subsidiaries | 42D | 665.7 | 665.4 |
| **Current assets** | | | |
| Debtors – amounts falling due within one year | | 0.3 | 0.5 |
| – amounts owed by subsidiaries | 42D | 993.6 | 565.0 |
| Current asset investments (term deposits) | | 8.1 | 6.6 |
| Cash at bank and in hand | | 1.3 | 1.1 |
| | | 1,003.3 | 573.2 |
| **Creditors – amounts falling due within one year** | | | |
| Other creditors | | (0.9) | (0.9) |
| Amounts owed to subsidiaries | | (299.5) | (299.5) |
| | | (300.4) | (300.4) |
| **Net current assets** | | 702.9 | 272.8 |
| **Total assets less current liabilities** | | 1,368.6 | 938.2 |
| **Creditors – amounts falling due after more than one year** | | | |
| Preference shares | 42E | (2.9) | (4.0) |
| **Total assets less total liabilities** | | 1,365.7 | 934.2 |
| **Capital and reserves** | | | |
| Called up shares capital | | | |
| – Ordinary shares – equity | 42F | 89.8 | 89.8 |
| **Reserves** | | | |
| – Share premium account | 42F | 199.2 | 199.2 |
| – Profit and loss account | 42F | 1,076.7 | 645.2 |
| **Shareholders' funds (including non-equity interests)** | 42F | 1,365.7 | 934.2 |

Approved by the Board and signed on its behalf on 9 March 2009.

J-P Luksic
*Chairman*

CH Bailey
*Director*

## 42A Basis of Preparation of the Balance Sheet and Related Notes of the Parent Company

The Antofagasta plc Parent Company balance sheet and related notes have been prepared in accordance with United Kingdom generally accepted accounting principles ("UK GAAP") and in accordance with UK company law. The financial information has been prepared on a historical cost basis. The financial statements have been prepared on a going concern basis. The functional currency of the Company and the presentational currency adopted is US dollars.

A summary of the principal accounting policies is set out below. There were no changes in accounting policies in 2008.

The preparation of financial statements in conformity with UK GAAP requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Although these estimates are based on management's best knowledge of the amount, event or actions, following implementation of these standards, actual results may differ from those estimates.

As permitted by section 230 of the Companies Act 1985, the profit and loss account of the Parent Company is not presented as part of these financial statements. The profit after tax for the year of the Parent Company amounted to US$922.5 million (2007 – US$597.1 million).

## 42B Principal Accounting Policies of the Parent Company

### a) Currency translation

The Company's functional currency is the US dollar. Transactions denominated in other currencies, including the issue of shares, are translated at the rate of exchange ruling on the date of the transaction. Monetary assets and liabilities, including amounts due from or to subsidiaries, are translated at the rate of exchange ruling at the end of the financial year. Exchange differences are charged or credited to the profit and loss account in the year in which they arise.

### b) Revenue recognition

Interest is accounted for on an accruals basis. Dividends proposed by subsidiaries are recognised as income by the Company when they represent a present obligation of the subsidiaries, i.e. in the period in which they are formally approved for payment.

### c) Dividends payable

Dividends proposed are recognised when they represent a present obligation, i.e. in the period in which they are formally approved for payment. Accordingly, an interim dividend is recognised when paid and a final dividend is recognised when approved by shareholders.

### d) Investments in subsidiaries

Investments in subsidiaries represent equity holdings in subsidiaries and long-term amounts owed by subsidiaries. Such investments are valued at cost less any impairment provisions. Investments are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is assessed by reference to the net present value of expected future cash flows of the relevant income generating unit or disposal value if higher.

As explained in Note 42D, amounts owed by subsidiaries due in foreign currencies are translated at year end rates of exchange with any exchange differences taken to the profit and loss account.

## 42B Principal Accounting Policies of the Parent Company continued

### e) Current asset investments and cash at bank and in hand

Current asset investments comprise highly liquid investments that are readily convertible into known amounts of cash and which are subject to insignificant risks of changes in value, typically maturing within twelve months.

Cash at bank and in hand comprise cash in hand and deposits repayable on demand.

### f) Borrowings – preference shares

The sterling-denominated preference shares issued by the Company carry a fixed rate of return without the right to participate in any surplus. They are accordingly classified as borrowings and translated into US dollars at period end rates of exchange. Preference share dividends are included within finance costs.

### g) Equity instruments – ordinary share capital and share premium

Equity instruments issued are recorded at the proceeds received, net of direct issue costs. Equity instruments of the Company comprise its sterling-denominated issued ordinary share capital and related share premium.

As explained above, the presentational and the functional currency of the Company is US dollars, and ordinary share capital and share premium are translated into US dollars at historical rates of exchange based on dates of issue.

### h) Cash flow statement

The Company's individual financial statements are outside the scope of FRS 1 "Cash Flow Statements" because the Company prepares publicly available consolidated financial statements which include a consolidated cash flow statement. Accordingly, the Company does not present an individual company cash flow statement.

### i) Related party disclosures

The Company's individual financial statements are exempt from the requirements of FRS 8 "Related Party Disclosures" because its individual financial statements are presented together with its consolidated financial statements. Accordingly, the individual financial statements do not include related party disclosures.

## 42C Employee Benefit Expense

### a) Average number of employees

The average number of employees, including any Executive Directors was 7 (2007 – 8).

### b) Aggregate remuneration

The aggregate remuneration of the employees mentioned above was as follows:

| | 2008 US$m | 2007 US$m |
|---|---|---|
| Wages and salaries | 2.9 | 3.1 |
| Social security costs | 0.2 | 0.3 |
| Post-employment benefits – severance charge in the year | 0.1 | 0.1 |
| | 3.2 | 3.5 |

Remuneration includes amounts paid by the Parent Company to the Executive Chairman, who was the only Executive Director.

## 42D Subsidiaries

### a) Investment in subsidiaries

| | 2008 US$m | 2007 US$m |
|---|---|---|
| Shares in subsidiaries at cost | 57.6 | 57.6 |
| Amounts owed by subsidiaries due after more than one year | 608.1 | 607.8 |
| | 665.7 | 665.4 |

| | Shares US$m | Loans US$m | Total US$m |
|---|---|---|---|
| 1 January 2008 | 57.6 | 607.8 | 665.4 |
| Loans made | – | 0.3 | 0.3 |
| 31 December 2008 | 57.6 | 608.1 | 665.7 |

### b) Amounts owed by subsidiaries due within one year

At 31 December 2008, amounts owed by subsidiaries due within one year were US$ 993.6 million (2007 – US$ 565.0 million).

## 42E Borrowings – Preference Shares

The authorised, issued and fully paid preference share capital of the Company comprised 2,000,000 5% cumulative preference shares of £1 each at both 31 December 2008 and 31 December 2007. As explained in Note 42B(f), the preference shares are measured in the balance sheet in US dollars at period end rates of exchange.

The preference shares are non-redeemable and are entitled to a fixed 5% cumulative dividend, payable in equal instalments in June and December of each year. On a winding up, the preference shares are entitled to repayment and any arrears of dividend in priority to ordinary shareholders, but are not entitled to participate further in any surplus. Each preference share carries 100 votes (see Note 23(vii)) at any general meeting of the Company.

## 42F Reconciliation of Movement in Shareholders' Funds

| | Called up ordinary share capital US$m | Share premium account US$m | Profit and loss account US$m | Total US$m |
|---|---|---|---|---|
| At 1 January 2007 (equity) | 89.8 | 199.2 | 533.1 | 822.1 |
| Profit for the financial year | – | – | 597.1 | 597.1 |
| Dividends paid | – | – | (485.0) | (485.0) |
| At 31 December 2007 and 1 January 2008 | 89.8 | 199.2 | 645.2 | 934.2 |
| Profit for the financial year | – | – | 922.5 | 922.5 |
| Dividends paid | – | – | (491.0) | (491.0) |
| 31 December 2008 (equity) | 89.8 | 199.2 | 1,076.7 | 1,365.7 |

The ordinary shares rank after the preference shares in entitlement to dividend and on a winding up. Each ordinary share carries one vote at any general meeting.

## 42G Independent Auditors' Report on the Parent Company Financial Statements to the Members of Antofagasta plc

We have audited the Parent Company financial statements of Antofagasta plc for the year ended 31 December 2008 which comprise the Parent Company balance sheet and related notes 42A to 42F. These Parent Company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Group financial statements of Antofagasta plc for the year ended 31 December 2008 and on the information in the Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the Parent Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the Parent Company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Parent Company financial statements give a true and fair view and whether the Parent Company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Parent Company financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement, the Business Review, the Financial Review, the Corporate Sustainability report and the Corporate Governance report that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited Parent Company financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Parent Company financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

### Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent Company financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the Parent Company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Parent Company

## 42G Independent Auditors' Report on the Parent Company Financial Statements to the Members of Antofagasta plc continued

financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Parent Company financial statements.

## Opinion

In our opinion:

- the Parent Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2008;
- the Parent Company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the Parent Company financial statements.

Deloitte LLP

**Deloitte LLP**
Chartered Accountants and Registered Auditors
London
9 March 2009

# Five Year Summary

| | 2008 US$m | 2007 US$m | 2006 US$m | 2005 US$m | 2004 US$m |
|---|---|---|---|---|---|
| **Consolidated Balance Sheet** | | | | | |
| Intangible assets(1) | 233.6 | 263.6 | 205.3 | 97.7 | 93.2 |
| Property plant & equipment(1) | 3,679.7 | 2,623.9 | 2,373.7 | 1,820.0 | 1,796.1 |
| Investment property | 2.7 | 3.5 | 3.2 | 3.4 | 3.2 |
| Investment in associate | 3.0 | 2.5 | 3.5 | 2.8 | 2.9 |
| Trade and other receivables | 34.1 | 32.0 | 39.3 | – | – |
| Derivative financial instruments | – | 1.4 | – | – | – |
| Available for sale investments | 0.7 | 3.3 | 6.2 | 0.1 | 0.1 |
| Deferred tax assets | 12.7 | 14.7 | 3.1 | 6.6 | 1.6 |
| Non-current assets | 3,966.5 | 2,944.9 | 2,634.3 | 1,930.6 | 1,897.1 |
| Current assets | 3,988.4 | 2,910.6 | 2,450.7 | 1,849.0 | 1,302.3 |
| Current liabilities | (974.7) | (366.6) | (513.9) | (389.1) | (404.5) |
| Non current liabilities | (547.6) | (582.4) | (623.0) | (627.5) | (724.9) |
| | 6,432.6 | 4,906.5 | 3,948.1 | 2,763.0 | 2,070.0 |
| Share capital | 89.8 | 89.8 | 89.8 | 16.6 | 16.6 |
| Share premium | 199.2 | 199.2 | 199.2 | 272.4 | 272.4 |
| Reserves (retained earnings and hedging, translation and fair value reserves) | 4,977.8 | 3,776.0 | 2,866.1 | 1,752.7 | 1,176.5 |
| Equity attributable to equity holders of the Company | 5,266.8 | 4,065.0 | 3,155.1 | 2,041.7 | 1,465.5 |
| Minority interests | 1,165.8 | 841.5 | 793.0 | 721.3 | 604.5 |
| | 6,432.6 | 4,906.5 | 3,948.1 | 2,763.0 | 2,070.0 |

| | 2008 US$m | 2007 US$m | 2006 US$m | 2005 US$m | 2004 US$m |
|---|---|---|---|---|---|
| **Consolidated Income Statement** | | | | | |
| Group turnover | 3,372.6 | 3,826.7 | 3,870.0 | 2,445.3 | 1,942.1 |
| Total profit from operations and associates | 2,553.2 | 2,654.8 | 2,805.2 | 1,507.3 | 1,203.4 |
| Profit before tax(2) | 2,609.5 | 2,750.2 | 2,859.0 | 1,536.3 | 1,198.5 |
| Income tax expense | (519.7) | (638.4) | (664.9) | (308.1) | (241.9) |
| Minority interests | (383.3) | (729.7) | (839.8) | (502.4) | (377.1) |
| Net earnings (profit attributable to equity holders of the Company)(2) | 1,706.5 | 1,382.1 | 1,354.3 | 725.8 | 579.5 |
| EBITDA(3) | 1,899.8 | 2,824.0 | 2,957.3 | 1,674.1 | 1,356.7 |

| | 2008 cents | 2007 cents | 2006 cents | 2005 cents | 2004 cents |
|---|---|---|---|---|---|
| **Earnings per share(2)** | | | | | |
| Basic earnings per share | 173.1 | 140.2 | 137.4 | 73.6 | 58.8 |

## Dividends to Ordinary Shareholders of the Company(4)

| | 2008 cents | 2007 cents | 2006 cents | 2005 cents | 2004 cents |
|---|---|---|---|---|---|
| **Dividends per Share Proposed in relation to the Year** | | | | | |
| Ordinary dividends (interim and final) | 9.0 | 8.6 | 8.2 | 8.0 | 7.8 |
| Special dividends | 51.0 | 41.0 | 40.0 | 14.0 | 8.0 |
| | 60.0 | 49.6 | 48.2 | 22.0 | 15.8 |
| Dividends per share paid in the year and deducted from equity | 49.8 | 49.2 | 24.0 | 16.0 | 7.8 |

See footnotes on page 137.

| | 2008 US$m | 2007 US$m | 2006 US$m | 2005 US$m | 2004 US$m |
|---|---|---|---|---|---|
| **Consolidated Cash Flow Statement** | | | | | |
| Cash flow from operations | 2,454.3 | 2,817.7 | 2,810.1 | 1,647.5 | 1,253.5 |
| Interest paid | (12.5) | (20.2) | (24.6) | (23.3) | (32.5) |
| Dividends from associates | 1.8 | 2.4 | 0.4 | 1.0 | – |
| Income tax paid | (561.4) | (806.0) | (498.2) | (343.8) | (14.3) |
| Net cash from operating activities | 1,882.2 | 1,993.9 | 2,287.7 | 1,281.4 | 1,206.7 |
| Investing activities | | | | | |
| Acquisition, disposal and part-disposal of subsidiaries, joint venture, associates and available for sale investment and recovery of VAT | 1,163.4 | 36.3 | (394.5) | 7.7 | 2.9 |
| Purchases and disposals of intangible assets, property, plant, and equipment | (1,145.7) | (481.7) | (506.6) | (218.9) | (80.2) |
| Interest received | 78.8 | 111.3 | 77.6 | 37.9 | 11.1 |
| Net cash used in investing activities | 96.5 | (334.1) | (823.5) | (173.3) | (66.2) |
| Financing activities | | | | | |
| Dividends paid to equity holders of the Company | (491.0) | (485.0) | (236.6) | (155.4) | (76.5) |
| Dividends paid to preference holders and minorities | (495.8) | (681.4) | (630.8) | (385.8) | (113.5) |
| New borrowings less repayment of borrowings and finance leases | 177.7 | (93.2) | (107.6) | (139.4) | (263.3) |
| Movement on medium term deposits | – | – | – | – | 27.0 |
| Net cash used in financing activities | (809.1) | (1,259.6) | (975.0) | (680.6) | (426.3) |
| Net increase in cash and cash equivalents | 1,169.6 | 400.2 | 489.2 | 427.5 | 714.2 |

| | 2008 US$m | 2007 US$m | 2006 US$m | 2005 US$m | 2004 US$m |
|---|---|---|---|---|---|
| **Consolidated Net Cash** | | | | | |
| Cash and cash equivalents | 3,358.0 | 2,212.5 | 1,805.5 | 1,316.8 | 881.4 |
| Short-term borrowings[5] | (319.0) | (101.8) | (97.6) | (97.2) | (104.7) |
| Medium and long-term borrowings[5] | (119.9) | (164.2) | (261.1) | (368.1) | (498.1) |
| | (438.9) | (266.0) | (358.7) | (465.3) | (602.8) |
| Net cash at the year-end | 2,919.1 | 1,946.5 | 1,446.8 | 851.5 | 278.6 |

(1) IFRIC 12 "Service Concession Arrangements" was adopted in 2008, which required that all infrastructure assets relating to the Water concession to be recorded within intangible assets. Previously, certain infrastructure assets were recorded within property, plant and equipment. Accordingly, the 2008 figures have been prepared on this basis, and the comparatives for 2007 have been restated to reclassify these assets, as explained in Note 13. The comparatives for 2004, 2005 and 2006 have not been restated.

(2) Exceptional items included in the consolidated income statement in respect of 2008 comprise: (i) an impairment charge of US$188.3 million relating to property, plant and equipment at El Tesoro and Michilla, which has been recorded within "Total operating costs"; and (ii) a profit of US$1,024.9 million relating to the sale of a 30% interest in Esperanza and El Tesoro to Marubeni Corporation, which has been recorded within "Profit on part-disposal of subsidiaries". Excluding these items, profit before tax is US$1,772.9 million, net earnings is US$842.9 million and earnings per share is 85.5 cents. Further details of these exceptional items are set out in Note 5. There were no exceptional items in 2004 to 2007.

(3) EBITDA refers to Earnings Before Interest, Tax, Depreciation and Amortisation and is defined in Note 6(a)(vii) of the financial statements on page 89. EBITDA for 2007 and 2008 is reconciled to operating profit in the Financial Review on page 37.

(4) Earnings per share and dividends per share have been restated for the effects of the 4-for-1 bonus issue on 19 June 2006.

(5) Borrowings under IFRS include amounts due under finance leases and preference shares.

# Ore Reserve and Mineral Resource Estimates

At 31 December 2008

## Introduction

The ore reserve and mineral resource estimates presented in this report comply with the requirements of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves 2004 edition (the JORC Code) which has been used by the Group as minimum standard for the preparation and disclosure of the information contained herein. The definitions and categories of Ore Reserves and Mineral Resources are set out below.

The information on ore reserves and mineral resources was prepared by or under the supervision of Competent Persons as defined in the JORC Code. The Competent Persons have sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking. The Competent Persons consent to the inclusion in this report of the matters based on their information in the form and context in which it appears The Competent Person for Exploration Results and Mineral Resources is Jorge Artal (MAusIMM), Senior Geologist for Antofagasta Minerals S.A.. The Competent Person for Ore Reserves is Murray Canfield (P.Eng. Ontario), Technical Manager Operations for Antofagasta Minerals S.A.

The Group's operations and projects are subject to a comprehensive programme of audits aimed at providing assurance in respect of ore reserve and mineral resource estimates. The audits are conducted by suitably qualified Competent Persons from within a particular division, another division of the Company or from independent consultants.

The ore reserve and mineral resource estimates represent full reserves and resources, not the Group's attributable share for each mine. The Group's economic interest in each mine is disclosed in the notes following the estimates on pages 141 and 142. The totals in the table may include some small apparent differences as the specific individual figures have not been rounded.

## Definitions and Categories of Ore Reserves and Mineral Resources

A 'Mineral Resource' is a concentration or occurrence of material of intrinsic economic interest in or on the Earth's crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade, geological characteristics and continuity of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral Resources are sub-divided, in order of increasing geological confidence, into Inferred, Indicated and Measured categories.

An 'Inferred Mineral Resource' is that part of a Mineral Resource for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability.

An 'Indicated Mineral Resource' is that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed.

A 'Measured Mineral Resource' is that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and grade continuity.

## Definitions and Categories of Ore Reserves and Mineral Resources continued

An 'Ore Reserve' is the economically mineable part of a Measured and/or Indicated Mineral Resource. It includes diluting materials and allowances for losses, which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Ore Reserves are sub-divided in order of increasing confidence into Probable Ore Reserves and Proved Ore Reserves.

A 'Probable Ore Reserve' is the economically mineable part of an Indicated, and in some circumstances, a Measured Mineral Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors These assessments demonstrate at the time of reporting that extraction could reasonably be justified.

A 'Proved Ore Reserve' is the economically mineable part of a Measured Mineral Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified.

# Ore Reserve and Mineral Resource Estimates continued

At 31 December 2008

| Ore reserves | Tonnage (millions of tonnes) 2008 | 2007 | Copper (%) 2008 | 2007 | Molybdenum (%) 2008 | 2007 | Gold (g/tonne) 2008 | 2007 | Silver (g/tonne) 2008 | 2007 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Los Pelambres (see note (a))** | | | | | | | | | | |
| Proved | 606.0 | 1,007.0 | 0.68 | 0.66 | 0.022 | 0.018 | 0.034 | 0.034 | 1.20 | 1.12 |
| Probable | 845.0 | 660.0 | 0.65 | 0.60 | 0.016 | 0.015 | 0.032 | 0.031 | 0.85 | 0.78 |
| Total | 1,451.0 | 1,667.0 | 0.66 | 0.64 | 0.019 | 0.017 | 0.033 | 0.033 | 1.00 | 0.99 |
| **El Tesoro (see note (b))** | | | | | | | | | | |
| *Open pit and Tesoro North-East* | | | | | | | | | | |
| Proved | 113.0 | 121.3 | 0.84 | 0.79 | – | – | – | – | – | – |
| Probable | 5.3 | 6.1 | 0.30 | 0.92 | – | – | – | – | – | – |
| Sub-total | 118.3 | 127.4 | 0.81 | 0.80 | – | – | – | – | – | – |
| *El Tesoro ROM (Esperanza Oxides)* | | | | | | | | | | |
| Proved | 19.9 | – | 0.37 | – | – | – | – | – | – | – |
| Probable | 84.3 | – | 0.37 | – | – | – | – | – | – | – |
| Sub-total | 104.2 | – | 0.37 | – | – | – | – | – | – | – |
| Total | 222.5 | 127.4 | 0.60 | 0.80 | – | – | – | – | – | – |
| **Michilla (see note (c))** | | | | | | | | | | |
| Proved | 5.3 | 6.9 | 0.64 | 0.72 | – | – | – | – | – | – |
| Probable | 2.6 | 5.1 | 1.46 | 1.31 | – | – | – | – | – | – |
| Total | 7.9 | 12.0 | 0.91 | 0.97 | – | – | – | – | – | – |
| **Esperanza sulphides (see note (d))** | | | | | | | | | | |
| Proved | 207.2 | 349.0 | 0.52 | 0.59 | 0.010 | 0.010 | 0.210 | 0.250 | – | – |
| Probable | 376.1 | 131.0 | 0.56 | 0.50 | 0.010 | 0.009 | 0.230 | 0.200 | – | – |
| Total | 583.3 | 480.0 | 0.54 | 0.57 | 0.010 | 0.010 | 0.223 | 0.236 | – | – |
| Group Total | 2,264.7 | 2,286.4 | 0.63 | 0.63 | | | | | | |

| Mineral resources (including ore reserves) | Tonnage (millions of tonnes) 2008 | 2007 | Copper (%) 2008 | 2007 | Molybdenum (%) 2008 | 2007 | Gold (g/tonne) 2008 | 2007 | Silver (g/tonne) 2008 | 2007 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Los Pelambres (see note (a))** | | | | | | | | | | |
| Measured | 645.0 | 1,099.0 | 0.67 | 0.66 | 0.021 | 0.018 | 0.033 | 0.034 | 1.15 | 1.12 |
| Indicated | 1,130.0 | 810.0 | 0.62 | 0.60 | 0.015 | 0.015 | 0.030 | 0.031 | 0.76 | 0.78 |
| Measured + Indicated | 1,775.0 | 1,909.0 | 0.64 | 0.63 | 0.017 | 0.017 | 0.031 | 0.033 | 0.90 | 0.98 |
| Inferred | 3,085.0 | 1,019.0 | 0.52 | 0.57 | 0.008 | 0.013 | (*) | 0.032 | (*) | 0.47 |
| Total | 4,860.0 | 2,928.0 | 0.56 | 0.61 | 0.011 | 0.015 | (*) | 0.032 | (*) | 0.80 |
| **El Tesoro (see note (b))** | | | | | | | | | | |
| *Open pit and Tesoro North-East* | | | | | | | | | | |
| Measured | 122.8 | 129.7 | 0.78 | 0.79 | – | – | – | – | – | – |
| Indicated | 25.4 | 24.7 | 0.70 | 0.70 | – | – | – | – | – | – |
| Measured + Indicated | 148.2 | 154.4 | 0.77 | 0.78 | – | – | – | – | – | – |
| Inferred | 2.5 | 13.2 | 0.78 | 0.55 | – | – | – | – | – | – |
| Sub-total | 150.7 | 167.6 | 0.77 | 0.76 | – | – | – | – | – | – |
| *El Tesoro ROM (Esperanza Oxides)* | | | | | | | | | | |
| Measured | 19.9 | 105.1 | 0.37 | 0.36 | – | – | – | – | – | – |
| Indicated | 84.3 | 10.4 | 0.37 | 0.32 | – | – | – | – | – | – |
| Measured + Indicated | 104.2 | 115.5 | 0.37 | 0.36 | – | – | – | – | – | – |
| Inferred | 31.6 | 4.1 | 0.31 | 0.31 | – | – | – | – | – | – |
| Sub-total | 135.8 | 119.6 | 0.36 | 0.35 | – | – | – | – | – | – |
| Total | 286.5 | 287.2 | 0.57 | 0.59 | – | – | – | – | – | – |

| Mineral resources continued (including ore reserves) | Tonnage (millions of tonnes) 2008 | 2007 | Copper (%) 2008 | 2007 | Molybdenum (%) 2008 | 2007 | Gold (g/tonne) 2008 | 2007 | Silver (g/tonne) 2008 | 2007 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Michilla (see note (c))** | | | | | | | | | | |
| Measured | 16.7 | 14.4 | 1.42 | 1.68 | – | – | – | – | – | – |
| Indicated | 29.3 | 31.7 | 1.57 | 1.54 | – | – | – | – | – | – |
| Measured + Indicated | 46.0 | 46.1 | 1.52 | 1.58 | – | – | – | – | – | – |
| Inferred | 15.9 | 16.6 | 1.28 | 1.28 | – | – | – | – | – | – |
| Total | 61.9 | 62.7 | 1.46 | 1.50 | – | – | – | – | – | – |
| **Esperanza sulphides (see note (d))** | | | | | | | | | | |
| Measured | 233.8 | 421.5 | 0.51 | 0.56 | 0.011 | 0.011 | 0.200 | 0.220 | – | – |
| Indicated | 565.8 | 236.1 | 0.50 | 0.45 | 0.012 | 0.011 | 0.180 | 0.160 | – | – |
| Measured + Indicated | 799.6 | 657.6 | 0.50 | 0.52 | 0.012 | 0.011 | 0.186 | 0.200 | – | – |
| Inferred | 404.8 | 472.9 | 0.35 | 0.34 | 0.012 | 0.012 | 0.070 | 0.110 | – | – |
| Total | 1,204.4 | 1,130.5 | 0.45 | 0.45 | 0.012 | 0.011 | 0.147 | 0.162 | – | – |
| **Reko Diq – Western Porphyries (see note (e))** | | | | | | | | | | |
| Measured | 1,406.0 | 167.0 | 0.52 | 0.53 | – | – | 0.290 | 0.336 | – | – |
| Indicated | 964.0 | 715.0 | 0.49 | 0.51 | – | – | 0.270 | 0.305 | – | – |
| Measured + Indicated | 2,370.0 | 882.0 | 0.51 | 0.51 | – | – | 0.282 | 0.311 | – | – |
| Inferred | 1,746.0 | 3,267.0 | 0.50 | 0.49 | – | – | 0.320 | 0.286 | – | – |
| Total | 4,116.0 | 4,149.0 | 0.50 | 0.50 | – | – | 0.298 | 0.291 | – | – |
| **Group total** | | | | | | | | | | |
| Measured + Indicated | 5,243.0 | 3,764.6 | 0.57 | 0.60 | | | | | | |
| Inferred | 5,285.8 | 4,792.8 | 0.50 | 0.50 | | | | | | |
| Total | 10,528.8 | 8,557.4 | 0.54 | 0.54 | | | | | | |

## Notes to Ore Reserve and Mineral Resource Estimates

The ore reserves mentioned in this report were determined considering specific cut-off grades for each mine and using a long term copper price of 190 cents per pound (130 cents per pound in 2007) and US$ 600 per gold ounce (US$ 500 per gold ounce in 2007).

### (a) Los Pelambres

Los Pelambres is 60% owned by the Group. The cut-off grade applied to the determination of ore reserves and mineral resources was 0.4%.

The reduction in Ore Reserves of 216 million tonnes in 2008 is due to two principal factors: 1) the extraction of 63 million tonnes of ore (millfeed and low grade) during 2008 and 2) a re-classification of 153 million tonnes of resources within the pit design into the Inferred Category (from Measured and/or Indicated). This was due to a comprehensive review of the 2008 resource model that resulted in the application of more conservative estimation parameters to the block model.

The increase in the Mineral Resources of 1.9 billion tonnes is due to the discovery of a porphyry deposit adjacent and to the south of the Los Pelambres ore body called Frontera (1.5 billion tonnes) and to the extension of known mineralisation to depth of the Los Pelambres ore body (0.4 billion tonnes). This increase was determined as a result of a two-year, 44,324 metre drilling campaign carried out from early 2006 to early 2008.

The (*) in the Resource Table indicates that the gold and silver grades for the Inferred Resource Category are still under review at the time of publication.

As a result of the 66% increase in Mineral Resources in 2008, Los Pelambres is in the process of a comprehensive evaluation of development alternatives for the mine. For the 2008 Ore Reserve Estimate there has been no change to the final pit design or to the cut-off grade used in 2007.

### (b) El Tesoro

El Tesoro is 70% owned by the Group (100% until 25 August 2008). The Mineral Resources and Ore Reserves are made up of the El Tesoro and Tesoro North-East deposits, which are processed by heap leaching, and the Run-of-Mine (ROM) Oxide Mineral Resources from the Esperanza Project, located five kilometres south-east of El Tesoro. An agreement was entered into in 2008 whereby the Esperanza Oxide Mineral Resources were purchased by El Tesoro for a one-time payment. Esperanza will deliver the ROM ore released during the pre-stripping and operating phases of the Esperanza Project to a permanent leach pad constructed and operated by the El Tesoro mine.

The reduction of 9 million tonnes in the 2008 Ore Reserve estimate is due to 11 million tonnes of ore extraction during 2008 plus a further loss of 2 million tonnes from re-optimisation of the final pit, offset by an addition of 4 million tonnes due to improved density estimation parameters in the block model.

The Esperanza Oxide Mineral Resources have been included in the El Tesoro portion of the table in 2008, along with the 2007 values for comparison that were included in the Esperanza portion last year. The increase of 16 million tonnes in Mineral Resources is due to a change in estimation parameters that resulted in a re-distribution of tonnes within categories, decreasing the Measured Resources and increasing the Indicated and Inferred Resource categories.

### (c) Michilla

Michilla is 74.2% owned by the Group and its operations comprise an open pit mine, an underground mine and other workings. The cut off grade applied to the determination of ore reserves and mineral resources was 0.4% for the open pit, 1.2% for the underground mine and 1.0% for other workings.

The Ore Reserve decrease of 4 million tonnes is due to 5 million tonnes of ore extraction during 2008 offset by an increase of 1 million tonnes in the Estefanía deposit as a result of in-fill drilling.

Mineral Resources decreased by 1 million tonnes (from 63 to 62 million tonnes) due to in-fill drilling results mostly offsetting extraction losses of 5 million tonnes.

# Ore Reserve and Mineral Resource Estimates continued

At 31 December 2008

## (d) Esperanza

Esperanza is 70% owned by the Group (100% until 25 August 2008). The cut-off grade applied to the determination of ore reserves and minerals resources in 2008 was 0.2% equivalent copper.

The increase in Ore Reserves of 103 million tonnes is due to a combination of applying slightly steeper pit slope angles to a final pit design that was re-optimised with updated pricing parameters on a resource model containing more Measured and Indicated Resources

Mineral Resources increased by 73 million tonnes due to a comprehensive review of the geological model and estimation parameters that resulted in a decrease in Measured and Inferred Resources and an increase in Indicated Resources.

## (e) Reko Diq

The Group holds a 50% interest in Tethyan Copper Company Limited ("Tethyan"), its joint venture with Barrick Gold Corporation established in 2006. Tethyan's principal assets are a 75% interest in the exploration licence encompassing the Reko Diq prospects in the Chagai Hills region of South-West Pakistan (in which the Government of Balochistan holds the remaining 25%) including the Western Porphyries, and a 100% interest in certain other licences in the region.

A feasibility study was initiated in February 2008 and is expected to be finalised in the second half of 2009.

As part of the feasibility process, an extensive drilling programme of approximately 146,000 metres was carried out during 2008 out of an overall programme of 210,000 metres. This included 65,000 metres of infill drilling to improve the categorisation of the existing resource estimate, 76,000 metres to support the feasibility study (metallurgical test work, geotechnical and hydrogeological characterisation and condemnation drilling) and 5,000 metres for new exploration. The resource estimate for the Western Porphyries has remained approximately the same at 4.1 billion tonnes, with 1.5 billion tonnes upgraded from Inferred to Measured & Indicated Resources compared to 2007.

## (f) Other Mineral Inventory

In addition to the Mineral Resources noted above, the Group has interests in other deposits located in the Antofagasta Region of Chile, some of them containing gold and/or molybdenum. At the moment they are in exploration or in the process of resource estimation.

These include:

### (i) In the Sierra Gorda District

In the Sierra Gorda district the Group has one operation (El Tesoro) and one project under construction (Esperanza) and others in exploration or under study, such as: Llano Paleo Canal, Telégrafo Norte and Telégrafo Sur (70% owned by the Group; 100% until 25 August 2008); Centinela (51% owned by the Group); Polo Sur and Mirador (100% owned by the Group) and Caracoles (100% owned by the Group; 81.5% until 12 February 2009). The Mineral Inventory of these mineral deposits is estimated to be in the range of 2.2 to 3.4 billion tonnes with grades in the range of 0.5% to 0.4% copper.

The table below lists each of the mineral deposits with its associated tonnage and grade ranges, as well as the Group's ownership interest:

| Mineral deposit | Tonnes range (million tonnes) | | Grades range (% Cu) | | Ownership interest (%) |
|---|---|---|---|---|---|
| Llano – Paleocanal | 90 | 140 | 0.51 | 0.41 | 70.0 |
| Telégrafo Norte | 300 | 500 | 0.45 | 0.37 | 70.0 |
| Telégrafo Sur | 700 | 1,100 | 0.50 | 0.41 | 70.0 |
| Centinela | 60 | 100 | 0.76 | 0.63 | 51.0 |
| Polo Sur | 300 | 450 | 0.50 | 0.41 | 100.0 |
| Caracoles | 700 | 1,100 | 0.60 | 0.49 | 100.0 |
| Mirador | 15 | 25 | 0.77 | 0.63 | 100.0 |
| Total | 2,165 | 3,415 | 0.53 | 0.44 | |

### (ii) In the Michilla District

In the Michilla district there are several satellite deposits to the main Michilla ore body that have been included in the Mineral Resource Table. However, there are three other mineral deposits within a potentially economic radius of the Michilla mine: Rencoret, Aurora (within the Michilla property) and Antucoya. Antucoya is a low-grade oxide porphyry deposit currently in pre-feasibility study. Rencoret and Aurora are mantle-style deposits with associated high-grade brechas, similar to the main Michilla ore body.

The Mineral Inventory of these mineral deposits is estimated to be in the range of 0.5 to 0.7 billion tonnes with grades in the range of 0.5% to 0.3% copper. The table below lists each of the mineral deposits with its associated tonnage and grade ranges, as well as The Group's ownership interest:

| Mineral deposit | Tonnes range (million tonnes) | | Grades range (% Cu) | | Ownership interest (%) |
|---|---|---|---|---|---|
| Rencoret | 15 | 25 | 1.22 | 1.00 | 100.0 |
| Aurora | 5 | 8 | 1.36 | 1.11 | 74.2 |
| Antucoya | 480 | 700 | 0.42 | 0.34 | 100.0 |
| Total | 500 | 733 | 0.45 | 0.37 | |

### (iii) In the El Abra District

The Group has two mineral deposits within a few kilometres of the El Abra ore body, located near Calama in the Antofagasta Region of Chile. Conchi is a porphyry copper mineral deposit and Brujulina is an exotic-style mineral deposit. The Mineral Inventory of these mineral deposits is estimated to be in the range of 0.5 to 0.7 billion tonnes with grades in the range of 0.7% to 0.5% copper. The table below lists each of the mineral deposits with its associated tonnage and grade ranges, as well as the Group's ownership interest:

| Mineral deposit | Tonnes range (million tonnes) | | Grades range (% Cu) | | Ownership interest (%) |
|---|---|---|---|---|---|
| Conchi | 440 | 660 | 0.67 | 0.55 | 51.0 |
| Brujulina | 50 | 80 | 0.65 | 0.53 | 51.0 |
| Total | 490 | 740 | 0.67 | 0.55 | |

## (g) Antomin 2 and Antomin Investors

The Group has an approximately 51% interest in two indirect subsidiaries, Antomin 2 Limited ("Antomin 2") and Antomin Investors Limited ("Antomin Investors Limited"), which own a number of copper exploration properties in Chile's Antofagasta Region and Coquimbo Region. These include (but are not limited to) Centinela (see Note f(i) above) and Brujulinas and Conchi (see Note f(iii) above). The remaining approximately 49% of Antomin 2 and Antomin Investors is owned by Mineralinvest Establishment ("Mineralinvest"), a company controlled by the Luksic family.

The Group has the exclusive right to acquire, at fair value under certain conditions, the shareholding of Mineralinvest in Antomin 2 Limited and Antomin Investors, or the underlying properties, for a period of five years from August 2008. The Group also has committed to meet in full any exploration costs relating to the properties held by these two entities.

Further details are set out in Note 38(d) to the financial statements.

# Mining Production and Sales, Transport and Water Statistics

For the year ended 31 December 2008

| | Q1 | Q2 | Q3 | Q4 | 2008 Year | 2007 Year |
|---|---|---|---|---|---|---|
| **Group Total** | | | | | | |
| Total copper production volume ('000 tonnes) | 114.6 | 119.0 | 123.7 | 120.4 | 477.7 | 428.1 |
| Total copper sales volume ('000 tonnes) | 100.7 | 127.8 | 133.6 | 116.9 | 479.0 | 428.5 |
| Total molybdenum production volume ('000 tonnes) | 1.8 | 2.0 | 1.9 | 2.1 | 7.8 | 10.2 |
| Total molybdenum sales volume ('000 tonnes) | 1.7 | 2.0 | 1.9 | 2.1 | 7.7 | 10.0 |
| Weighted average realised copper price (cents per pound) | 439.2 | 385.8 | 246.1 | 11.2 | 266.7 | 326.6 |
| Realised molybdenum price (dollars per pound) | 32.5 | 34.5 | 33.1 | (1.2) | 23.9 | 31.7 |
| Weighted average cash costs (cents per pound) | | | | | | |
| – excluding by-product credits and tolling charges | 115.6 | 118.1 | 119.6 | 115.6 | 117.2 | 90.6 |
| – excluding by-product credits | 129.5 | 131.9 | 130.4 | 125.4 | 129.3 | 110.7 |
| – net of by-product credits | 72.2 | 72.3 | 76.4 | 127.7 | 87.3 | 31.6 |
| **Los Pelambres (60% owned)** | | | | | | |
| Daily average ore treated ('000 tonnes) | 138.8 | 144.2 | 136.6 | 127.7 | 136.8 | 126.3 |
| Average ore grade (%) | 0.71 | 0.74 | 0.79 | 0.81 | 0.76 | 0.71 |
| Average recovery (%) | 91.1 | 91.8 | 92.6 | 93.0 | 92.1 | 92.3 |
| Concentrate produced ('000 tonnes) | 272.0 | 299.2 | 301.5 | 262.6 | 1,135.2 | 872.1 |
| Average concentrate grade (%) | 30.2 | 29.7 | 30.3 | 33.8 | 30.9 | 34.5 |
| Fine copper in concentrate ('000 tonnes) | 82.0 | 87.7 | 93.2 | 88.4 | 351.1 | 300.1 |
| Payable copper in concentrate – production volume ('000 tonnes) | 79.1 | 84.7 | 90.0 | 85.4 | 339.2 | 289.9 |
| Payable copper in concentrate – sales volume ('000 tonnes) | 65.8 | 96.2 | 96.1 | 82.5 | 340.6 | 289.4 |
| Average moly ore grade (%) | 0.019 | 0.018 | 0.018 | 0.022 | 0.019 | 0.030 |
| Average moly recovery (%) | 73.5 | 80.8 | 84.3 | 81.6 | 80.1 | 74.2 |
| Payable moly in concentrate – production volume ('000 tonnes) | 1.8 | 2.0 | 1.9 | 2.1 | 7.8 | 10.2 |
| Payable moly in concentrate – sales volume ('000 tonnes) | 1.7 | 2.0 | 1.9 | 2.1 | 7.7 | 10.0 |
| Copper realised price (cents per pound) | 469.6 | 387.2 | 215.8 | (59.8) | 246.5 | 328.3 |
| On-site and shipment costs (cents per pound) | 100.4 | 99.1 | 99.5 | 99.3 | 99.5 | 76.3 |
| Tolling charges for concentrates (cents per pound) | 20.3 | 19.3 | 14.9 | 13.8 | 17.0 | 29.6 |
| Cash costs (before by-product) (cents per pound) | 120.7 | 118.4 | 114.4 | 113.1 | 116.5 | 105.9 |
| By-product credits (cents per pound) | (83.2) | (83.7) | (74.3) | 3.2 | (59.2) | (116.7) |
| Cash costs (cents per pound) | 37.4 | 34.6 | 40.0 | 116.3 | 57.3 | (10.8) |
| **El Tesoro (70% owned; 100% until 25 August 2008)** | | | | | | |
| Daily average ore treated ('000 tonnes) | 29.8 | 27.8 | 26.9 | 29.4 | 28.5 | 26.8 |
| Average ore grade (%) | 1.16 | 1.16 | 1.19 | 1.13 | 1.16 | 1.23 |
| Average recovery (%) | 76.8 | 75.4 | 72.9 | 73.4 | 74.7 | 77.8 |
| Copper cathodes – production volume ('000 tonnes) | 23.9 | 22.7 | 21.5 | 22.6 | 90.8 | 93.0 |
| Copper cathodes – sales volume ('000 tonnes) | 23.6 | 21.7 | 24.0 | 21.6 | 90.9 | 93.3 |
| Copper realised price (cents per pound) | 383.8 | 388.8 | 322.1 | 160.2 | 315.6 | 327.6 |
| Cash costs (cents per pound) | 129.4 | 147.9 | 156.7 | 146.3 | 144.7 | 109.8 |
| **Michilla (74.2% owned)** | | | | | | |
| Daily average ore treated ('000 tonnes) | 16.2 | 15.4 | 15.4 | 15.0 | 15.5 | 14.8 |
| Average ore grade (%) | 0.98 | 1.04 | 1.11 | 1.09 | 1.06 | 1.03 |
| Average recovery (%) | 80.6 | 80.6 | 79.3 | 81.2 | 80.4 | 79.1 |
| Copper cathodes – production volume ('000 tonnes) | 11.5 | 11.6 | 12.3 | 12.3 | 47.7 | 45.1 |
| Copper cathodes – sales volume ('000 tonnes) | 11.3 | 9.9 | 13.5 | 12.8 | 47.5 | 45.8 |
| Copper realised price (cents per pound) | 378.9 | 366.1 | 326.6 | 216.9 | 317.7 | 313.8 |
| Cash costs (cents per pound) | 191.4 | 198.8 | 201.8 | 172.8 | 191.1 | 143.5 |
| **Transport (100% owned)** | | | | | | |
| Rail tonnage transported ('000 tons) | 1,224 | 1,400 | 1,480 | 1,539 | 5,644 | 5,008 |
| Road tonnage transported ('000 tons) | 273 | 311 | 375 | 394 | 1,353 | 1,313 |
| **Water (100% owned)** | | | | | | |
| Water volume sold – potable and untreated ('000$m^3$) | 10,743 | 10,248 | 10,534 | 11,149 | 42,674 | 39,858 |

**Notes**

(a) The production figures represent the total amounts produced for each mine, not the Group's attributable share for each mine.

(b) Los Pelambres produces copper and molybdenum concentrates, and the figures for Los Pelambres are expressed in terms of payable metal contained in concentrate. The copper concentrate also contains gold and silver, for which Los Pelambres is credited when the concentrate is sold. El Tesoro and Michilla produce copper cathodes with no by-products.

(c) Cash costs are a measure of the cost of operational production expressed in terms of cents per pound of payable copper produced. Cash costs are stated net of by-product credits and include tolling charges for concentrate for Los Pelambres. Cash costs exclude depreciation, financial income and expenses, hedging gains and losses, exchange gains and losses and corporation tax for all three operations. By-product calculations do not take into account unrealised mark-to-market gains for molybdenum at the beginning or end of each period.

(d) Water volumes include water transportation of 353,000 $m^3$ in Q1; 333,000 $m^3$ in Q2; 327,000 $m^3$ in Q3 and 338,000 $m^3$ in Q4, totalling 1,351,000 $m^3$ for 2008 (2007 – 1,258,000 $m^3$).

(e) The totals in the table may include some small apparent differences as the specific individual figures have not been rounded.

# Glossary and Definitions

## Business, Financial and Accounting

### ADASA
Aguas de Antofagasta S.A., a wholly-owned subsidiary of the Group incorporated in Chile and operating the water concession in Chile's Antofagasta Region acquired from ESSAN.

### ADR
American Depositary Receipt.

### AIFR
All Injury Frequency Rate.

### AMSA
Antofagasta Minerals S.A., a wholly-owned subsidiary of the Group incorporated in Chile which acts as the corporate centre for the mining division.

### Antucoya
Copper project located approximately 45 kilometres east of Michilla.

### Antomin
Antomin Limited, a wholly-owned subsidiary of the Group incorporated in Jersey (a 51%-owned subsidiary until 25 August 2008).

### ATI
Antofagasta Terminal Internacional S.A., a 30%-owned associate of the Group incorporated in Chile and operating the port in the city of Antofagasta.

### Annual Report
The Annual Report and Financial Statements 2008 of Antofagasta plc.

### Australian Dollars
Australian currency.

### Banco de Chile
Banco de Chile S.A., a subsidiary of Quiñenco.

### Barrick Gold
Barrick Gold Corporation, the joint venture partner of the Group in Tethyan.

### Board
The Directors of Antofagasta plc who collectively have responsibility for the conduct of the Group's business.

### Capex
Capital expenditure(s).

### Caracoles
Compañía Contractual Minera Caracoles, a wholly-owned subsidiary of the Group incorporated in Chile (81.5% owned prior to February 2009 – see Note 40).

### Cash Costs
A measure of the cost of operational production expressed in terms of cents per pound of payable copper produced. Cash costs are stated net of by-product credits and include tolling charges for concentrates for Los Pelambres. Cash costs exclude depreciation, financial income and expenses, hedging gains and losses, exchange gains and losses and corporation tax.

### CCU
Compañía de Cervecerías Unidas S.A., an associate of Quiñenco.

### CGU
Cash Generating Unit.

### Chilean Peso
Chilean currency.

### Combined Code or 2006 Combined Code
The revised Combined Code on Corporate Governance published by the Financial Reporting Council in June 2006 and applicable to listed companies for reporting years beginning on or after 1 November 2006.

### Companies Act 1985 and Companies Act 2006
Principal legislation for United Kingdom company law.

### Compañía Minera Milpo
Compañía Minera Milpo S.A. of Peru is a former owner of a 18.5% interest in Caracoles, acquired by the Group in February 2009 – see Note 40.

### Company
Antofagasta plc.

### CONAMA
Comisión Nacional del Medio Ambiente de Chile (Chilean National Environmental Commission).

### Desalant
Desalant S.A., former owner of a desalination plant located in Antofagasta and acquired by the Group through ADASA – see Note 40.

### DIA
Declaración de Impacto Ambiental, or Environmental Impact Declaration.

### Directors
The Directors of the Company.

### EBIT
Earnings Before Interest and Tax.

### EBITDA
Earnings Before Interest, Tax, Depreciation and Amortisation.

### EIA
Estudios de Impacto Ambiental, or Environmental Impact Assessment.

### El Tesoro
Minera El Tesoro, a 70%-owned subsidiary of the Group incorporated in Chile (a wholly-owned subsidiary of the Group until 25 August 2008, before the Marubeni transaction – see Note 31).

### EMS
Environmental Management System.

### ENAP
Empresa Nacional del Petróleo, the 40% joint venture partner of the Group in Energía Andina.

### Energía Andina S.A.
Energía Andina S.A., a 60%-owned joint venture entity of the Group incorporated in Chile.

### EPS
Earnings per share.

### Equatorial
Equatorial Mining Limited, a wholly-owned subsidiary of the Group incorporated in Australia.

### Esperanza
Minera Esperanza, a 70%-owned subsidiary of the Group incorporated in Chile (a wholly-owned subsidiary of the Group until 25 August 2008, before the Marubeni transaction – see Note 31).

**ESSAN**
Empresa de Servicios Sanitarios S.A., the Chilean state-owned company which formerly operated the regulated and non-regulated water distribution business in Chile's Antofagasta Region.

**EU**
European Union.

**FCA**
Empresa Ferroviaria Andina S.A., a 50%-owned subsidiary of the Group incorporated in Bolivia.

**FCAB**
Ferrocarril de Antofagasta a Bolivia, the Chilean name for the Antofagasta Railway Company plc, a wholly-owned subsidiary of the Group incorporated in the United Kingdom and operating a rail network in Chile's Antofagasta Region.

**FSA**
Financial Services Authority.

**FTSE-100 Index**
A market-capitalisation weighted index representing the performance of the 100 largest UK-domiciled blue chip companies.

**FTSE All-Share Index**
A market-capitalisation weighted index representing the performance of all eligible companies listed on the London Stock Exchange's main market.

**GAAP**
Generally Accepted Accounting Practice or Generally Accepted Accounting Principles.

**GDP**
Gross Domestic Product.

**Government**
The Government of the Republic of Chile.

**Guanaco**
South American animal, similar to the llama.

**Group**
Antofagasta plc and its subsidiaries companies.

**Hedge Accounting**
Accounting treatment for derivatives financial instrument permitted under IAS 39 "Financial Instruments: Recognition and Measurement", which recognises the offsetting effects on profit or loss of changes in the fair values of a hedging instrument and the hedged item.

**IAS**
International Accounting Standards.

**IASB**
International Accounting Standards Board.

**IFRIC**
International Financial Reporting Interpretations Committee.

**IFRS**
International Financial Reporting Standards.

**IRR**
Internal Rate of Return.

**ISO 9.001**
An international quality management system standard published by the International Organisation for Standardisation.

**ISO 14.001**
An international environmental management system standard published by the International Organisation for Standardisation.

**IVA**
Impuesto al Valor Agregado, or Chilean Value Added Tax (Chilean VAT).

**Key Management Personnel**
Persons with authority and responsibility for planning, directing and controlling the activities of the Group.

**KPI**
Key performance indicator.

**LIBOR**
London Inter Bank Offer Rate.

**LME**
London Metal Exchange.

**Los Pelambres**
Minera Los Pelambres, a 60%-owned subsidiary of the Group incorporated in Chile.

**LSE**
London Stock Exchange.

**LTIFR**
Lost Time Injury Frequency Rate.

**Madeco**
Madeco S.A., a subsidiary of Quiñenco.

**Marubeni**
Marubeni Corporation, the Group's 30% minority partner in El Tesoro and Esperanza

**Minera Metallica Resources Chile Limitada**
Minera Metallica Resources Chile Limitada, a subsidiary of New Gold Inc. (formerly Metallica Resources Inc.), a company with exploration interests in the Río Figueroa Project.

**Michilla**
Minera Michilla S.A., a 74.2%-owned subsidiary of the Group incorporated in Chile.

**Mirador**
Copper prospect located in the Sierra Gorda district.

**Mulpún**
Coal gasification project located near Valdivia in southern Chile.

**OHSAS 18.001**
Occupational Health and Safety Assessment Series (standards for occupational health and safety management systems).

**Provisional Pricing**
A sales term in several copper and molybdenum concentrate sale agreements and cathodes sale agreements which provides for provisional pricing of sales at the time of shipment, with final pricing being based on the monthly average LME copper price or monthly average molybdenum price for specific future periods, normally ranging from 30 to 180 days after delivery to the customer. For the purposes of IAS 39, the provisional sale is considered to contain an embedded derivative (i.e. the forward contract for which the provisional sale is subsequently adjusted) which is separated from the host contract (i.e. the sale of metals contained in the concentrate or cathode at the provisional invoice price less tolling charges deducted).

**Quiñenco**
Quiñenco S.A., a Chilean financial and industrial conglomerate under the control of the Luksic family and listed on the Santiago Stock Exchange.

**Realised Prices**
Effective sale price achieved comparing revenues (grossed up for tolling charges for concentrate) with sales volumes.

**Río Figueroa**
Río Figueroa, an exploration project located in Chile's Atacama Region.

# Glossary and Definitions continued

**ROCE**
Return on Capital Employed.

**SENCE**
Servicio Nacional de Capacitación y Empleo de Chile (Chilean National Training and Employment Service).

**Severity Rate**
Number of lost days during the year in relation to the number of hours worked.

**Sierra Gorda district**
Copper district located in the Antofagasta Region of Chile, where El Tesoro and Esperanza are located.

**Sterling**
United Kingdom currency.

**SVS**
Superintendencia de Valores y Seguros de Chile, the Chilean securities regulator.

**TEAL**
Teal Exploration & Mining Incorporated, a company listed on the Toronto Stock Exchange with exploration and project interests on the Zambian Copper belt in Africa.

**Telégrafo**
Copper prospect located in the Sierra Gorda district held through Esperanza.

**Tethyan**
Tethyan Copper Company Limited, a 50%-owned joint venture entity of the Group incorporated in Australia.

**TSR**
Total Shareholder Return, being the movement in the Company's share price plus reinvested dividends.

**Turnbull Guidance**
The revised guidance on internal control for directors on Combined Code issued by the Turnbull Review Group in October 2005.

**UF**
Unidad de Fomento, an inflation-adjusted unit of account used in Chile.

**UK**
United Kingdom.

**UKLA**
United Kingdom Listing Authority.

**US**
United States.

**US Dollars**
United States currency.

## Mining Industry

**Brownfield Project**
A development or exploration project in the vicinity of an existing operation.

**By-products (credits in copper concentrates)**
Products obtained as result of copper processing. The Los Pelambres mine produces molybdenum concentrate and also receives credit for the gold and silver content in the copper concentrate sold.

**Cathode Copper**
Refined copper produced by electrolytic refining of impure copper by electro-winning.

**Concentrate**
The product of a physical concentration process, such as flotation or gravity concentration, which involves separating ore minerals from unwanted wasted rock. Concentrates require subsequent processing (such as smelting or leaching) to break down or dissolve the ore minerals and obtain the desired elements, usually metals.

**Contained Copper**
The proportion or quantity of copper contained in a given quantity of ore or concentrate.

**Cut-off Grade**
The lowest grade of mineralised material considered economic to process and used in the calculation of ore reserves and mineral resources.

**Grade A Copper Cathode**
Highest quality copper cathode (LME registered and certificated in the case of Michilla and El Tesoro).

**Greenfield Project**
The development or exploration of a new project not previously examined.

**Flotation**
A process by which chemicals are added to materials in a solution which are attracted to bubbles and float, whilst other materials sink, resulting in the production of concentrate.

**Heap Leaching**
A process for the recovery of copper from ore. The crushed material is laid on a slightly sloping, impermeable pad and leached by uniformly trickling (gravity fed) chemical solution through the beds to ponds. The metal is then recovered from the solution through the SX-EW process.

**JORC**
Joint Ore Reserves Committee of Australia.

**Leaching**
The process by which a soluble mineral can be economically recovered by dissolution.

**LOM or Life Of Mine**
The remaining life of a mine expressed in years, calculated by reference to scheduled production rates (i.e. comparing the rate at which ore is expected to be extracted from the mine to current defined reserves).

**Mineral Resources**
Material of intrinsic economic interest occurring in such form and quantity that there are reasonable prospects for eventual economic extraction. Mineral resources are stated inclusive of ore reserves, as defined by JORC.

**MW**
Megawatts (one million watts).

**Open Pit**
Mine working or excavation which is open to the surface.

**Ore**
Rock from which metal(s) or mineral(s) can be economically and legally extracted.

**Ore Grade**
The relative quantity, or the percentage, of metal content in an ore body or quantity of processed ore.

**Ore Reserves**
Part of Mineral Resources for which appropriate assessments have been carried out to demonstrate at a given date extraction could be reasonably justified and which include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors.

**Oxide and Sulphide Ores**
Different kinds of ore containing copper. Oxide ore occurs on the weathered surface of ore-rich lodes and normally results in the production of cathode copper through a heap-leaching process. Sulphide ore comes from unweathered parent ores process and normally results in the production of concentrate through a flotation process which then requires smelting and refining to produce cathode copper.

### Payable Copper
The proportion or quantity of contained copper for which payment is received after metallurgical deduction.

### Porphyry
A large body of rock which contains disseminated chalcopyrite and other sulphide minerals. Such a deposit is mined in bulk on a large scale, generally in open pits, for copper and its by-product molybdenum.

### Price Participation
Part of the tolling charges for copper concentrate under a sales agreement, usually in addition to TC/RCs and calculated a percentage of the difference between the copper price at final pricing and an agreed reference copper price, and which may result in an increase or decrease to TC/RCs.

### Price Sharing
Tolling charges calculated under a sales agreement as an agreed percentage of the price for the metal contained in copper concentrate, as an alternative to TC/RCs and/or price participation.

### Stockpile
Material extracted and piled for future use.

### SX-EW
Solvent Extraction and Electro Winning. A process for extracting metal from an ore and producing pure metal. First the metal is leached into solution; the resulting solution is then purified in the solvent extraction process; the solution is then treated in an electro chemical process (electro winning) to recover cathode copper.

### Tailings Dam
Construction used to deposit the rock waste which remains as a result of the concentrating process after the recoverable minerals have been extracted in concentrate form.

### TC/RC
Treatment and refining charges, being terms used to set the smelting and refining charge or margin for processing copper concentrate and normally set either on an annual basis or on a spot basis.

### Tpd
Tonnes per day, normally with reference to the quantity of ore processed over a given period of time expressed as a daily average.

### Tolling Charges
Charges or margins for converting concentrate into finished metal. These include TC/RCs, price participation and price sharing for copper concentrate and roasting charges for molybdenum concentrate.

### Underground Mine
Natural or man-made excavation under the surface of the Earth.

## Currency Abbreviations
US cents – Cents of US Dollars.
US$ – US Dollar.
US$'000 – Thousand US Dollars.
US$m – Million US Dollars.
£ – Pounds Sterling.
£'000 – Thousand Pounds Sterling.
£m – Million Pounds Sterling.
P – Pence.
Ch$ – Chilean Peso.
CH$'000 – Thousand Chilean Pesos.
Ch$m – Million Chilean Pesos.
A$ – Australian Dollars.
A$'000 – Thousand Australian Dollars.
A$m – Million Australian Dollars.

## Definitions and Conversion of Weights and Measures
g/t – grammes per tonne.
lb – pound.
Ounce or oz – a troy ounce.
'000 $m^3$ – thousand cubic metres.
'000 tonnes – thousand tonnes.

1 kilogramme = 2.2046 pounds.
1 metric tonnes = 1,000 kilogrammes.
1 kilometre = 0.6214 miles.
1 troy ounce = 31.1 grammes.

## Chemical Symbols
Cu – Copper.
Mo – Molybdenum.
Au – Gold.
Ag – Silver.

# Shareholder Information

## Annual General Meeting

The Annual General Meeting will be held at Church House Conference Centre, Dean's Yard, Westminster, London SW1P 3NZ at 10.30 a.m. on Wednesday, 10 June 2009.

## Shareholder Calendar 2009

| | |
|---|---|
| 30 April 2009 | Quarterly Production Report – Q1 2009 |
| 6 May 2009 | Ex Dividend Date for 2008 Final Dividend |
| 8 May 2009 | Record Date for 2008 Final Dividend |
| 28 May 2009 | Quarterly Financial Report – Q1 2009 |
| 10 June 2009 | Annual General Meeting |
| 11 June 2009 | Payment Date for 2008 Final Dividend |
| 30 July 2009 | Quarterly Production Report – Q2 2009 |
| 26 August 2009 | Interim Results Announcement – Half Year 2009 |
| 16 September 2009 | Ex Dividend Date for 2009 Interim Dividend |
| 18 September 2009 | Record Date for 2009 Interim Dividend |
| 8 October 2009 | Payment Date for 2009 Interim Dividend |
| 3 November 2009 | Quarterly Production Report – Q3 2009 |
| 26 November 2009 | Quarterly Financial Report – Q3 2009 |

Dates are provisional and subject to change.

## Dividends

Details of dividends proposed in relation to the year are given in the Directors' Report on pages 52 and 53, and in Note 12 to the financial statements.

Dividends are declared in US dollars but may be paid in either dollars or sterling. Shareholders on the register of members with an address in the United Kingdom receive dividend payments in sterling, unless they elect to be paid in dollars. All other shareholders are paid by cheque in dollars, unless they have previously instructed the Company's registrar to pay dividends by bank transfer to a sterling bank account, or they elect for payment by cheque in sterling. The Company's registrar must receive any such election before the close of business on the record date of 8 May 2009.

Dividends are paid gross without deduction of United Kingdom income tax. Antofagasta plc is not resident in the United Kingdom for tax purposes and dividends paid by Antofagasta are treated the same way as dividends received from any other foreign company.

If approved at the Annual General Meeting, the final dividend of US 53.6 cents per ordinary share will be paid on 11 June 2009 to shareholders on the register at the close of business on 8 May 2009. The conversion rate for final dividends to be paid in sterling will be set on 13 May 2009.

## Share Capital

Details of the Company's share capital are given in Note 29 to the financial statements.

## London Stock Exchange Listing

The Company's ordinary shares are listed on the London Stock Exchange (LSE; company code: ANTO). The Company is a constituent of the FTSE-100 share index.

The Company's American Depositary Receipts (ADRs) also trade on the over-the-counter market in the United States. Each ADR represents the right to receive two ordinary shares.

## Registrars and Transfer Office

Computershare Investor Services PLC
PO Box 82, The Pavilions,
Bridgwater Road,
Bristol BS13 8AE
Tel: +44(0) 870 702 0159
www.computershare.com

## Registered Office

5 Princes Gate, Knightsbridge,
London SW7 1QJ, United Kingdom
Tel: +44(0) 207 808 0988
Fax: +44(0) 207 808 0986

## Santiago Office

Antofagasta Minerals S.A.
Av. Apoquindo 4001 – piso 18
Santiago, Chile
Tel: +562 798 7000
Fax: +562 798 7445

## Registered Number

1627889

## Website

www.antofagasta.co.uk

Additional information can be found in the Shareholder Information section of the Notice of Annual General Meeting and on the Group's website.

# Directors and Advisors

**Directors**

| | |
|---|---|
| J-P Luksic | Chairman |
| C H Bailey | Non-Executive |
| G S Menéndez | Non-Executive |
| R F Jara | Non-Executive |
| D E Yarur | Non-Executive |
| G A Luksic | Non-Executive |
| J W Ambrus | Non-Executive |
| J G Claro | Non-Executive |
| W M Hayes | Non-Executive |

**Company Secretary**
Petershill Secretaries Ltd
Plumtree Court, London EC4A 4HT

**Auditors**
Deloitte LLP

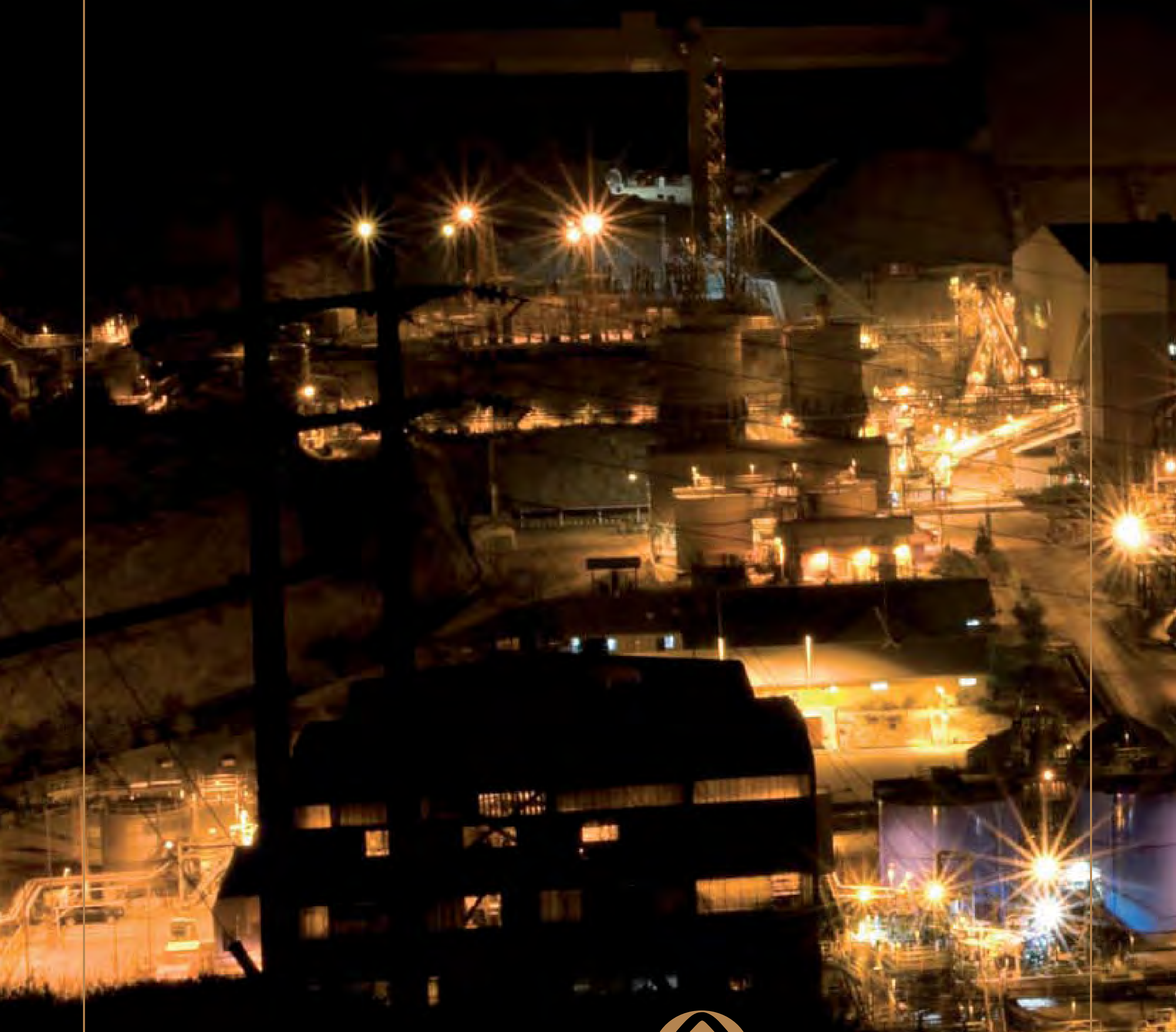
**Solicitors**
Clifford Chance LLP

**Financial Advisors**
N M Rothschild & Sons
HSBC Investment Bank

**Stockbrokers**
Merrill Lynch International
JPMorgan Cazenove Ltd

**Banker**
The Royal Bank of Scotland plc

Front and back covers: Los Pelambres concentrator plant.



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