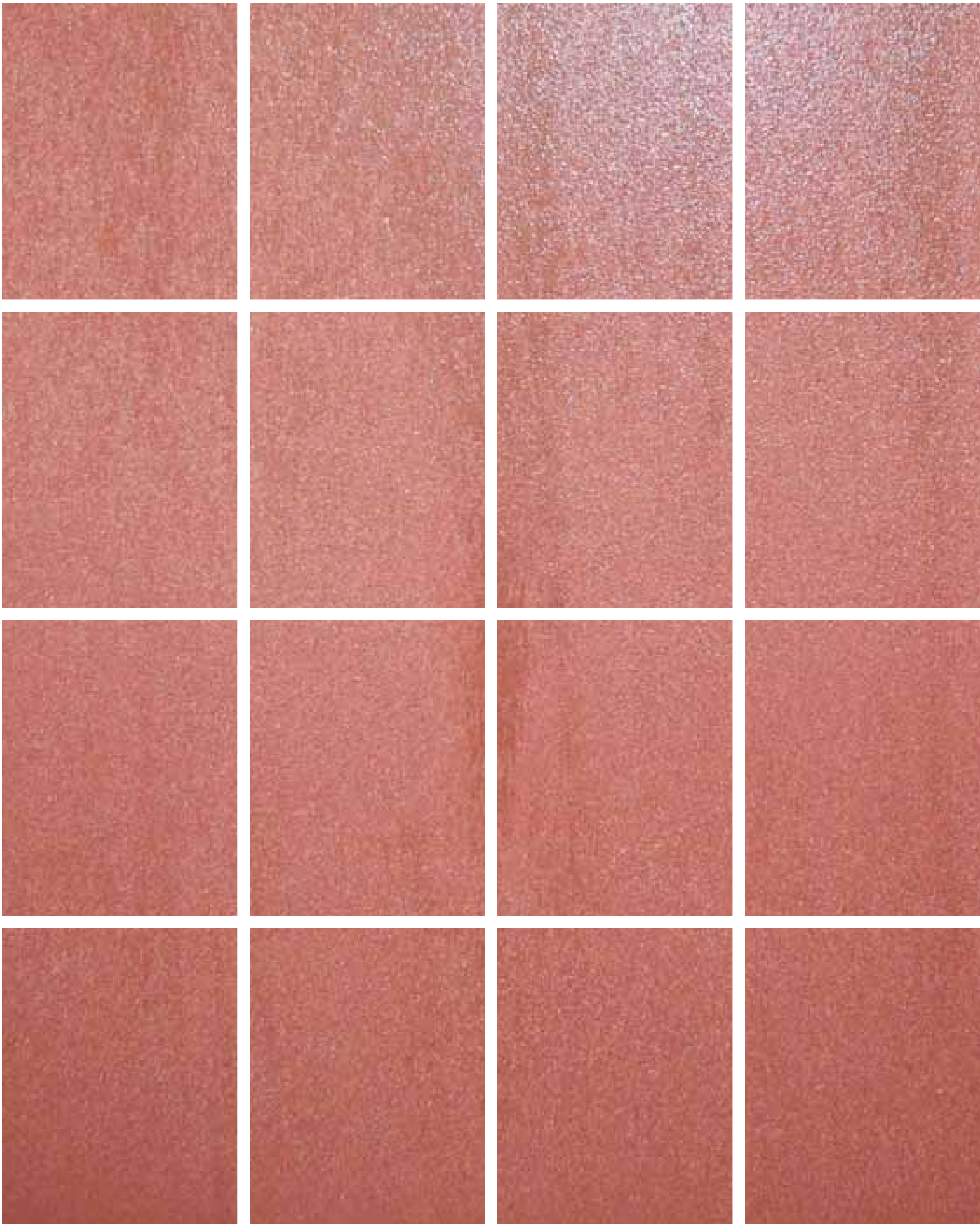
ANTOFAGASTA

Annual Report and Financial Statements 2007



Contents

Highlights

- Net earnings up 2.1% to US$1,382.1 million
- Total dividends for the year up 2.9% to US 49.6 cents per share – including special dividends of US 41.0 cents per share
- Copper production of 428,100 tonnes, 8.0% below 2006
- Molybdenum production up 4.1% to 10,200 tonnes
- Average LME copper price up 5.9% to US 323.3 cents per pound
- Average market molybdenum price up 21.8% to US$30.2 per pound
- Group weighted average cash costs* (net of by-product credits) down 21.4% to US 31.6 cents per pound due to higher by-product credits and lower tolling charges
- Further volume growth at transport and water businesses
- US$1.5 billion Esperanza project approved with first production expected at the end of 2010
- Feasibility studies at Reko Diq in Pakistan and Antucoya in Chile started in 2008
- Increased mineral resource estimates at Reko Diq in Pakistan and encouraging preliminary exploration results at Los Pelambres and the Sierra Gorda district in Chile

* 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.

	US Dollars 2007 US$m	2006 US$m	Sterling[1] 2007 £m	2006 £m
Turnover	3,826.7	3,870.0	1,913.0	2,104.9
EBITDA[2]	2,824.0	2,957.3	1,411.7	1,608.5
Profit before tax	2,750.2	2,859.0	1,374.8	1,555.0
Net earnings[3]	1,382.1	1,354.3	690.9	736.6
Capital expenditure[4]	466.0	539.0	233.0	293.2
Net assets	4,906.5	3,948.1	2,464.1	2,017.5

	2007 US cents	2006 US cents	2007 pence	2006 pence
Earnings per share	140.2	137.4	70.1	74.7

Dividends per ordinary share proposed in relation to year[5]		2007 US cents	2006 US cents
Ordinary dividends	– interim	3.2	3.2
	– final	5.4	5.0
Special dividends	– interim	3.0	2.0
	– final	38.0	38.0
Total		49.6	48.2

(1) The sterling numbers are for illustrative purposes only. For 2007, an average rate of £1 = US$2.0004 (2006 – US$1.8386) has been used for the income statement and a year-end rate of £1 = US$1.9912 (2006 – US$1.9569) has been used for the balance sheet.

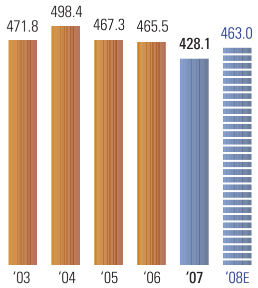
(2) EBITDA refers to Earnings Before Interest, Tax, Depreciation and Amortisation (defined in Note 5(a)(i)(vii) to the financial statements on page 95). EBITDA is reconciled to operating profit from subsidiaries and joint ventures in the Financial Review on page 26.

(3) Net earnings refer to profit for the financial year attributable to equity holders of the Company.

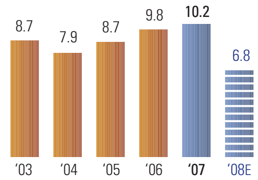
(4) Capital expenditure represents purchases of property, plant and equipment stated on an accruals basis (see Note 13 to the financial statements on page 105).

(5) 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 2008.

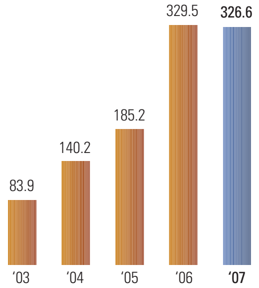
Highlights continued



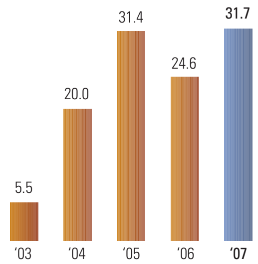
Group copper production
'000 tonnes(1)



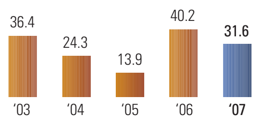
Group molybdenum production
'000 tonnes(1)



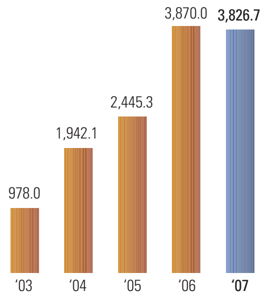
Realised copper price
US cents per pound(2)



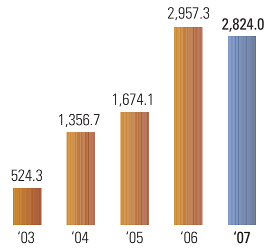
Realised molybdenum price
US dollars per pound(2)



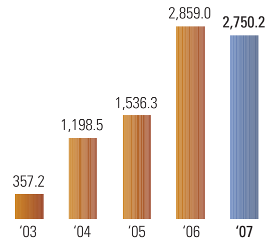
Group cash costs
US cents per pound(3)



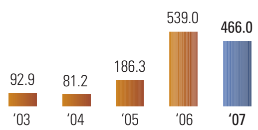
Turnover
US$ million(4)



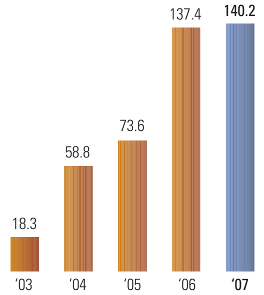
EBITDA
US$ million(4)



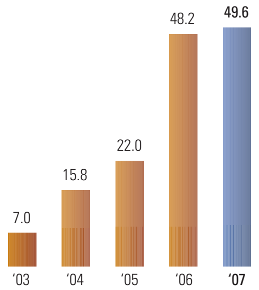
Profit before tax
US$ million(4)



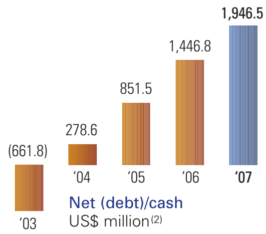
Capital expenditure
US$ million



Earning per share
US cents(4)(8)



Dividends per share
US cents(5)(6)(7)(8)



Net (debt)/cash
US$ million(2)

(1) Forecasts for Group copper and molybdenum production for 2008 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 mineral in the year and are further explained on page 33.

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

(4) Information for the years 2004 to 2007 is stated under IFRS. Information for the year 2003 is stated under UK GAAP based on the 2004 financial statements, without adjustment for any changes in UK GAAP which would have applied in 2005, 2006 or 2007.

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

(6) 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 and US 41.0 cents in 2007. 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 and US 8.6 cents in 2007.

(7) The 2003 dividend per share excludes the dividend in specie of shares ('the demerger dividend'). Ordinary shareholders in the Company received one share in Andsberg Limited for each share held in the Company on 1 October 2003. The Andsberg shares carried a redemption value until 30 October 2003 of US 22.2 cents per share (restated). Andsberg's principal asset was the Group's 33.6% investment in Quiñenco S.A.

(8) Earnings per share and dividends per share for the years 2003 to 2005 have been restated for the effects of the 4-for-1 bonus issue on 19 June 2006.

Chairman's Review

Overview

Group performance

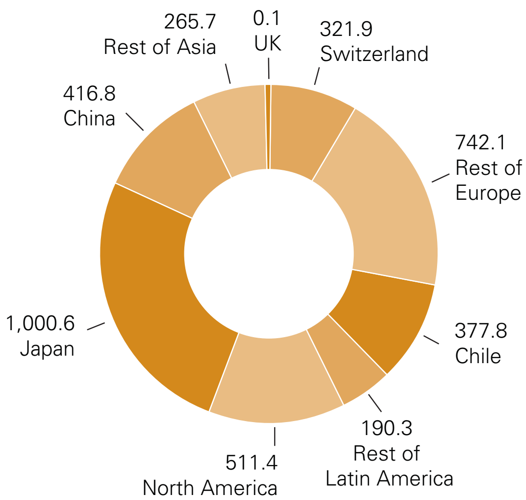
The Group achieved another year of excellent results in 2007. Profit before tax was US$2,750.2 million (2006 – US$2,859.0 million) and earnings per share were US 140.2 cents (2006 – US 137.4 cents). Payable copper production decreased to 428,100 tonnes from 465,500 tonnes in 2006 mainly due to expected lower ore grades and the effect of the higher proportion of harder primary ore on throughput at Los Pelambres. However, attributable copper production remained virtually unchanged at 300,400 tonnes (2006 – 300,200 tonnes) following the acquisition of Equatorial Mining Limited in the second half of 2006 which increased the Group's interest in El Tesoro to 100 per cent. LME copper prices averaged a record US 323.3 cents per pound compared to US 305.3 cents per pound in 2006. Production of molybdenum concentrate increased to a record 10,200 tonnes, although production in 2008 is expected to fall sharply to approximately 6,800 tonnes in line with the Los Pelambres mine plan. Molybdenum prices increased in 2007, averaging US$30.2 per pound compared to US$24.8 per pound in 2006. In direct contrast to 2006, Group cash costs decreased significantly to US 31.6 cents per pound compared with US 40.2 cents per pound. Increased on-site costs were more than offset by higher by-product credits, mainly molybdenum, and lower smelting charges.

During 2007 the Group continued to develop and expand its mining operations. Los Pelambres produced 289,900 tonnes of payable copper which was 10.6 per cent less than in 2006 due to lower ore grades as expected and a higher percentage of primary ore which reduced throughput at the crusher. Construction of the Mauro tailings dam continued on schedule and was 98.5 per cent completed by the end of the year although, as previously reported, costs increased over the course of the project as a result of the strengthening of the Chilean peso and other cost pressures including steel prices. El Tesoro produced 93,000 tonnes of Grade A cathodes compared to 94,000 tonnes in 2006 as higher ore grades were offset by lower throughput. Michilla produced 45,100 tonnes of copper, only marginally below its production in 2006 as a result of some disruption following the earthquake in northern Chile in November.

Continued progress was also made in 2007 with the Group's development plans. The Esperanza project completed its feasibility study and a final Environmental Impact Assessment (EIA) was submitted to the regional authorities with approval expected by mid 2008. Esperanza will be developed as a copper-gold mine producing an average of 195,000 tonnes of payable copper, 229,000 ounces of gold and 1,556,000 ounces of silver for each of the first ten years of operation. Molybdenum production is expected to start in 2015. Pre-stripping is planned to begin in March 2008 and the first shipments of concentrate from Esperanza are expected at the end of 2010.

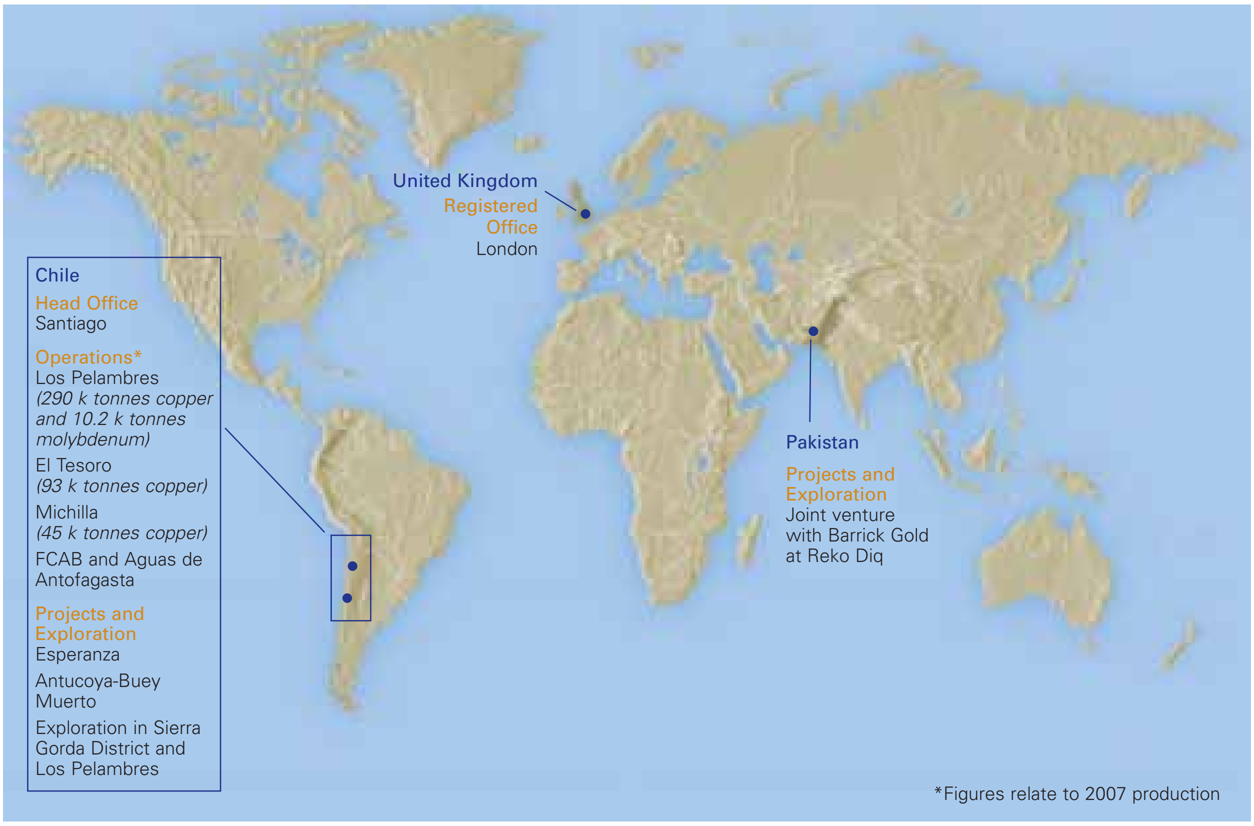
The results of the exploration programme at Reko Diq in Pakistan were promising with an increase in the resource estimate to 4.1 billion tonnes at the Western Porphyries compared with the previous estimate of 1.6 billion tonnes. A feasibility study has commenced in 2008.

Geographical analysis of turnover by location of customer
US$ million



Total 2008 turnover – US$3,826.7 million

Chairman's Review continued



Geographical locations – operations, projects and exploration

The Group also had a successful year in its exploration programmes in Chile with encouraging results in both the Sierra Gorda district and Los Pelambres.

The Group's transport and water divisions both produced record results in 2007. The road and rail networks carried over 6.3 million tons – a combined increase of 6.4 per cent – and Aguas de Antofagasta increased water sales to its domestic customers and industrial clients and significantly reduced water losses.

Economic background

The Chilean economy grew steadily in 2007 but the outstanding feature was its strong external position which generated a trade surplus of US$24.5 billion resulting from record exports of US$68.3 billion. GDP is estimated to have increased by 5.2 per cent, a lower figure than expected at the start of the year. This slowdown has been attributed partly to a sharp rise in consumer prices, which increased by 7.8 per cent. Food costs rose and electricity and fuel prices increased due to high crude oil prices and a shortfall of gas supplies from Argentina. The peso rose strongly against the US dollar from 532 at the beginning of the year to 497 at the end of the year as short-term interest rates imposed by the Central Bank during 2007 attracted short-term capital from abroad.

Chile's external account benefited from continued strong manufacturing growth and infrastructure investment in China, India and south-east Asia and the ensuing demand for commodities. Although signs of over-heating, particularly in China, become more discernible, domestic consumption is expected to rise in much of South-East Asia and in a number of large emerging economies such as Brazil and Russia, which should partially offset the expected reduction in demand in the United States. Expectations for Chilean growth in 2008 are therefore still strong at around 4.5 per cent.

Copper market

LME copper prices trended higher for the fifth consecutive year, averaging US 323.3 cents per pound, an increase of US 18.0 cents per pound compared to the average price of 2006. The sustained strong copper price and the flattening of the copper futures curve reinforced the view that the extended cycle of high prices would continue in the medium term. Market fundamentals for copper remained solid in 2007 with strong demand growth led by China, now accounting for about 25 per cent of world consumption, followed by India, Russia and other developing countries requiring copper for construction and development of their economies.

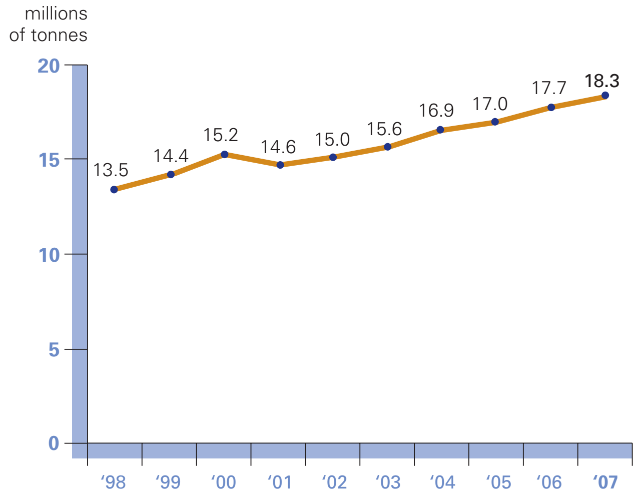
Following the same pattern of 2006, supply was impacted by strikes, lack of mining equipment, shortages of skilled labour, declining ore grades and more rigorous environmental regulations. Stocks in LME, Comex and Shanghai Exchange warehouses increased to 283,000 tonnes during March, but then dropped to historically low levels of only 238,000 tonnes by the end of the year and were below 200,000 tonnes in early 2008.

In 2007, the copper concentrate market was in deficit driven by the significant increase in smelting capacity which was not matched by new production or mine expansions. As a result, commercial discounts known as Treatment and Refining Charges ("TC/RC's") dropped significantly compared to 2006. The current deficit is expected to continue for several years and as a result producers are expected to benefit from continuing low TC/RC's in 2008 and 2009.

Strong demand, with China still playing a leading role, together with supply growth constraints is expected by most analysts to support copper prices for the next two years at least, as no large copper projects are expected to come on stream for some time.

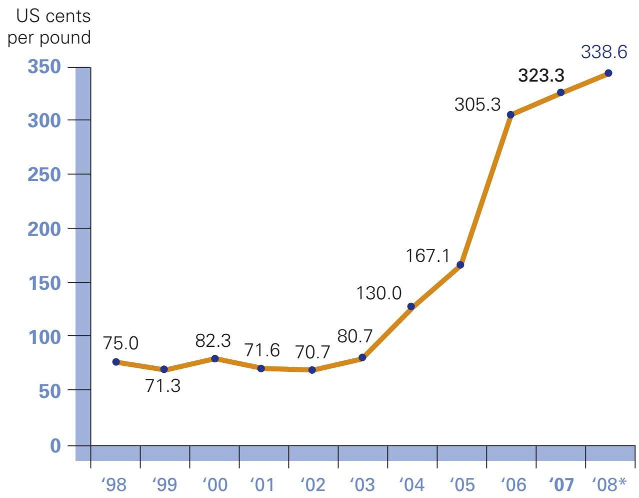
The overall long-term outlook for copper is, therefore, very positive. Current market consensus is that a copper price around US 340 cents per pound or more for 2008 is possible, even considering the possibility of a recession in the United States.

World copper consumption



Source – Bloomsbury Minerals Economics

LME copper price



*Represents first two months of 2008 only

Chairman's Review continued

Molybdenum market

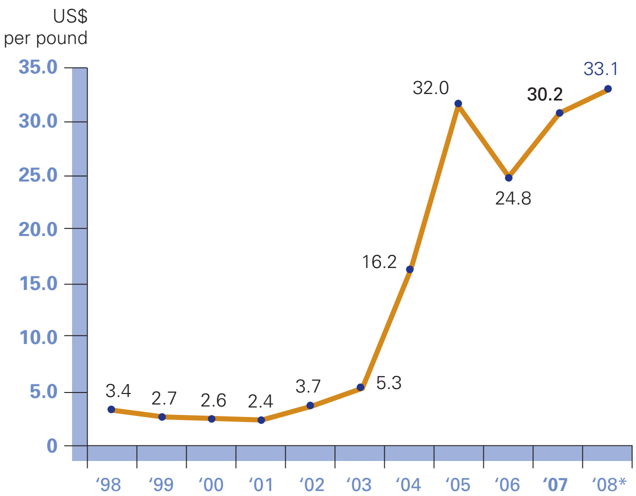
Molybdenum prices increased steadily during 2007, rising from US$25.0 per pound in January to US$33.1 per pound in June. During the second half, prices ranged between US$31 and US$33 per pound averaging US$30.2 per pound for the year – an improvement of 21.8 per cent over the average price in 2006 of US$24.8 per pound. The strength and steadiness of the molybdenum price throughout the year reflected the solid fundamentals supporting the market.

The supply and demand balance for 2007 was in a deficit of around 5 million pounds as a result of several factors including the strong demand from the stainless steel and catalyst sectors, continued robust demand from China, the large number of pipeline projects and increased activity in the oil and gas sector.

As molybdenum is primarily a by-product of copper production, its supply cannot easily respond to demand despite the incentive of the recent extended period of high prices.

The consensus of analysts therefore is that the market will continue in deficit until at least 2009 and although some additional production will become available, the outlook for molybdenum prices remains very positive. Most analysts concur that there is potential for prices to match or possibly exceed their 2007 levels during 2008.

Molybdenum market price



*Represents first two months of 2008 only

Mining

Antofagasta Minerals S.A. – AMSA

(100 per cent owned)

AMSA is the corporate centre for the Group's mining division with responsibility for evaluating and developing business opportunities across the Group. It is also entrusted with developing the Group's mining assets, seeking synergies and introducing best practice into its mining operations. AMSA also provides legal and financial services to the Group's mining, transportation and water operations. AMSA manages the marketing, sales and any hedging of the Group's copper concentrates, cathodes and molybdenum.

Los Pelambres (60 per cent owned)

Los Pelambres produced excellent results in 2007 which were only marginally below the record results of 2006. The main factors were historically strong copper and molybdenum prices combined with good production figures, together with appropriate measures taken to contain cost pressures.

Operating profits were US$2,098.6 million compared to US$2,223.7 million in 2006 as higher copper and molybdenum prices and higher molybdenum volumes were offset by lower copper production, lower provisional pricing adjustments and higher on-site costs. EBITDA reached US$2,178.0 million compared to US$2,297.0 million in 2006 and Los Pelambres, after considering its capital expenditure requirement for 2008, paid dividends to its shareholders of US$1,606.4 million compared to US$1,450.0 million in 2006, an increase of 10.8 per cent.

Production of payable copper decreased in 2007 to 289,900 tonnes compared to 324,200 tonnes in 2006. This was in line with the long term mine plan with ore grades dropping from 0.81 per cent in 2006 to 0.71 per cent. Throughput at the crusher was lower due to the higher proportion of harder primary ore treated in 2007, and this contributed to the decline in copper production.

Production of molybdenum, which is a by-product, increased to 10,200 tonnes compared to 9,800 tonnes in 2006, due to higher molybdenum ore grades which rose from 0.028 per cent to 0.030 per cent. Revenue from molybdenum sales is treated as a credit against cash costs and contributed to the negative cash cost of US 10.8 cents per pound in 2007 compared to the positive cash cost of US 16.4 cents per pound in 2006.

Global economic pressures which affected energy, fuel and oil costs and, indirectly, equipment leasing and maintenance costs, were partially offset by lower TC/RC's enabling Los Pelambres to hold cost increases to a minimum.

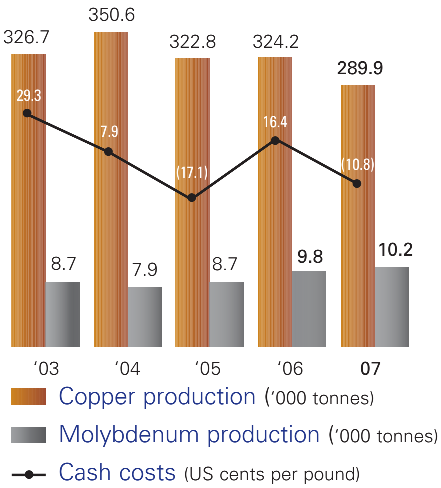
The plant expansion project started in mid-2005 was completed at the beginning of 2007 at a cost of US$192 million and the plant has been operating since then at the newly installed capacity of around 130,000 tonnes per day.

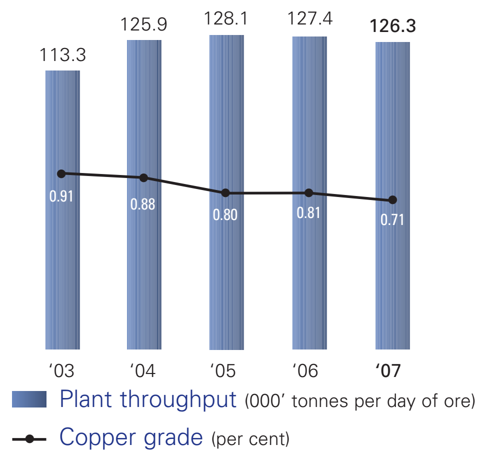
Copper production in 2008 is expected to be approximately 330,000 tonnes with a grade of 0.79 per cent copper – up on 2007 because of the improved grade and the smaller percentage of primary ore while molybdenum production is expected to decrease to 6,800 tonnes in accordance with the mine plan.

The second stage of a two year exploration programme to identify additional resources beyond the present 2.9 billion tonnes has been substantially completed. The results of this programme in the area to the south-east of the open pit have been encouraging and additional drilling will be required to define the resource and to evaluate its economics in relation to the long-term mine plan of Los Pelambres.

Negotiations with the mine and plant unions representing the whole labour force were due to take place in September 2007 and July 2008 respectively but in fact, contracts were agreed ahead of time with both unions for up to four years reflecting the excellent relations between Los Pelambres and its work force.

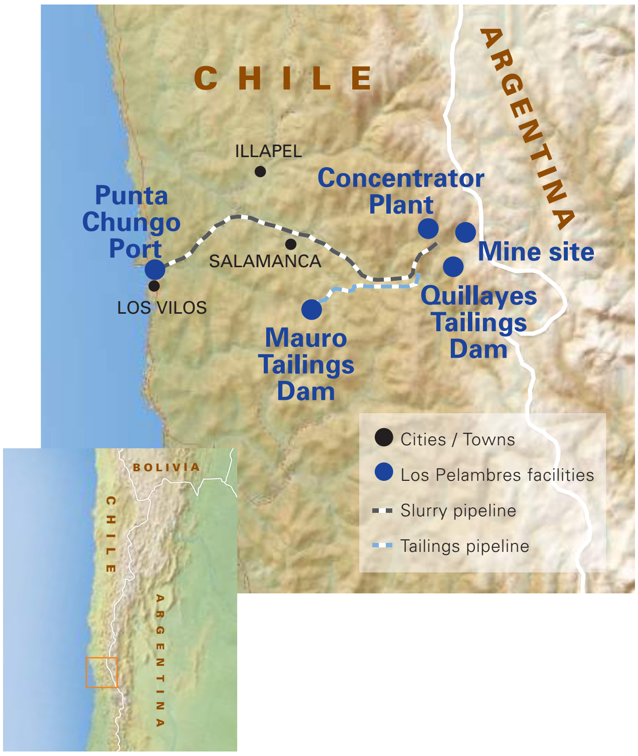
Selected data for Los Pelambres





Chairman's Review continued

Los Pelambres



Los Pelambres continues working with its neighbouring communities to ensure that they share and benefit as the mine develops. In support of this, Los Pelambres has provided training for workers and given assistance to local schools. The Fundación Minera Los Pelambres, which was created in 2003, has recently established a 100 hectare agricultural project to produce table grapes for export in addition to its on-going programmes. These activities have helped the communities and at the same time given Los Pelambres a leading role in the social and economic development of the area.

The judicial proceedings concerning the Mauro tailings dam are moving through the Chilean Courts and the Appeal Court's decision questioning the validity of the permission given by the Chilean Water Authority (Dirección General de Aguas ("DGA")) to build the dam has been appealed by both the DGA and Los Pelambres to the Supreme Court and is being heard in March 2008.

In a separate legal action last April the First Instance Court of Santiago declared null and void the sale contract made in 1992 between the sellers of the Mauro property and the purchasers who subsequently on-sold it to Los Pelambres. Los Pelambres bought the property with good title in 2001, almost ten years after the 1992 sale agreement now being challenged by third parties. Los Pelambres is prohibited from depositing tailings in the Mauro dam as a consequence of this third party action, which will be heard by the Appeal Court of Santiago.

In another case, in August, the First Instance Court of Los Vilos decreed that certain works should be stopped in the vicinity of the Pupio. This ruling has been appealed by Los Pelambres in the Court of La Serena and judgement is expected in March. Other cases have been launched directly or indirectly by the same plaintiffs.

Los Pelambres is confident that its permits were legally granted and the correct procedures followed during the environmental process for the Mauro dam which involved full consultation with local communities. Its important contribution to the region in particular and the country in general is widely recognised by the authorities and local communities.

The Mauro dam was 98.5% complete at the end of 2007 and when in operation will provide storage capacity for the tailings from 1.7 billion tonnes of ore reserves. The existing Quillayes dam will continue operating until early 2009.

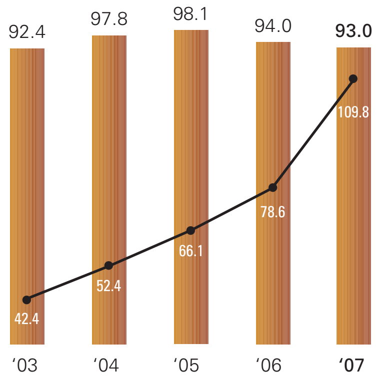
El Tesoro

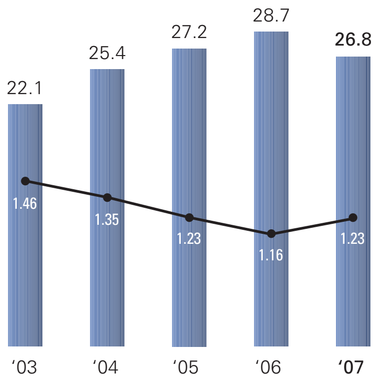
(100 per cent owned)

El Tesoro produced 93,000 tonnes of Grade A cathode in 2007, compared to 94,000 tonnes in 2006. The increase in average ore grades from 1.16 per cent in 2006 to 1.23 per cent in 2007 was largely offset by excessively high moisture levels in the treated ore. This problem was resolved in the second half of the year by blending dry ore from the stockpiles and by modifying the production processes, which were also adversely affected by high levels of carbonates.

El Tesoro achieved above average copper prices of US 327.6 cents per pound compared to US 316.4 cents per pound in 2006. Operating profit was US$380.3 million compared to US$409.9 million in 2006. Cash costs averaged US 109.8 cents per pound, up from US 78.6 cents per pound in 2006, due to various factors including higher variable energy costs (following the necessity to renegotiate the power supply contract in May), higher acid and fuel costs, higher waste-to-ore ratios and lower levels of ore treated. Cash costs increased to US 128.6 cents per pound in the last quarter due to higher energy costs and higher sulphuric acid costs resulting from increased consumption levels as well as higher prices. As expected the long term grades of ore at El Tesoro

Selected data for El Tesoro

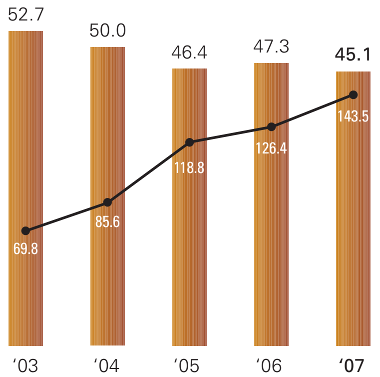


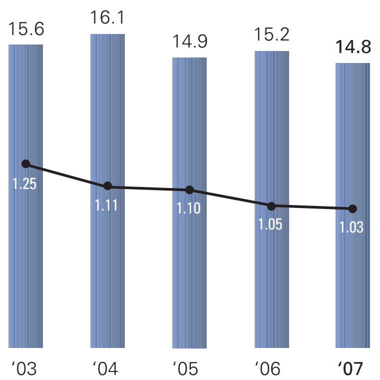


Operations and projects in Chile's II Region

Chairman's Review continued

Selected data for Michilla





are, however, decreasing and pre-stripping has started in 2008 at a new deposit at Tesoro North-East, which is owned by Antomin Limited, with a copper grade of over 1 per cent, with feed for the plant expected to be available in the second half of 2009. Antomin Limited is a 51 per cent subsidiary of the Group in which Mineralinvest Establishment, a company in which the Luksic family are interested, hold the remaining 49 per cent.

The acquisition of Equatorial Mining Limited enabled the Group to consolidate its position in the Sierra Gorda mining district where it already has a controlling interest in several mining properties containing both oxide and sulphide resources, some of which are held through Antomin Limited. Exploration has started to assess the potential synergies with existing mines or properties across the Group.

Michilla (74.2 per cent owned)

Michilla produced 45,100 tonnes of Grade A cathodes in 2007 compared with 47,300 tonnes in 2006. Costs increased by US 17.1 cents per pound due mainly to lower grades but also to higher energy and fuel prices and the extra cost of processing ore from third parties to supplement ore from Michilla's rapidly declining deposits.

Operating profits, however, increased from US$145.5 million in 2006 to US$154.0 million in 2007. Favourable factors were strong copper prices throughout the year, higher levels of ore treated with better recoveries and the reduced impact of, in hindsight, an overly cautious hedging programme which had significantly affected results in 2006. Average realised copper prices in 2007 reached US 313.8 cents per pound reflecting strong LME prices and quality cathode premiums obtained.

In view of its relatively high costs and short mine life, Michilla has re-introduced a price protection programme to ensure its profitability through 2008 and is currently reviewing several alternatives for extending the mine life beyond 2009 and enabling production at its SX-EW plant to continue. Faced by the possibility of mine closure, Michilla started a two–year exploration programme in 2007 to define additional high–grade feed for its plant, and to consider alternatives including the option of leaching the Antucoya/Buey Muerto ore (now the Antucoya Project) on site and then supplying enriched copper solution to Michilla by a 45 km pipeline. In order to determine the viability of the project the Group embarked on a major drilling and engineering programme. Studies continued in 2007 and delineated a new comprehensive resource at Antucoya of 531.4 million tonnes of 0.39 per cent copper (0.3 per cent copper cut off). A feasibility study is now in progress which is expected to be completed during 2008.

During the year, a total of 14,000 metres of reverse circulation drill holes were completed at Michilla as part of an exploration programme which tested ten target zones. Preliminary results from the Aurora zone, which is located approximately 7 kms north of Lince, were promising and follow–up drilling is planned for 2008.

Michilla completed a new 20,000 cubic metre capacity storage terminal for sulphuric acid at its Caleta Michilla port in March 2007, which will reduce the cost of Michilla's sulphuric acid imports and enable it to sell surplus acid to other mines in the region.

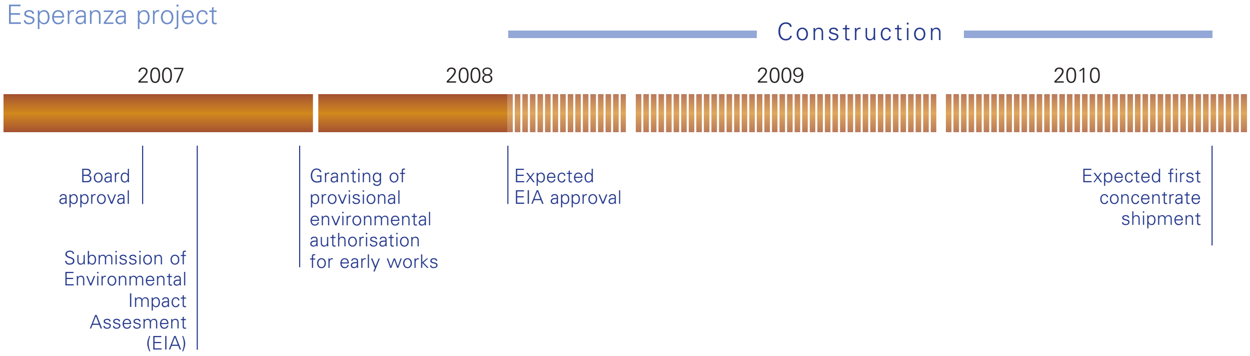
Michilla signed an agreement with its labour union ahead of schedule in May 2007 for a four year period, which is the maximum length under current legislation, and relations with its employees remain very good.

Esperanza project

Esperanza completed its feasibility study and received Board approval in June 2007 for the project to be implemented. Esperanza's total copper sulphide resource is 1,130 million tonnes of 0.45 per cent copper, 0.16 g/t gold and 0.011 per cent molybdenum at a cut-off grade of 0.2 per cent equivalent copper. In addition, 119 million tonnes of oxide ore of 0.35 per cent copper at a similar cut-off grade of 0.2 per cent have been confirmed. These geological resources were re-estimated and audited by AMEC during the first quarter of 2007. The approved mine plan includes proven and probable copper sulphide reserves of 480 million tonnes of 0.57 per cent copper and 0.23 g/t gold during the 15 year mine life.

Esperanza will be developed as a conventional open pit mine. Its sulphide ore will be processed through a conventional crushing, milling and flotation plant at a rate of 97,000 tpd to produce 700,000 tonnes per year of concentrate containing 195,000 tonnes of payable copper, 229,000 ounces of gold and 1,556,000 ounces of silver for each of the first ten years of operation. Production of molybdenum is expected to start in 2015.

Esperanza project

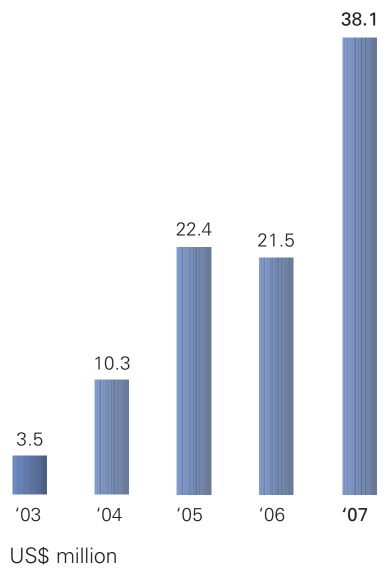


Chairman's Review continued

According to the mine plan, a total of 50 million tonnes of oxide ore of 0.43 per cent copper and 122 million tonnes of waste material will be removed during the pre-stripping period of 30 months and the oxide ore could be treated at El Tesoro. Pre-stripping will begin during the first quarter of 2008 after a provisional authorisation was granted by the regional authorities.

Esperanza will build a 145 km pipeline from south of the existing Michilla port to the ore processing plant to provide seawater. Two reverse-osmosis plants, one located at the port and one at the mine site, will provide the salt-free water required for drinking and industrial use being about 10 per cent of the total water requirement for the future operation. Esperanza will be able to start mining activities early as a result of its fast track strategy of pre-placing purchase orders. The final Environmental Impact Assessment (EIA) for the Esperanza project is expected to be approved by mid 2008, with construction beginning during the third quarter of 2008 and the first concentrate shipments are expected to start in the fourth quarter of 2010.

Group exploration expenditure



Exploration Review

Chile

Sierra Gorda district

The Group acquired the remaining 39 per cent minority interest in El Tesoro owned by Equatorial Mining in August 2006 and has consolidated its position in the Sierra Gorda district. The purchase gave it access to an additional 20,000 hectares to the north and south of the Esperanza and Telégrafo projects through a joint venture with Minera Rayrock Limitada, a wholly-owned subsidiary of Compañía Minera Milpo S.A.A. of Peru. The Group now has an 81.5 per cent interest in the joint venture entity Compañía Contractual Minera Caracoles. During 2007 exploration work at Caracoles resulted in the discovery of a porphyry copper-gold system located approximately 10 kms southeast of Esperanza, rich in oxides and sulphides. As additional drilling is required to define further the extent of the oxide and sulphide mineralisation an exploration budget of US$12.0 million has been allocated to this area for 2008.

Telégrafo's northern part (Telégrafo Norte) was drilled during 2007 to define tonnage and grade potential as a complement to Esperanza, whereas its southern part (Telégrafo Sur) will undergo infill drilling of 45,000 metres of diamond and reverse circulation drill holes during 2008. Preliminary in-house estimated resources at Telégrafo Norte are 404 million tonnes of 0.41 per cent copper, 0.1 g/t gold and 0.013 per cent molybdenum and at Telégrafo Sur are 898 million tonnes of 0.45 per cent copper, 0.17 g/t gold and 0.013 per cent molybdenum, at a 0.3 per cent copper cut-off.

Geo-thermal and coal exploration

As countries in the southern cone, particularly Chile, are now facing severe problems relating to shortages of energy supplies, coupled with soaring costs, the Group decided to enter the energy exploration business and formed management and exploration teams for geo-thermal exploration. AMSA has been granted title to the 62,000-hectare Tinguiririca geo-thermal concessions in south-central Chile and also secured approximately 116,000 hectares of a largely unexplored coal basin in southern Chile, with exploration planned during 2008.

Latin America – excluding Chile

Peru

The Group concluded the sale of its 50 per cent interest in Cordillera de las Minas S.A. in 2007 but Peru nevertheless remains within the Group's area of focus and it continues to seek exploration and business opportunities there.

Colombia-Ecuador

The Group continued its international exploration effort in 2007. In Latin America, exploration was concentrated in Colombia and Ecuador through joint ventures with AngloGold Ashanti and Ascendant Copper respectively. In Colombia the joint venture was terminated as the results, after the first year of exploration, did not come up to the Group's minimum criteria and in Ecuador the joint venture was also terminated as the Chaucha porphyry copper-molybdenum project did not satisfy the Group's parameters. These areas nevertheless remain within the Group's areas of focus and the Group has an on-going programme in Ecuador.

Rest of the world

Pakistan-Reko Diq

An aggressive 18 month drilling programme was completed by the end of 2007 when approximately 100,000 metres of infill drill holes were completed on target in the Western Porphyries and a new geological and resource model was defined. The new model includes measured, indicated and inferred resources of 4.1 billion tonnes of 0.50 per cent copper and 0.29 g/t of gold. A scoping study was also completed in 2007 defining the development concepts for the project with a starting throughput capacity of 72,000 tonnes per day. The infrastructure required for the project was also defined as was a programme centred on collecting metallurgical, geotechnical and environmental data. A full feasibility study has been approved for completion in the first half of 2009.

Reko Diq

Chairman's Review continued

Transportation

Railway operations

The rail businesses in Chile and Bolivia produced another strong operational performance and carried a record tonnage in 2007 of 5.0 million tons compared with 4.5 million tons in 2006.

Chile: Antofagasta Railway Company plc – FCAB (100 per cent owned)

FCAB's main business continues to be the transport of copper cathodes and sulphuric acid and it depends on production from new mines and expansion of existing mines for any substantial increase in freight over its networks.

As expected, copper and sulphuric acid shipments from and to the El Abra, Escondida, Zaldivar, Lomas Bayas, El Tesoro and Codelco mines were maintained or increased, and increased tonnage came from the continued ramp-up of BHP Billiton's Spence mine. FCAB carried a combined total of 370,000 tons of copper and sulphuric acid under a 12 year contract with Spence which is located 190 kms from Antofagasta.

After some delays, shipments of silver, zinc and lead concentrates started in August from Apex Silver's San Cristóbal mine located near Uyuni in south-western Bolivia. Production problems at the mine resulted in lower than expected tonnages which are expected to improve in 2008.

FCAB's main source of new business in 2008 will come from the Codelco-owned Gabriela Mistral mine ("Gaby"), where annual production is expected to reach 150,000 tonnes of cathodes, starting in July. The mine will also require more than one million tonnes of sulphuric acid annually.

The FCAB is building an acid transfer terminal at Baquedano, located 135 kms from the Gaby mine, which will be supplied from Mejillones and Chuquicamata. FCAB's road transport subsidiary, Train Ltda., has a contract to deliver one million tonnes of sulphuric acid from the terminal to the Gaby mine annually.

The 2007 maintenance programme concentrated on replacing 65 and 75 pound rail with 85 and 95 pound rail to counter the damage to the track caused by increased axle loads. Track upgrading is now centred on the Augusta Victoria–Socompa section so as to improve services to Escondida and on the Calama-Ollague section, where traffic from San Cristóbal is expected to increase significantly.

Bolivia: Andino network – FCA (50 per cent owned)

The Andino, which is controlled by FCAB and partly owned by Bolivian pension funds, increased its tonnage carried and reported its highest profits since 2004, due to increased revenue from San Cristóbal and its traditional mining customers. During the first half of 2007, FCA converted 76 flat cars to carry specialised containers for concentrates and re-conditioned two locomotives to move the increased tonnages expected over the next 17 years of the contract. The San Cristóbal project has re-vitalised the Uyuni-Ollague section which connects with the Chilean network at Ollague.

Road transport

Train Ltda. (100 per cent owned)

Train Ltda. increased its operating profit by concentrating on regional business with better margins and reducing its long-haul business to Santiago and southern Chile which had become unprofitable. As a result road tonnages were 1.3 million tons compared with 1.5 million tons in 2006. Train's main business continues to be the transport of sulphuric acid from transfer terminals operated by FCAB. Shipments of acid increased in 2007 and are projected to increase further in 2008 following the start of operations at the Gaby mine in July. The transport of quicklime from Inacesa's cement plant to the Collahuasi and Chuquicamata mines also increased, reflecting demand from the mining sector for use in the flotation process of their concentrators. Train Ltda. continues to be a key part of FCAB's bi-modal transportation service.

Port operations

Antofagasta Terminal Internacional S.A. (ATI) (30 per cent owned)

The port of Antofagasta, which is managed by ATI under a 30-year concession, retained its traditional cargo and increased its tonnage despite competition from the port of Mejillones. The port of Antofagasta continued operating and suffered minimal damage following a serious earthquake which occurred on 14 November 2007. ATI is a strategic investment for the FCAB. It continued to perform well in 2007 and the outlook for the port is favourable.

FCAB and Andino rail networks

Chairman's Review continued

Aguas de Antofagasta's water distribution system

Water and Forestry

Water

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

ADASA continued implementing a long-term programme to improve services during the fourth year of its 30-year concession. The following objectives were achieved:

- water losses were further reduced to 26.5% with a target of 25% by 2009;
- costs were controlled without affecting the quality and reliability of supply;
- services to domestic customers were improved with fewer interruptions to supply; and
- demand from mining and other industrial customers was met by improvements in supply and fewer delays in connection and installation to their facilities.

Water sales to domestic users in 2007 increased by 1.9% to 29.0 million cubic metres compared to 28.5 million cubic metres in 2006 while sales to mines and industrial users increased by 16.3% from 9.3 million cubic metres in 2006 to 10.9 million cubic metres in 2007 due to increased demand from the mining sector, particularly BHP Billiton's Spence mine.

ADASA is expecting growth starting in 2008 from sales of re-treated water in Calama to mines and industrial users. Water shortage in the Antofagasta region has become acute, as the traditional water sources from the Río Loa and the Loa basin have been restricted by the environmental and water authorities, although demand from industrial users, towns and agricultural enterprises throughout the II Region has increased.

In future, ADASA will supply the city of Antofagasta from the desalination plant located to the north of the city and supply the mining and other industrial users in the Calama region to the north with water from local sources.

Forestry

Forestal S.A. (100 per cent owned)

Forestal planted 351 hectares in 2007 on its Releco-Puñir and Huilo-Huilo properties as part of its 5-year forestation programme, making a total of 946 hectares planted since 2004. The principal species planted this year were Oregon and Insigne pine, followed by Raulí, Coigüe and Sequoia which are native plants best suited to the natural and environmental conditions of the region. Forestal has recently started fertilising the soil and controlling the diseases which affect young plantations. Once again, sales of timber from thinning and clearing the forests contributed to the costs of improving the roads, repairing bridges and protecting the boundaries. Forestal's two properties comprise 26,295 hectares of native forest near the Panguipulli and Neltume lakes, in Chile's X Region.

Outlook

The general outlook for 2008 remains sound with many of the strong features of 2007, especially relating to mining and commodities remaining in place. The pace of global economic activity, however, has moderated and there will be continuing cost pressures on the mining industry in Chile.

Consensus estimates for copper prices are now expected to average around US 340 cents until at least the end of the year as positive fundamentals continue with strong demand from China, India, Russia, other developing countries and from parts of Europe. The feature in 2006 and 2007 of low inventories of refined copper and concentrates has continued into 2008 and LME copper prices have averaged US 338.6 cents per pound in the first two months of 2008.

Molybdenum prices averaged US$33.1 per pound in the first two months of 2008, reflecting strong demand from the main consumers in the stainless steel and oil and gas industries. Molybdenum prices should stay around the historically high levels of US$30.0 per pound and may exceed these levels during the year.

Production of payable copper in 2008 is expected to be higher than 2007 at around 463,000 tonnes due to higher ore grades and throughput at Los Pelambres.

Global mining costs rose significantly in 2007 and increased in Chile in five main categories: oil and energy, steel, sulphuric acid, mining equipment and labour costs and these cost pressures will continue in 2008.

FCAB and ADASA, the transportation and water entities, will continue to benefit from increased mining activity in the region. New business for FCAB in 2008 will include copper cathodes and substantial shipments of sulphuric acid for Gaby at Baquedano starting in July, cathodes and acid for Spence at Sierra Gorda and increased shipments of concentrates from San Cristóbal. ADASA plans to start supplying re-treated water to mines and industrial users in the area during the latter part of the year.

Antofagasta will develop and expand its mining operations and exploration activities in Chile, the rest of Latin America, Asia and Africa and its increasingly strong financial position should enable it to acquire mining and energy related assets.

Other Corporate Matters

Corporate governance

Antofagasta's Board is committed to managing the operations of the Group with a view to maximising value for all shareholders. In consideration of corporate governance matters, the Board is mindful of the principles set out in the Combined Code on Corporate Governance as well as its responsibilities to all stakeholders. 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 provide an appropriate basis for ensuring its effectiveness and the protection of the interests of all shareholders in the Company. The Board's approach and practice in this area is set out in the corporate governance statement on pages 64 to 71 and two areas related to our controlled company status in which the Board did not comply with the detailed provisions of the Combined Code are set out on page 71.

Corporate social responsibility

In the conduct of the Group's operational, development and exploration activities as set out in this review, the Board places great importance on a range of considerations including health and safety, environmental matters, community relations and proper 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. Many of the Group's operations have sustainable development policies in place which are implemented in a number of ways, and the Corporate Social Responsibility Report on pages 36 to 59 sets this out in greater detail.

During 2007, the Board decided to develop and implement a Sustainable Development Policy across the Group to provide a structured framework through which its strategy and growth plans could be achieved; formulation of this is now in progress.

Dividends

The Board recommends a final dividend of US 43.4 cents per ordinary share payable on 12 June 2008 to shareholders on the Register at the close of business on 9 May 2008. The final dividend comprises an ordinary dividend of US 5.4 cents and a special dividend of US 38 cents. Including the interim dividend, this represents a distribution of approximately 35% of net earnings (profit attributable to equity holders of the Company) after taking into account withholding taxes incurred by the Group in funding the dividend.

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 21, the Board has increased its recommended dividends in line with profits by means of special dividends in these years of high copper prices.

The cost of the final dividend, including related withholding taxes, is approximately US$546 million. In determining this, the Board has taken into account its existing capital commitments and working capital requirements and considers this to be an appropriate level of distribution of profits earned in the year. The Board has also considered the potential future capital requirements which could amount to approximately US$3 billion over a number of years should it proceed with its existing portfolio of projects and opportunities, and it believes these opportunities remain attractive for the long-term development of the Group even in an environment of lower copper prices. The Board also considers that this provides the Group with sufficient flexibility to take advantage of new opportunities which may arise in the future.

Dividends[1]

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

	2007 US cents	2006 US cents	2005[2] US cents	2004[2] US cents	07 v 06 % change	06 v 05 % change	05 v 04 % change
Ordinary							
Interim	3.2	3.2	3.2	3.0			
Final	5.4	5.0	4.8	4.8			
	8.6	8.2	8.0	7.8	4.9%	2.5%	2.6%
Special							
Interim	3.0	2.0	–	–			
Final	38.0	38.0	14.0	8.0			
	41.0	40.0	14.0	8.0			
Total dividends to ordinary shareholders	49.6	48.2	22.0	15.8	2.9%	119.1%	39.2%
Dividend as percentage of profit attributable to equity shareholders	35%	35%	30%	27%			

(1) Further details relating to dividends are given in Note 11 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.

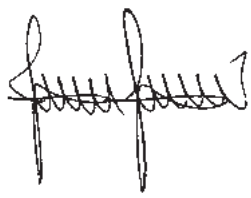
Johann von Loebenstein

I wish to note with sorrow the death on 21 October 2007 of Johann von Loebenstein. Johann was a director of both AMSA and El Tesoro for many years and had a long and distinguished career as a leader of the mining industry in Chile. He will be greatly missed by his many friends and colleagues in the Group.

Antofagasta's team

The excellent work and effort made by the Group's executives, staff and employees has contributed to another good year of results and achievements. I would like to express here my sincere appreciation for this effort and am joined in this by my fellow Directors.

The Board believes it has a strong management team with a focus on innovation and development, combined with a motivated and talented workforce. It believes this leaves the Group well placed to meet the exciting prospects it has assembled and to execute its strategy of growth in the coming years.



J-P Luksic
Chairman
10 March 2008

Financial Review

Basis of Preparation

The Group's financial statements on pages 78 to 133 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.

Key Performance Indicators

The Group uses a number of financial and non-financial key performance indicators in order to measure performance, which are set out below. The Group's performance in respect of these indicators is discussed within the Chairman's Review on pages 5 to 21, and within this Financial Review. Definitions of these key performance indicators, along with cross-references to where the individual measures are reviewed and explained, are on pages 32 and 33. Other non-financial performance indicators, including information relating to employees, health and safety and the environment, are contained within the Corporate Social Responsibility report on pages 36 to 59.

Production and Sales Volumes

Production volumes

Group copper production in 2007 was 428,100 tonnes, 8.0% below the amount produced in 2006.

Los Pelambres produced 289,900 tonnes of payable copper (2006 – 324,200 tonnes). This reflected the expected lower ore grades of 0.71% (2006 – 0.81%) and the impact of the harder primary ore on throughput, which averaged 126,300 tonnes per day (2006 – 127,400 tonnes per day).

Production at El Tesoro was 93,000 tonnes, which was ahead of the original forecast for the year and just 1.1% below the 2006 production of 94,000 tonnes.

Key performance indicators

		2007	2006
Turnover	US$m	**3,826.7**	3,870.0
EBITDA	US$m	**2,824.0**	2,957.3
Earnings per share	US cents	**140.2**	137.4
Capital expenditure	US$m	**466.0**	539.0
Net cash	US$m	**1,946.5**	1,446.8
Copper production	'000 tonnes	**428.1**	465.5
Molybdenum production	'000 tonnes	**10.2**	9.8
Realised copper price (per pound)	US cents	**326.6**	329.5
Realised molybdenum price (per pound)	US$	**31.7**	24.6
Cash costs (per pound, net of by-product credits)	US cents	**31.6**	40.2

Production and sales volumes

	Production		Sales	
	2007 '000 tonnes	2006 '000 tonnes	2007 '000 tonnes	2006 '000 tonnes
Copper				
Los Pelambres	**289.9**	324.2	**289.4**	324.8
El Tesoro	**93.0**	94.0	**93.3**	95.3
Michilla	**45.1**	47.3	**45.8**	47.7
Group total	**428.1**	465.5	**428.5**	467.8
Molybdenum				
Los Pelambres	**10.2**	9.8	**10.0**	9.9

The totals in the table may include some small apparent differences as the specific individual figures have not been rounded.

The lower plant throughput in the year of 26,800 tonnes per day (2006 – 28,700 tonnes per day) which was due to high moisture levels in the ore processed, was largely offset by the higher ore grades of 1.23% (2006 – 1.16%).

Michilla's production in 2007 was 45,100 tonnes, a 4.7% decrease over the 2006 production level of 47,300 tonnes, although only slightly below the original forecast for the year. The earthquake which occurred in northern Chile on 14 November 2007 resulted in some disruption during the final part of the year, which reduced throughput and the grade of ore processed. During the year average throughput was 14,800 tonnes per day compared with 15,200 tonnes per day in 2006, and ore grades declined to 1.03% (2006 – 1.05%).

Molybdenum production at Los Pelambres reached 10,200 tonnes, a 4.1% increase compared with the 9,800 tonnes produced in 2006, mainly due to the improved grades of 0.030% (2006 – 0.028%).

Further details of throughput, grade and recoveries at each mine are given in the Mining Production and Sales, Transport and Water Statistics on page 143.

Sales volumes

The volume of copper sold decreased by 8.4% from 467,800 tonnes in 2006 to 428,500 tonnes this year. Molybdenum sales volumes were largely unchanged at 10,000 tonnes (2006 – 9,900 tonnes). Sales volumes for both copper and molybdenum differed slightly from production each year mainly due to differences in shipping and loading schedules.

Transport and water volumes

Rail and road transport volumes at the transport division in 2007 were 5.0 million tons (2006 – 4.5 million tons) and 1.3 million tons (2006 – 1.5 million tons) respectively. Rail tonnages transported in 2007 increased by 11.6% over 2006 due to increases from various mines. The most significant of these was BHP Billiton's Spence mine where the combined volumes of sulphuric acid and copper cathodes contributed an additional 0.3 million tons.

At Aguas de Antofagasta the volume of water sold in 2006 increased by 5.5% from 37.8 million cubic metres to 39.9 million cubic metres this year, as a result of higher volumes to industrial customers, mainly due to the full-year impact of Spence which started its operations during the second half of 2006.

Realised Prices per Pound of Copper and Molybdenum Sold and Cash Costs per Pound of Copper Produced

Realised prices

The Group's average realised copper price decreased by 0.9% to US 326.6 cents per pound (2006 – US 329.5 cents per pound), despite a 5.9% increase in the average LME copper price to US 323.3 cents per pound (2006 – US 305.3 cents per pound). Realised copper prices are determined by comparing turnover (gross of tolling charges for concentrate sales) with sales volumes in the period. 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 2007 the pricing adjustments on provisionally invoiced sales, while remaining positive, were lower than in 2006, as the level of increase in the LME copper price in the current year was less than in 2006.

In the case of Los Pelambres, pricing adjustments added US$52.8 million in 2007 to initially invoiced sales (before adjusting for tolling charges) compared with US$223.5 million in 2006. The adjustments in 2007 comprised US$22.0 million in respect of sales invoiced in 2006 (net of the reversal of mark-to-market adjustments made at the end of 2006) which were finally priced in 2007 and US$30.8 million in respect of sales invoiced in 2007 (net of a mark-to-market provision for open sales at the end of the year of US$72.8 million). Pricing adjustments in 2007 at El Tesoro and Michilla reduced revenues by US$5.1 million (2006 – increased revenues by US$11.7 million) and US$1.2 million (2006 – increased revenues by US$8.9 million) respectively. El Tesoro and Michilla continued to benefit from strong cathode premiums reflecting tight market conditions in the year.

Financial Review continued

Realised prices per pound of copper and molybdenum sold and cash costs per pound of copper produced

	Cash costs 2007 US cents	Cash costs 2006 US cents	Realised prices 2007 US cents	Realised prices 2006 US cents
Copper				
Los Pelambres	(10.8)	16.4	328.3	335.0
El Tesoro	109.8	78.6	327.6	316.4
Michilla	143.5	126.4	313.8	318.5
Group weighted average (net of by-products)	31.6	40.2	326.6	329.5
Group weighted average (before deducting by-products)	110.7	95.6		
Cash costs at Los Pelambres comprise				
On-site and shipping costs	76.3	56.4		
Tolling charges for concentrates	29.6	39.7		
Cash costs before deducting by-product credits	105.9	96.1		
By-product credits (principally molybdenum)	(116.7)	(79.7)		
Cash costs (net of by-product credits)	(10.8)	16.4		
LME average			323.3	305.3
			US$	US$
Molybdenum				
Los Pelambres			31.7	24.6
Market average price			30.2	24.8

The realised molybdenum price increased by 28.9% to US$31.7 per pound in 2007 (2006 – US$24.6 per pound), mainly due to the increase in the market price which averaged US$30.2 per pound compared with US$24.8 per pound in 2006. Molybdenum sales are also subject to provisional pricing and as prices strengthened during 2007, realised prices were slightly higher than the average market price. In contrast, during 2006 weakening prices caused the realised price to be lower than the market price.

Further details of the pricing adjustments made to provisionally invoiced sales of copper and molybdenum concentrates at Los Pelambres are given in Note 24(d) to the financial statements.

Cash costs

Group weighted average cash costs in 2007 were US 31.6 cents per pound, compared with US 40.2 cents per pound in 2006. Excluding by-product credits (which are reported in the financial statements as part of turnover), weighted average cash costs for the Group as a whole increased by 15.8% from US 95.6 cents per pound in 2006 to US 110.7 cents per pound in 2007. Cash costs (excluding by-product credits) were higher at each of the Group's three mines compared with 2006.

Cash costs at Los Pelambres averaged negative US 10.8 cents per pound in 2007, a decrease of US 27.2 cents per pound compared with the costs of US 16.4 cents per pound in 2006. This was mainly due to higher by-product credits and lower tolling charges, partly offset by higher on-site costs. By-product credits increased by US 37.0 cents per pound, mainly due to the higher average molybdenum price compared with 2006, along with the increase in molybdenum production. Tolling charges were US 10.1 cents per pound lower, mainly due to reduced price participation as a result of the 2007 calendar year negotiations. On-site and shipping costs averaged US 76.3 cents per pound in 2007, US 19.9 cents per pound above 2006 mainly as a result of increased machinery hire, maintenance, fuel, oil and labour costs. The higher labour costs were due to the one-off bonus payments on the conclusion of the mine-port union and plant union negotiations during the year.

At El Tesoro, cash costs increased to US 109.8 cents per pound compared with US 78.6 cents per pound in 2006. The main reasons for these increases were higher energy costs and, to a lesser extent, increased sulphuric acid costs (due to higher prices and consumption levels).

Cash costs at Michilla for 2007 were US 143.5 cents per pound, US 17.1 cents per pound higher than 2006. The increase compared to the previous year was mainly due to increased energy costs, the impact of the bonus payment following the early conclusion of the labour negotiation during the year, and higher costs of third party services.

Review of Performance

Turnover, EBITDA, depreciation and amortisation, operating profit, capital expenditure and net assets are analysed on a segmental basis in Note 5 to the financial statements.

Turnover

	2007 US$m	2006 US$m
Turnover	3,826.7	3,870.0

Group turnover in 2007 was US$3,826.7 million, 1.1% below the US$3,870.0 million achieved in 2006. The slight decrease mainly reflected the impact of lower sales volumes and realised prices for copper, partly offset by the effect of higher molybdenum prices and volumes, reduced tolling charges for copper concentrate and increased sales at the transport and water divisions. The reasons for the improved prices and changes in volumes are explained in this Financial Review on pages 22 to 24 as well as in the discussion contained in the Chairman's Review on pages 5 to 21.

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$2,915.9 million, compared with US$3,144.7 million in 2006. In 2007, sales of copper concentrate and copper cathodes represented 76.2% of Group turnover and therefore revenues depend significantly on LME and realised copper prices. A one cent change in the average copper price for the year would affect turnover and profit before tax by US$9.4 million and earnings per share by US 0.5 cents, based on production volumes in 2007, and without taking into account the effects of provisional pricing and hedging activity.

Tolling charges for copper concentrate at Los Pelambres decreased from US$254.0 million in 2006 to US$169.4 million in 2007, mainly due to reduced price participation as a result of the 2007 calendar year negotiations. Tolling charges are deducted from concentrate sales in reporting turnover and hence partly offset the effect of improved copper prices.

In 2007 turnover also included a loss of US$14.0 million on commodity derivatives at El Tesoro and Michilla which matured during the year, recognised under the hedge accounting provisions of IAS 39 "Financial Instruments: Recognition and Measurement" which were applied with effect from 1 January 2007. As explained below, during 2006 losses on the commodity derivatives were recognised within other operating expenses.

Turnover from by-products

Turnover from by-products at Los Pelambres increased by 30.6% to US$726.7 million in 2007 compared with US$556.3 million in 2006, mainly due to higher molybdenum market prices. Molybdenum revenues (net of roasting charges) were US$676.4 million (2006 – US$513.8 million). A one dollar change in the average molybdenum price for the year would affect turnover and profit before tax by US$22.5 million, and earnings per share by US 1.1 cents, based on production volumes in 2007, and without taking into account the effects of provisional pricing.

Credits received from gold and silver contained in copper concentrate sold increased to US$50.3 million (2006 – US$42.5 million).

Turnover from the transport and water divisions

Turnover from the transport division (FCAB) increased by US$11.7 million or 11.1% to US$117.0 million, mainly due to increased rail volumes and normal tariff adjustments under contracts in line with costs. Volumes increased from various mines, with the most significant being Spence, which started its operations during the second half of 2006.

Turnover at Aguas de Antofagasta, which operates the Group's water business, increased by US$3.4 million or 5.3% to US$67.1 million in 2007, mainly due to increased volumes to industrial customers, principally because of the impact of the Spence mine, partly offset by the full year impact of the tariff review in respect of domestic customers in mid-2006.

EBITDA and operating profit from subsidiaries and joint ventures

	2007 US$m	2006 US$m
EBITDA	2,824.0	2,957.3
Depreciation and amortisation	(162.2)	(145.0)
Loss on disposals	(8.4)	(8.2)
Operating profit from subsidiaries and joint ventures	2,653.4	2,804.1

EBITDA (earnings before interest, depreciation, tax and amortisation) decreased by 4.5% from US$2,957.3 million in 2006 to US$2,824.0 million in 2007.

EBITDA at the mining division decreased by 4.8% from US$2,873.0 million to US$2,734.4 million, due to the reduction in turnover as explained above (resulting mainly from reduced copper sales volume, partly offset by the effect of higher molybdenum prices and reduced tolling charges for copper concentrate) and increased operating costs as explained on pages 24 and 25.

As noted above, during 2007 a loss of US$14.0 million relating to commodity derivatives which matured in the period has been recorded within turnover (along with a gain of US$0.7 million recognised within other finance items as explained below and a net mark-to-market loss of US$0.2 million deferred in equity). During 2006 a loss of US$84.5 million was recognised within other operating expense in respect of commodity derivatives, relating both to amounts realised on instruments maturing during the year and net mark-to-market adjustments prior to the adoption of the hedge accounting provisions of IAS 39.

At Los Pelambres, EBITDA decreased from US$2,297.0 million in 2006 to US$2,178.0 million this year. EBITDA at El Tesoro decreased by US$25.1 million to US$430.9 million. At Michilla EBITDA increased by US$10.8 million to US$169.2 million, reflecting the significantly lower impact of commodity hedging, partly offset by higher cash costs.

EBITDA at the transport division increased by US$6.0 million to US$48.9 million, mainly reflecting the increased rail volumes as higher tariffs were offset by higher operating costs.

Aguas de Antofagasta (whose revenues and costs are mainly denominated in Chilean pesos) contributed US$40.7 million compared to US$41.4 million last year, with the increased revenues offset by higher operating costs.

Depreciation and amortisation increased by US$17.2 million to US$162.2 million, mainly due to higher charges at Los Pelambres (following the completion of the repowering project which is now in operation) and El Tesoro (due to the full year effect of fair value amortisation following the acquisition of Equatorial Mining Limited in August 2006). The loss on disposal of property, plant and equipment in 2007 was US$8.4 million, compared with US$8.2 million in the prior year.

As a result of the above factors, operating profit from subsidiaries and joint ventures in 2006 was US$2,653.4 million, compared with US$2,804.1 million in 2006, a decrease of 5.4%.

Share of income from associate

	2007 US$m	2006 US$m
Share of income from associate	1.4	1.1

The Group's share of net profit from its 30% investment in Antofagasta Terminal Internacional S.A. ("ATI") was US$1.4 million (2006 – US$1.1 million).

This comprised share of profit before tax of US$1.7 million (2006 – US$1.3 million) less share of tax of US$0.3 million (2006 – US$0.2 million). During the year dividends of US$2.4 million were received from ATI (2006 – US$0.4 million).

Net finance income

Net finance income in 2007 was US$95.4 million compared with US$53.8 million in 2006, and is analysed as follows:

	2007 US$m	2006 US$m
Investment income	113.4	78.3
Interest expense	(20.4)	(25.2)
Other finance items	2.4	0.7
Net finance income	95.4	53.8

Investment income comprises interest receivable, which increased from US$78.3 million in 2006 to US$113.4 million in 2007, due to the higher level of cash and deposit balances.

Interest expense decreased from US$25.2 million in 2006 to US$20.4 million, reflecting the decrease in the level of borrowings through loan repayments during the year.

Other finance items increased from a gain of US$0.7 million in 2006 (restated for the inclusion of the discount charge relating to provisions from interest expense) to US$2.4 million. Following the application of the hedge accounting provisions of IAS 39 "Financial Instruments: Recognition and Measurement" with effect from 1 January 2007, a gain of US$0.7 million has been recognised in the year 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. No interest derivatives were held during the current year and so no mark-to-market gains or losses arose, compared to a mark-to-market gain of US$0.3 million in 2006. Foreign exchange gains included in finance items were US$2.9 million in 2007, compared with US$1.6 million in the previous year.

The Group's borrowings relate mainly to Los Pelambres and El Tesoro, which represent US$247.8 million out of total borrowings at the end of 2007 of US$266.0 million. As at 31 December 2007 there were no interest rate swaps in place, and the Group's borrowings are predominantly floating rate. Borrowings are almost entirely denominated in US dollars.

Based on total borrowings, cash and deposit balances at the end of 2007, a 1% increase in interest rates would increase interest payable by US$2.7 million and increase interest receivable by US$22.1 million, resulting in an overall increase in net finance income of US$19.4 million. Details of the composition of borrowings and cash and deposits are given in Notes 22 and 21 respectively to the financial statements.

Taxation

The tax charge for the year comprised the following:

	2007 US$m	2006 US$m
Current tax charge		
Corporate tax (principally first category tax in Chile)	(441.3)	(474.2)
Mining tax (Royalty)	(50.6)	(58.5)
Withholding tax provision	(135.3)	(61.9)
Exchange gains on corporate tax balances	28.5	2.4
	(598.7)	(592.2)
Deferred tax charge		
Corporate tax (principally first category tax in Chile)	(8.1)	(2.4)
Mining tax (Royalty)	(0.8)	1.9
Withholding tax provision	(30.8)	(72.2)
	(39.7)	(72.7)
Total tax charge (Income tax expense)	(638.4)	(664.9)

The rate of first category (i.e. corporation) tax in Chile was 17% for both 2006 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. For 2006 and 2007, 50% of the mining tax could be offset against first category tax and the remaining 50% is tax deductible (i.e. an allowable expense in determining liability to first category tax). From 2008, when the ability to offset will no longer be available, 100% of the mining tax will be tax deductible. The effect is to increase the

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effective tax rate of these three operations (before taking into account deductibility against corporation tax) by approximately 2% in 2006 and 2007 and 4% 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.

Tax (including deferred tax) amounted to US$638.4 million (2006 – US$664.9 million), reflecting the decrease in profit before tax for the year. Including both current and deferred taxes, this comprised corporate tax of US$449.4 million (2006 – US$476.6 million), the Chilean mining tax of US$51.4 million (2006 – US$56.6 million) and withholding tax charges of US$166.1 million (2006 – US$134.1 million). This was partly offset by exchange gains on corporate tax balances of US$28.5 million (2006 – US$2.4 million) since tax prepayments made in the course of the year, which are designated in Chilean pesos, benefited from the strengthening of that currency against the US dollar.

As a result of these factors, the effective tax rate for the Group in 2007 was 23.2% (2006 – 23.3%), compared with the Chilean statutory tax rate of 17%.

Minority interests

	2007 US$m	2006 US$m
Minority interests	729.7	839.8

Profit for the financial year attributable to minority shareholders was US$729.7 million, compared with US$839.8 million in 2006. The decrease was largely due to the acquisition of Equatorial Mining Limited in the second half of 2006 which had the effect of eliminating the 39% minority interest at El Tesoro, as well as the reduction in the Group's profit before tax in 2007 compared with 2006.

Earnings per share

	2007 US cents	2006 US cents
Earnings per share	140.2	137.4

Earnings per share calculations are based on 985,856,695 ordinary shares. As a result of the factors set out above, profit for the 2007 financial year attributable to equity shareholders of the Company was US$1,382.1 million compared with US$1,354.3 million in 2006. Accordingly, basic earnings per share were US 140.2 cents in 2007 compared with US 137.4 cents for 2006, an increase of 2.0%.

Dividends

The Board's policy regarding dividends is set out in the Chairman's Review on page 20.

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

	2007 US cents	2006 US cents
Ordinary		
Interim	3.2	3.2
Final	5.4	5.0
	8.6	8.2
Special		
Interim	3.0	2.0
Final	38.0	38.0
	41.0	40.0
Total	49.6	48.2

The total cost of dividends on ordinary shares proposed in relation to 2007 will be US$489.0 million, compared with US$475.2 million in 2006. This represents an increase of 2.9% compared with 2006. The total dividends proposed in relation to 2007 will be covered 2.8 times compared with 2.9 times in 2006.

Dividends per share actually paid in 2007 and recognised as a deduction from net equity under IFRS were US 49.2 cents (2006 – US 24.0 cents) being the interim dividend declared and paid in the year and the final dividend proposed in respect of the previous year and paid during the year. The total cost of such dividends in 2007 was US$485.0 million (2006 – US$236.6 million).

Dividends on ordinary shares are payable in either US dollars or sterling. Further details, including determination of conversion rates for dividends payable in sterling, are given in the Directors' Report on pages 60 and 61 and in Note 11 to the financial statements.

Capital Expenditure

Capital expenditure in 2007 was US$466.0 million compared with US$539.0 million in 2006. This figure is stated on an accruals basis, and therefore differs from the cash outflow during the year shown in the cash flow summary below. This included expenditure of US$203.5 million relating to the Mauro tailings dam project (2006 – US$251.1 million), US$47.6 million relating to the completion of the plant expansion at Los Pelambres (2006 – US$134.3 million), US$49.3 (2006 – US$ nil) on early works for the next repowering and US$43.7 million relating to the Esperanza project (2006 – US$6.6 million).

Cash Flows

The Group cash flow statement is presented on page 80. The key features are summarised as follows:

	2007 US$m	2006 US$m
Cash flows from operations	2,817.7	2,810.1
Income tax paid	(806.0)	(498.2)
Net interest received	91.1	53.0
Acquisition of subsidiaries	–	(487.5)
Disposal and part disposal of subsidiaries, joint venture interests and available for sale investments	27.5	84.3
Purchases of property, plant and equipment	(481.7)	(506.6)
Dividends paid to equity holders of the Company	(485.0)	(236.6)
Dividends paid to minority interests	(681.2)	(630.6)
Other items	11.0	8.9
Changes in net cash relating to cash flows	493.4	596.8
Exchange and other non-cash movements	6.3	(1.5)
Movement in net cash in the year	499.7	595.3
Net cash at the beginning of the year	1,446.8	851.5
Net cash at the end of the year (analysed on page 30)	1,946.5	1,446.8

Cash flows from operations were US$2,817.7 million in 2007 compared with US$2,810.1 million last year, reflecting the operating results adjusted for depreciation, amortisation and disposals gains and losses of US$150.5 million (2006 – US$153.2 million) and a net working capital decrease of US$13.8 million (2006 – increase of US$147.2 million). The movement in working capital was particularly significant in 2006 due to the effect of the significant increase in the copper price on the level of trade debtors during that year.

Cash tax payments in the year were US$806.0 million (2006 – US$498.2 million), comprising corporation tax of US$537.7 million (2006 – US$426.5 million), mining tax of US$133.0 million (2006 – US$9.9 million) and withholding tax of US$135.3 million (2006 – US$61.8 million). These amounts differ from the current tax charge in the consolidated income statement of US$598.7 million (2006 – US$592.2 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. The increased payments reflect higher profits in 2006 compared with 2005 (thereby increasing both monthly payments on account for 2007 as well as settlement of the outstanding balance for the previous year) and higher withholding tax payments due to higher dividends paid in 2007.

No acquisitions were made in 2007; in 2006 the cash outflow from acquisitions (net of cash balances acquired) amounted to US$487.5 million, which comprised US$199.4 million in respect of Tethyan and US$288.1 million in respect of Equatorial.

Cash proceeds from disposals of interests in subsidiaries, joint ventures and available for sale investments amounted to US$27.5 million in 2007. This comprised US$4.9 million received at the beginning of the year from the sale of Equatorial North America Inc. in December 2006; US$6.0 million for the cash element of the sale of the Group's interest in Cordillera de Las Minas S.A. to Panoro Minerals Limited and US$16.6 million for the sale of shares in Mercator Minerals Limited. In 2006, cash proceeds from disposals amounted to US$84.3 million, mainly relating to the disposal of 50% of Tethyan to Barrick Gold.

Capital expenditure on a cash basis was US$481.7 million in 2007 compared with US$506.6 million in 2006. Capital expenditure on an accruals basis is explained in the Financial Review on page 29.

Dividends (including special dividends) paid to ordinary shareholders of the Company this year were US$485.0 million (2006 – US$236.6 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 in 2007 compared with 2006. Dividends paid by subsidiaries to minority shareholders were US$681.2 million (2006 – US$630.6 million), principally due to increased distributions by Los Pelambres.

Other items principally related to dividends from ATI and recovery of Chilean VAT previously paid on the acquisition of the water concession by Aguas de Antofagasta in 2003. The net cash inflow from these items was US$11.0 million in 2007 compared with US$8.9 million in 2007.

Foreign currency exchange differences and other non-cash movements are analysed in Note 33 to the financial statements.

Changes in the cash and debt components of net cash during the year are analysed under Financial Position below.

Financial Position

	2007 US$m	2006 US$m
Cash and cash equivalents	2,212.5	1,805.5
Total borrowings	(266.0)	(358.7)
Net cash at the end of the year	1,946.5	1,446.8

The increase in net cash during the year was US$499.7 million (2006 – US$595.3 million). The principal reasons for the increase in net cash during 2007 are set out above under Cash Flows.

Repayments of borrowings and finance leasing obligations in the year, mainly at Los Pelambres and El Tesoro, were US$100.2 million (2006 – US$111.4 million). New borrowings in the year amounted to US$7.0 million (2006 – US$3.8 million).

At 31 December 2007, the Group had cash and cash equivalents of US$2,212.5 million (2006 – US$1,805.5 million). Excluding the minority share in each partly-owned operation, the Group's attributable share of total cash and cash equivalents was US$2,135.4 million (2006 – US$1,592.7 million).

Total Group borrowings at 31 December 2007 were US$266.0 million (2006 – US$358.7 million). Of this, US$169.5 million (2006 – US$230.0 million) is proportionally attributable to the Group after excluding the minority shareholdings in partly-owned operations. The decrease in debt is mainly due to further principal repayments at Los Pelambres and El Tesoro as explained above.

An analysis of borrowings by Group company is contained in Note 22 to the financial statements. US$101.8 million of the total Group borrowings of US$266.0 million is repayable within one year, and relates mainly to the short-term portion of the corporate loans at Los Pelambres and El Tesoro.

As explained above in relation to net interest payable, Group cash and debt is predominantly floating rate and almost entirely denominated in US dollars.

Balance Sheet

The Group's balance sheet is set out on page 79. Net equity (i.e. equity attributable to ordinary shareholders of the Company) increased from US$3,155.1 million at 1 January 2007 to US$4,065.0 million at 31 December 2007, 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$793.0 million at 1 January 2007 to US$841.5 million at 31 December 2007, principally reflecting the minority's share of profit after tax, 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.

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 24(c).

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 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. 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. Prior to 1 January 2007 derivatives were measured at fair value through the income statement, with both realised and unrealised gains or losses on commodity derivatives being recorded within other operating income or expense.

The impact of derivative instruments on the Group's results for the period is set out above in the sections on turnover, EBITDA and operating profit from subsidiaries and joint ventures and net finance income, and in Note 24(e) to the financial statements.

At 31 December 2007, the Group had min/max instruments for 70,200 tonnes of copper production (of which 60,000 tonnes relate to El Tesoro and 10,200 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 2008 is 11 months. The instruments have a weighted average floor of US 248.9 cents per pound and a weighted average cap of US 389.2 cents per pound. 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 to 31 January 2009. The remaining weighted average period covered by these instruments was 7 months.

Between 31 December 2007 and the date of this report, Michilla entered into further min/max instruments for 15,000 tonnes of copper production, covering a total period up to 31 December 2008. The weighted average remaining period covered by these hedges calculated with effect from 1 January 2008 is 6.5 months. The instruments have a weighted average floor of US 292.1 cents per pound and a weighted average cap of US 342.1 cents per pound.

These instruments represent approximately 60% of Michilla's forecast production for 2008 and 33% of El Tesoro's forecast production to the end of 2009, and the Group's exposure to the copper price will be limited to the extent of these instruments. Details of the mark-to-mark position of these instruments at 31 December 2007, together with details of any interest and exchange derivatives held by the Group, are given in Note 24(e) to the financial statements.

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 36 to the financial statements.

The currency translation adjustment credit to net equity of US$13.5 million results 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. In 2006 the currency translation adjustment charge to net equity of US$4.3 million resulted mainly from the weakening of the Chilean peso in the year, from Ch$513 = US$1 at the beginning of 2006 to Ch$532 = US$1 at the end of 2006.

Going Concern

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. In forming this opinion, the Directors have taken into account the financial position of the Group including cash balances, borrowing facilities in place, the current copper price and market expectations in the medium-term.

Additional Information Relating to the Financial 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. Following the application of the hedge accounting provisions of IAS 39 "Financial Instruments: Recognition and Measurement" with effect from 1 January 2007, realised gains and losses on commodity derivatives recognised in the income statement have been recorded within turnover. Prior to 1 January 2007, gain and losses on commodity derivatives were recognised within other operating income or expense. Turnover is stated net of tolling charges for concentrate sales.

An explanation of turnover is contained on pages 25 and 26 of the Financial Review and analyses of turnover by business segment and geographical segment are contained in Notes 5(a)(i) and 5(b)(i) respectively to the financial statements. Details of pricing adjustments and gains and losses on commodity derivatives are given in Notes 24(d) and 24(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 page 26 of the Financial Review. An analysis of EBITDA by business segment is contained in Note 5(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 page 28 of the Financial Review and in Note 10 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 page 29 of the Financial Review and analyses of capital expenditure by business segment and type of asset are given in Notes 5(a)(ii) and 13 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 amount 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 30 of the Financial Review and analyses of cash and cash equivalents and borrowings are given in Notes 21, 22 and 33(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 on pages 22 and 23 of the Financial Review and 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. Following the application of the hedge accounting provisions of IAS 39 "Financial Instruments: Recognition and Measurement" with effect from 1 January 2007, realised prices reflect the effect of realised gains and losses on commodity derivatives, which are recorded within turnover. Prior to 1 January 2007 realised prices did not reflect the effects of gain and losses on commodity derivatives, which were recognised within other operating income or expense.

An explanation of realised prices is given on pages 23 and 24 of the Financial Review.

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 on pages 24 and 25 of the Financial Review.

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 page 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 page 31 and in Note 24(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.

Financial Review continued

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

The strong commodity cycle and large numbers of projects being developed in the resources industry has led to increased demand for supplies, equipment, skilled personnel and contractors. This has resulted in, and could continue to result in, increased 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.

Corporate Social Responsibility

Open pit at Los Pelambres.

The Esperanza project will cover various areas of social activity.

The Esperanza project intends to ensure that at least 30% of the staff come from the Antofagasta region.

Contents

Introduction

The Group aims to discover world class mineral deposits and develop and operate its assets safely, responsibly and efficiently, in order to provide good returns to shareholders and benefit stakeholders throughout economic cycles. 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.

Mining companies can be instrumental in the development of economies and communities. The Group recognises both its global and local responsibilities and seeks to contribute to the socio-economic development of communities located around its operations and projects principally through forming mutually beneficial local partnerships.

Some of the Group's operations have sustainable development policies in place, which are implemented in day-to-day business in a number of ways. The Group places the adoption of safe work practices at the centre of operational activity. It exercises stewardship of natural resources to manage social and environmental risk and to minimise pollution and environmental footprint; this includes an integrated approach to the conservation of biodiversity and land and water management. It seeks to minimise stoppages in its mining and processing operations, minimise costs and maximise the benefit gained from a motivated workforce. These policies and practices are underlined by a culture of strong management combined with a focus on innovation, exploration and investment.

As explained in the Chairman's Review on pages 5 to 21, the Group has recently acquired a number of growth opportunities in Chile and abroad, and continues to seek opportunities to secure world-class mining assets. At the same time, the mining industry in Chile has been confronted by new issues in areas such as energy and water usage, labour markets, increased competition for resources and increased scrutiny from its different stakeholders. These developments provide new challenges and opportunities which need to be addressed in an effective and timely manner while taking the sustainable development considerations outlined above into account.

Accordingly, during 2007 the Board decided to develop and implement a Sustainable Development Policy to provide a structured framework through which its strategy and growth plans could be achieved; formulation of this is now in progress. This process, which is being led by the mining division's environmental and external affairs departments, has involved Board members, senior management at corporate and operational level and the sustainability teams of each mining operation. The process will result in specific policies for environment and community relations which are currently under review and are intended to be applied across the Group.

The Group has also placed greater emphasis on its accountability for reporting on sustainable development matters beyond the information contained in this Annual Report. During 2007, Los Pelambres published its first annual sustainability report (relating to the 2006 calendar year) as well as a separate report on its integral health system model; Antofagasta Minerals S.A. has also issued a publication to show different initiatives the mining division has taken on environmental and community issues.

Description of the Group's Activities

Mining

The Group's three mines are managed by experienced executives under the supervisory umbrella of Santiago-based Antofagasta Minerals S.A. ("AMSA"). AMSA's activities are outlined in the Chairman's Review on page 8.

Los Pelambres is a world class porphyry copper mine owned 60% by the Group and 40% by two Japanese consortia. Located in the high Andes near Salamanca in Chile's IV Region, its operations extend from its open pit high in the Cordillera to its dedicated port near Los Vilos. Los Pelambres produces copper and molybdenum concentrate with gold and silver credits in the copper concentrate. Tailings are currently held in a dam in the Cuncumen Valley to the south of the concentrator plant. Work has proceeded on the Mauro tailings dam which is described in more detail in the Chairman's Review on page 10. Copper concentrate is transported by pipeline 120 kms to the coast, where it is dewatered, dried and stored prior to shipment by sea. The molybdenum concentrate is packed in drums and shipped from the concentrator plant to roasters.

El Tesoro, 100% owned by the Group, is located in the Atacama mining district in northern Chile's II Region about 200 kms north east of Antofagasta with good road and rail access to the ports of Antofagasta and Mejillones. El Tesoro is an open pit operation and uses a conventional heap-leach SX-EW process to produce LME Grade A copper cathodes.

Michilla, which is 74.2% owned by the Group, is located about 100 kms north of Antofagasta and is the Group's first mine acquired in 1983. Michilla is a mixed copper oxide and sulphide orebody and mines its ore from a combination of open pit and underground operations. Michilla's plant is similar to El Tesoro and also produces LME Grade A copper cathodes through the heap-leach SX-EW process. Michilla is connected by road to the ports of Mejillones and Antofagasta.

Los Pelambres' truck maintenance depot.

As explained in the Chairman's Review on pages 12 and 13, Michilla is currently reviewing several options in order to extend its mine life (which currently runs to the end of 2009) and continue production at its SX-EW plant.

Production and sales details for the three mines are shown on pages 22 and 143. Ore reserve and mineral resource estimates for each mine are shown on page 146.

The Group has a portfolio of exploration and development projects to which it extends similar sustainability considerations as it does to its existing mines. The most advanced is the Esperanza project, which is located approximately four kms south of El Tesoro. Development of Esperanza received Board approval in June 2007 and the Group has submitted an Environmental Impact Assessment (EIA) which is expected to be approved in mid-2008. Construction should take place between 2008 and 2010 and Esperanza is expected to produce copper concentrate containing a significant gold credit from the end of 2010 and molybdenum from 2015. Other projects include Antucoya, located approximately 35 kms from Michilla, and the Reko Diq joint venture, a copper-gold deposit in south-west Pakistan, both of which are expected to undergo feasibility studies during 2008. In addition, the Group has an active exploration programme in the Sierra Gorda district surrounding El Tesoro, a target generation programme in Chile's II and IV Regions and an active search for other opportunities both in Latin America and globally.

Transportation

The Antofagasta Railway (FCAB) has become one of the largest combined rail and road transportation companies in Chile due mainly to the phenomenal growth of mining in the II Region over the last decade. It also controls the Andino network in Bolivia. The combined networks, with a total of 2,350 kms of track, transported 5.0 million tons by rail and 1.3 million tons by road in 2007. The FCAB is regulated by the Superintendency of Railways. Details of tonnage transported are shown on page 143.

Water

Aguas de Antofagasta S.A. ("ADASA") is based in Chile's II Region where it supplies water for domestic and industrial use as well as treating waste water. It is regulated by the Chilean Water Authority and the Superintendency of Sanitary Services. Water statistics are shown on page 143.

Governance and Ethics

The Group is committed to conducting business in an accountable and transparent way reflecting the interests of all stakeholders who may be affected by its activities. In so doing, the Group demands honesty, integrity and responsibility from those related to it. It ensures that human rights, customs and values of its employees are respected, that information about its activities is properly communicated and that environmental matters are properly considered.

In order to achieve this, it has corporate procedures, management structures and risk management procedures in place at both Group level and at the business units. In addition to the Group's procedures and structures, the principal operations have developed their own business principles and procedures to ensure good governance and adherence to ethics. The Group seeks to ensure similar standards are maintained by its joint venture partners. Further details of the Group's corporate governance and risk management practices are set out in the Corporate Governance statement on pages 64 to 71.

The Group also has a Corporate Code of Ethics which has been adopted by the Board and is aimed at all employees and contractors who are expected to understand and fully comply with its requirements. The Group's Code of Ethics sets the guidelines for all employees' behaviour, highlighting the importance of honesty, integrity and commitment, and warning of potential conflicts of interest and independence.

Systems and Risk Management

Systems

Management systems are in place at all the Group's operations, to ensure quality of processes and products, health and safety of the workforce and compliance with environmental standards. During 2007 the Group continued obtaining certification to international standards for management systems and has set targets for 2008. The progress achieved and targets are summarised in the table below and on pages 39 and 40. Where international standards are not applied, companies use management systems under relevant national standards or have developed in-house systems.

Risk management

The Directors' responsibilities for risk management, internal control, internal and external communications together with the role of the Audit Committee are

Status of certification of ISO 14.001 (environmental management) in Group operations

Company	Area (Business Unit)	Status
Los Pelambres	Whole company	Version 2004, Certified: July 2006
El Tesoro	Whole company	Version 2004, Certified: February 2006
Michilla	Whole company	Under evaluation
FCAB	Whole company	Under evaluation
ADASA	Operative areas of the company – treatment plants, distribution of potable water and sewer system	Under evaluation

Status of certification ISO 9.001 (quality management) in Group operations

Company	Area (Business Unit)	Status
Los Pelambres	Exploration, extraction, processing of minerals, transport via pipeline and loading of copper concentrate	Version: 2000, Certified: June 2006
El Tesoro	Whole company	In process of implementation with expected certification during 2008
Michilla	Whole company	Implementation process to begin in February 2008
FCAB	Management services (transport of copper and sulphuric acid with enlarged scope to include mineral concentrates and general loading services)	Certified: 2003 with scope enlargement in January 2007
	Integral Repair Shop Centre (electrical control of locomotives, repair and maintenance services with scope enlargement to cover design and metrology)	Certified: July 2005
	Engineering and services (electrical motors repair and maintenance and components recovery with scope enlargement to production management, engineering projects and operator training	Certified: January 2005
Train Ltda.	Storage and transfer of sulphuric acid and copper cathodes, transport of lime and cement	Certified: October 2006

Status of certification OHSAS 18.001 (safety and occupational health management) in Group operations

Company	Area (Business Unit)	Status
Los Pelambres	Whole company	Version 1999, Certified: June 2006
El Tesoro	Whole company	Certified: March 2006
Michilla	Whole company	Certified: October 2006
FCAB	Whole company	Certified: June 2007
ADASA	Operative areas of the company – treatment plants, distribution of potable water and sewer system	Under evaluation

Other international and national standards

Company	Standard
Los Pelambres	Punta Chungo: The International Ship and Port Security Code (ISPS) certification in June 2004
Michilla	At the Caleta Michilla Maritime Terminal: The International Ship and Port Security Code (ISPS) certification in July 2004
FCAB	Competitive Company Programme, in collaboration with a health care association to manage company risk
ADASA	Water Quality Laboratory: accredited by INN, the Chilean National Standardisation Institute in NCh-17025, Chilean standard certification (equivalent to ISO) for controlling and quality of water. Accreditation for Laboratory Tests in microbiology and chemical physics is a requirement of the Superintendency of Sanitary Services
El Tesoro	System to identify, evaluate and prepare action plans related to worker behaviour, supervisor leadership and the practice of the self-care concept, developed in collaboration with the Mutual de Seguridad, a national organisation which aims to promote health and safety at work

described in the Corporate Governance report on pages 68 to 70. The main risk factors relevant to the Group are set out in the Financial Review on pages 33 to 35.

The Group's risk management system has been developed in-house and is based on conceptual models and various existing risk management systems. Its purpose is to monitor and increase the contribution from each company through a central system designed to prevent potential incidents which could generate losses and reduce the impact of unavoidable incidents. Risk maps identifying key areas exist at each business unit and risk management processes are embedded at all levels including the early project stage, for example at the Esperanza project in Chile and the Reko Diq project in Pakistan. The Group's approach to risk also takes into account sustainability considerations. During 2007, for example, a diagnosis including a stakeholder map was made by Los Pelambres of its operations and surrounding areas, to identify priority areas and define action plans. A reputational survey with local communities was also carried out at some of the Group's operations to provide relevant input for the risk management processes in this area.

An online information system is also in place to manage and report incidents and to collate safety statistics on a centralised basis through the Group's intranet. Employees and contractors who are in charge of an operation or project are responsible for managing risk as it occurs. Using the system they are able to identify risks (including possible losses, incidents and areas of non-compliance) and controls. The information on the system is periodically updated and reviewed at each business unit by a risk control manager as well as the risk management team at Group level, which reports the information including safety statistics and measures this against performance targets for the Group and individual operations. Some operations have had risk management systems audited as part of the requirement for obtaining ISO and OHSAS certifications. The Group shares information relating to risk management with other mining companies in Chile.

The tables on pages 39 and 40 show the various aspects of the detailed processes established by Group companies which have been certified under ISO 14.001 for environmental management, ISO 9.001 for quality management and OHSAS 18.001 for safety and occupational health management.

Communication

The Group recognises the importance of timely and accurate information flows, both within the Group's companies and with external stakeholders. Communication channels include websites, intranets, publications, consultation procedures and face-to-face meetings with internal and external parties. The Group is committed to maximising transparency within the parameters of good business sense and commercial confidentiality. The Board expects its Directors, senior management and other staff to behave with integrity and comply with the ethical standards of the Group and their own professions in preparing and publishing information, for example financial reports and press updates.

External communication is achieved at Group and business unit level through the publication of financial, operational and social and environmental data. This includes production reports, financial reports (including the Annual Report, preliminary, interim and quarterly figures) and press releases through the Regulatory News Service of the London Stock Exchange for any material developments. Spanish language releases are also published contemporaneously in Santiago. At the business unit level, information about operational activities is also made available to local stakeholders through community consultation programmes, open meetings and memos. Grievance procedures allow interested parties to lodge complaints and request information. Recently, the Group has placed greater emphasis on communications with communities in the areas around which its operations and projects are located; for example in the Esperanza project, which was approved during 2007, dialogue with local communities has been encouraged and developed from the start.

As explained in the Introduction to this report, Los Pelambres published a sustainability report in 2007 as well as a separate report on its integral health system model; AMSA has also issued a publication to show different initiatives the mining division has taken on environmental and community issues. This forms part of an overall effort to enhance communications including the development of a communications plan for each operation and project and the introduction of measureable action plans and training.

Internal communication within the Group is achieved through regular staff meetings with senior management. The principal business units publish regular magazines and use intranets to communicate Group principles and ethics as well as to facilitate the flow of information throughout the Group.

Working in Partnership with Other Organisations

The Group believes that communication and consultation with governments, non-governmental organisations and labour and financial institutions is crucial for the development of economies and communities. Partnerships facilitate the development of sound technologies to improve operational processes, products, and protection of the environment. The Group also considers that its own decision-making processes benefit from consultation with relevant stakeholders. Accordingly, it seeks to work closely with host countries and communities and communicates its views to governmental agencies either directly or through industry associations and representative bodies at both national and international levels.

During 2007, AMSA together with other mining companies and institutions approached the Ministry of Mining with a proposal: "Education and Mining: the Streak of Development". This proposal is aimed at enhancing students' knowledge and understanding of mining activities by including mining education in the school curriculum in Chile.

AMSA was one of the main sponsors of the first "Mining Course for Journalists" organised by SONAMI (the National Mining Society), to encourage the development of closer relationships between mining companies, SONAMI and the media. Over 50 journalists participated in the training course.

Exponor is an international bi-annual event organised by the Antofagasta Association of Industrialists. It took place most recently in July 2007 in the Antofagasta Region where mining accounts for

Organisations of which Group companies are members

Organisation	Description	Group Membership
Sociedad Nacional de Minería de Chile (SONAMI)	An industry body that is an association grouping private entrepreneurs of small, medium and large size mining companies. It represents, leads and looks after the interests of the private mining sector in relation to public and private institutions, authorities, and the local and international communities	Los Pelambres and Michilla
Consejo Minero de Chile (Consejo Minero)	An association of 17 large size Chilean mining companies founded in 1998 for the purpose of protecting, promoting and supporting the Chilean mining sector	Los Pelambres
International Copper Association (ICA)	An international organisation for promoting the use of copper worldwide and co-ordinating and improving the effectiveness of international market development, research, and technology activities of the industry	AMSA (through one of its subsidiaries)
International Molybdenum Association (IMOA)	An international organisation which aims to promote the use of molybdenum, gather technical literature and scientific data on environmental issues, prepare industry guidelines and collect historical statistics on global demand and supply	AMSA (through one of its subsidiaries)
Antofagasta Association of Industrialists	An organisation which aims to foster the concept of sustainable development and promote policies and ideas to the community and other businesses	El Tesoro Michilla ADASA FCAB
AccionRSE	An organisation developed as a result of a private initiative, to promote good corporate social responsibility practices	AMSA Los Pelambres

approximately 90% of regional exports. Exponor is one of the largest mining conferences in Latin America with a focus on promoting mining in the Antofagasta region and was attended by some 400 companies and 25,000 people including suppliers, technicians and professionals working in the mining industry. The event aims to promote mining, encourage relationships between the private and public sectors, promote development and encourage business and the sharing of technology between producers. At this year's event, commercial activity generated business to the value of US$180 million and contributed to local commerce. AMSA participated as an exhibitor for the first time and presented an update on the Esperanza project which will be an important local employer in the future.

Human Resources

The Group recognises that its most important assets are its people. It operates within the existing employment legislation in Chile and continually improves working conditions by applying best management practices to maintain a motivated labour force and harmonious employment relations, improve safety conditions and promote a healthy lifestyle amongst its employees and subcontractors. The Group also respects employee rights by banning discrimination in the workplace. As part of its management of human resources to achieve these objectives, the Group considers the business cycle, environmental factors, socio-economic and political factors as well as the expectations of its employees on both a medium and long-term basis. It also aims, as far as possible, for labour to be sourced locally in order to ensure that the benefits of its operations and projects are shared with the communities in which these are located.

In order to achieve this, AMSA, encourages the mining division to develop suitable policies, guidelines and management procedures in line with the overall corporate vision outlined in its manual of general management policies for human resources. In 1997, AMSA implemented a Labour Control System for all its operations and projects and which involves periodic reviews and audit of labour practices. The Group keeps its human resource systems and procedures under regular annual review and identifies and considers legal, union and remuneration issues. This review looks three years ahead to identify the challenges facing each company and an action plan is then formulated and updated regularly by senior management.

El Tesoro became the first company in Chile to sign an agreement with the National Service for Women ("SERNAM") to implement a series of actions intended to promote gender equality in the workplace in 2007 as part of the Group's non-discrimination objective.

Similarly, during the development of the Tesoro North-East project, El Tesoro incorporated workers from Calama, Antofagasta and Sierra Gorda in its operations in order to ensure that employment opportunities were made available locally. Employing a local workforce required an intensive training programme at the Technological Mining Centre to improve its ability to operate heavy equipment safely. Many of the 80 participants on the programme were later employed as fulltime workers at El Tesoro and Esperanza. The Esperanza project wants to ensure that at least 30% of workers in its construction and operations areas will be from the Antofagasta region. In order to create a qualified labour force that can achieve the high standards required by the project, a training programme will be established for approximately 1,000 people including school leavers.

In 2007, the Group employed an average of 3,323 employees. An analysis by business segment is provided in Note 7(a) to the financial statements.

Shift meeting at El Tesoro.

Compensation, recruitment and retention

Competition for labour continues in Chile and the Group offers competitive remuneration packages to secure and retain good employees. All the Group's operations seek to encourage their employees to achieve high performance levels with salary increases and bonuses linked to productivity and individual performance. In addition to the normal yearly salary surveys, a detailed review of the compensation structure was carried out during 2007 to ensure the competitiveness of the packages offered. The recommendations resulting from this review will be implemented during 2008.

As explained above, the Group seeks where possible to recruit employees from communities near its operations and from universities and technical colleges. Recruitment and selection processes are under constant review in view of the continued tight labour market to ensure that the right calibre of staff can be recruited. During 2007, a study was carried out amongst employees to identify the main factors affecting employee retention and a number of initiatives will be implemented in 2008 to meet employees' expectations.

Group aggregate remuneration is set out in Note 7(b) to the financial statements.

Career development and training

Career development is important to the Group's operations which offer employees new opportunities to achieve higher levels of seniority and remuneration through internal recruitment processes and certification of abilities. Regular training programmes allow employees, contractors and sub-contractors to update their skills and abilities as well as promoting good working relationships. Courses have included risk prevention, environmental protection, quality and occupational health, technology, business culture and management philosophy.

At Los Pelambres, the System to Reward Creativity and Innovation ("SRCI") programme has been applied since 2004. On a yearly basis, the programme encourages employee participation through the submission of innovative proposals to improve the company's operations in different areas. Since the beginning of the programme over 2,000 proposals have been submitted by employees of which 360 have been implemented. At Michilla, workers' skills are assessed in relation to their employment requirements through a Labour Capabilities Unit, and a training programme is designed based on any gaps identified. El Tesoro has also developed a training plan involving both internal and external courses, which are regularly assessed for quality.

Unions

The Group respects freedom of association by its labour force and union membership in the Group's companies exceeds 80%. Collective bargaining processes have resulted in collective employment agreements establishing remuneration levels as well as terms and conditions of employment. The Group uses a model for managing its relationship with trade unions which is regularly reviewed and a monthly survey summarises relevant issues which have arisen in the previous month. There are eleven labour unions representing employees within the Group: four at FCAB, one at Michilla, two at El Tesoro, two at Los Pelambres and two at ADASA.

Training at Salamanca near Los Pelambres.

Corporate Social Responsibility continued

During 2007, Los Pelambres and Michilla reached new agreements with their unions for periods of up to four years, approximately six months ahead of the due dates for each negotiation, thus underlining the good labour relations existing across the Group. El Tesoro in its most recent negotiation in 2005 had its collective agreement approved by 85% of the workforce, one of the highest of the industry.

Sub-contractors

The Group's approach is to consider contractors as valuable strategic partners with the aim of maximising value for both parties and the Group's companies have developed sound practices for working with contractor companies. The policy outlining working relationships with third parties and sub-contractors is contained in a Group policy manual. Sub-contractors are subject to the same obligations and responsibilities as employees and contractors' personnel are encouraged to follow the Group's human resources policies and best practices.

At El Tesoro, for example, a management model has been established on the following fundamental principles, so as to ensure that El Tesoro's own objectives regarding optimisation of its operations in a sustainable manner are met:

- tasks where a third party can generate a higher level of value added must be outsourced;
- the tasks to be outsourced must clearly and explicitly be defined as products or services that have tangible, measurable and identifiable results;
- the collaborating company is considered to be a strategic partner; and
- the collaborating company assumes full responsibility with regard to its business and its own resources and personnel.

This management model requires full compliance with contractual and legal requirements as well as applicable internal standards. Key aspects of this relationship are monitored on a regular basis through an annual auditing process carried out by an independent party including commercial, labour, operational, technical, social security and tax, health and safety and environmental aspects. The results over the last three years have been outstanding with a 90% compliance rate.

Similar practices are carried out in other operations. At Michilla, labour audits are regularly carried out on collaborating companies to ensure their compliance with legal requirements and to allow Michilla to develop action plans for improvements as necessary. Michilla has also established performance agreements in each commercial contract with collaborating companies. These agreements, which are reviewed annually, allow workers from the collaborating companies to participate indirectly in the results achieved by Michilla.

Law 20123 came into effect in Chile in January 2007. The legislation is aimed at helping workers ensure their rights. One of the main features of this legislation has been to require certain companies to directly employ a number of workers who were previously sub-contracted. The Group believes that continued good management of the relationships with contractor or collaborating companies is crucial to complying with the new obligations imposed by the recent legislation.

Occupational Health

The very nature of the Group's activities means that those involved could suffer health problems. However the Group is committed to providing a healthy workplace for its employees and contractors, eliminating occupational illness and managing health exposures. In addition Chilean legislation covers most aspects of health through the Sanitary Code, the Basic Condition Regulations for Working Areas, Mining Safety Regulation, and specific regulations for food handling, radiation exposure, noise exposure, work accidents and illnesses and the Group seeks to meet or exceed these standards.

All the principal business units have occupational health and safety policies, and each operation or project is responsible for setting its own objectives and targets and communicating them to employees, contractors and, where applicable, the local community. These measures are underpinned by strong leadership from senior management and operational heads. Management systems certified under OHSAS 18.001 are in place in nearly all of the Group's business units. Health policies focus on minimising risk through preventive measures and raising awareness of health issues; medical surveillance and voluntary testing; monitoring

El Tesoro promotes a culture which values the health and wellbeing of its workforce.

and reporting procedures (including occasional internal and external audits); and the use of technology to reduce demands on the workforce. Specific measures include routine examinations for employees and local community members, advice on exercise and diet and educational programmes for community groups, and on-site clinics.

Los Pelambres has approximately 2,500 employees and contractors working at altitudes as high as 3,500 metres down to sea level and consequently, the exposure to high altitude and being isolated from family and social surroundings has the potential to cause health problems. The company has internal policies, regulations, codes of good practice and specific procedures to promote healthy working conditions which are outlined in its Strategic Cornerstones, Quality and Risk Policy and Health Guidelines, covering all aspects of the production activities in all working conditions. Los Pelambres has also developed a model aimed at protecting employee health and implemented it from 2000 to 2006 through an Integral Health System. The programme's focus is on prevention of risks associated with operations as well as workers' habits which may result in illness. Regular monitoring keeps track of health tendencies and allows early warning of occupational illnesses enabling timely treatment or prevention. The programme is now being reviewed and extended to include contractors, and by December 2007 40% of such workers have been included.

Other more specific programmes at Los Pelambres cover mental health, cardiovascular risk factors, dental health, family health, food and catering, lodging, transportation and recreational activities. Guidelines are provided through various methods both written and spoken. During 2007, the company developed a plan to control emissions and minimise exposure risk and therefore potential illness of the workforce. A Noise Control Plan is also currently in place in an area of the concentrator plant. Both plans are the result of continued assessment of working conditions as part of Los Pelambres' on-going commitment to improve the health of its workforce.

Los Pelambres has one of the most efficient systems in this regard in the mining industry according to benchmarking studies. Further information relating to Los Pelambres' practices in the area of occupational heath are contained in a separate publication issued in 2007, "Report on MLP's Integral Health System".

El Tesoro also actively promotes a culture which values the health and wellbeing of its workforce and was the first company in Chile to be certified as a "Workplace that Promotes Health in the Second Level".

Corporate Social Responsibility continued

During 2007, Michilla concentrated on updating its methodology to improve the management of occupational health and this will result in a programme to be presented to the local authorities and implemented in 2008.

Health monitoring and management at ADASA is mainly concentrated around its operations including its water catchment areas, filtration plants and distribution systems, sewage collection and treatment plants. Occupational health programmes have been directed at eliminating physical, chemical and biological risks and establishing preventive measures against influenza, hepatitis, typhoid and sun exposure. ADASA aims to have its existing integral health plan approved by local health authorities and will evaluate implementation of OHSAS 18.001 standards in 2008.

FCAB runs an occupational health programme in conjunction with Mutual de Seguridad in Antofagasta and achieved certification of OHSAS 18.001 in 2007. As part of its policy of maintaining high levels of safety, the company has designed specialised cabs for its diesel-electric locomotives using ergonomic diagnostics. FCAB workers attend regular health examinations and a cardiovascular programme to reduce obesity will be introduced in 2008.

Safety

Safety is a major priority for the Group given the inherent risks in the different operations and development projects. It is committed to providing a safe workplace for its employees and contractors and a safety culture based on the following concepts:

- ensuring that senior management and operational heads provide leadership and are committed to safety measures. Health and safety matters are considered at monthly divisional board meetings;
- the use of management systems, with the majority of the Group's operations certified under OHSAS 18.001. Standards at all operations are expected to exceed national minimum standards, and safety programmes have been approved by the Regional Agency for Mining Safety, a public body which establishes minimum industry standards;
- regular training is provided to all employees and contractors to increase awareness and improve attitudes to safe working practices and contractors and sub-contractors are required to follow specified health and safety standards under the terms of their contracts; and

Safety statistics

	Lost Time Injury Frequency Rate (LTIFR)[1]		All Injury Frequency Rate (AIFR)[2]		Severity Rate[3]		Number of Fatalities	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
Chilean mining industry[4]	**6.1**	5.8	–	–	**942**	822	**30**	31
Los Pelambres	**1.7**	2.3	**5.3**	7.5	**72**	90	–	–
El Tesoro	**1.2**	2.2	**13.1**	19.4	**67**	56	–	–
Michilla	**2.6**	1.3	**12.8**	12.7	**1,609**	1,732	**1**	1
Mining division	**1.8**	2.0	**9.0**	11.6	**472**	516	**1**	1
Railway	**19.2**	15.3	**44.3**	37.5	**335**	5,465	–	3
Water	**8.6**	9.1	**28.7**	29.9	**80**	93	–	–
Group	**5.6**	4.9	**17.1**	17.5	**418**	1,427	**1**	4

(1) Number of accidents with lost time during the year per million of hours worked.

(2) Number of accidents with and without lost time during the year per million of hours worked.

(3) Number of lost days during the year per million of hours worked. A fatality is calculated as 6,000 lost days.

(4) Source – Servicio Nacional de Geología y Minería. Comparitive figures for 2006 have been updated using final available data. Figures for 2007 reflect the period 1 January to 30 June 2007. Full year figures are not available yet.

- health and safety issues are monitored across the Group by the corporate risk team through its risk management procedures, with risk assessments carried out regularly. Incidents are recorded and followed up and safety committees meet frequently to review incidents, consult with employees, identify improvements in safety systems and procedures and implement training to prevent recurrence of incidents.

The Board is committed to a target of zero fatalities although in 2007 there was one fatality and four fatalities in 2006. Key safety indices for the Group are shown in the table on page 48.

As set out on page 59, various Group companies achieved awards during 2007 for achievements in safety.

Los Pelambres has achieved a successful safety record by applying its policies at all its operations and regularly updating policies to reflect changing situations During 2007, the company has developed a self-care community and to encourage the participation of employees, it rewards them for exceptional performance.

El Tesoro has increased its health and awareness campaigns and publishes a magazine on accident prevention in the home and workplace.

Michilla has concentrated on identifying risks, risk evaluation (probability and consequence), application of tolerance criteria, classification and generation and monitoring of controls and their effectiveness.

The FCAB has a strategic health and safety model in place which achieved OHSAS 18.001 certification in 2007. The incident system is integrated throughout the company using on-line communication and a system has been installed for analysing the causes of derailments. Both systems investigate the cause of accidents, offer solutions and keep records.

A Safety and Occupational Health System runs safety inspection programmes, courses on self-care and personal safety and is regularly reviewed.

The quality control system adopted by the company is ISO 9000/2000 which covers procedures for operating train and railway safety. Regular external audits ensure that safety regulations are strictly observed throughout the network.

One of ADASA's main priorites in 2007 was to evaluate the OHSAS 18.001 management system with a view to certification in 2009.

Environment

The Group recognises that its businesses can affect the environment both on natural ecosystems and by its stewardship of natural resources. Accordingly, the Group promotes good environmental performance through effective water management, energy consumption, improvement of air quality, waste minimisation and land stewardship.

Group environmental standards take account of government legislation, local, national and international regulations and the requests of customers and suppliers. The Group's business units have developed policies to assess and manage their specific environmental risks throughout all stages of

The Choapa Valley near Los Pelambres.

an operation, including acquisition, exploration, development, operation and closure. These policies take into account economic, technical, environmental and social factors and the Group seeks support for its actions from communities, governments, customers and suppliers.

The legal basis for environmental regulation in Chile is set out in Chilean Law 19.300 (the Environmental Basis Law). This provides that, before commencing certain projects or activities which could cause environmental impact, the project must apply for permission under the Chilean Environmental Impact Evaluation System by submitting an Environmental Impact Assessment ("EIA") or Environmental Impact Declaration ("DIA"), depending on the type of project. The EIA is an exhaustive assessment process managed by the National Environmental Commission ("CONAMA"). Under this procedure, all government agencies with environmental jurisdiction evaluate whether to grant pertinent departmental rulings, licences and permits for a proposed project. The authorities also issue an Environmental Qualification Resolution ("RCA"), indicating what mitigation and compensatory measures or specific commitments should become mandatory for the project owner. The Environmental Impact Evaluation System includes a public participation process intended to ensure that comments by the interested general public are considered in the evaluation of projects. This process took place for the Esperanza project in 2007, as a part of the on-going EIA.

Water

The efficient use of water is fundamental for ensuring its availability for Group operations and neighbouring communities. Group operations try to reduce fresh water requirements and maximise recycling. Contamination and water consumption levels are closely monitored.

Los Pelambres has identified a number of key issues including re-using fresh water, re-circulation of industrial water, ensuring the quality and quantity of fresh water and availability of water sources for other users (principally agricultural and fishing communities) and increasing awareness in communities of the importance of rational water use.

Los Pelambres recycles approximately 80% of the water used and has systems in place in the Choapa basin to control water quality. Surface water quality is monitored in 87 places and underground water quality in 45 places. The concentrate is pumped through a pipeline from the concentrator plant to the port near Los Vilos where it is de-watered and the water used for irrigating a eucalyptus forest nearby.

Water contamination is prevented by various means. The Quillayes and Mauro tailings dams have been built to earthquake safety standards and against extreme weather conditions. The natural flow of the Cuncumén River has been diverted to ensure the quality and flow of water downstream from the Quillayes tailings dam. A similar system has been developed at El Mauro.

Regular meetings are held with the Chilean Water Authority, the Agricultural and Range Service, the Irrigation Canal Association, the Health Service and other authorities to monitor and audit the operations on a continuing basis.

El Tesoro sources water, which is shared with other mines and with farmers, from deep wells in an aquifer near Calama 70 kms from the mine site.

Michilla has no fresh water sources and was the first mining operation in the 1990s to use 100% sea water for its production. Water is pumped from the coast to the mine 800 metres above sea level, where approximately 50% is treated in a desalination plant providing water for both production and for drinking and recycled industrial water is used to water the gardens around the offices and accommodation areas.

The Esperanza project will also use sea water pumped via a 145 km pipeline to its concentrator plant. Some of its operations will need desalinated sea water (amounting to approximately 10% of the overall requirement) to be produced by two reverse-osmosis plants. Another major innovation by the Esperanza project will be the use of thickened tailings, the main benefits being additional water savings and less tailings consigned to its dam. Esperanza will be the first mining company in Chile to use this technology.

ADASA extracts part of its water from the Andes, and supplements this with water from a desalination

Native vegetation at the Choapa Valley.

plant north of the city of Antofagasta. ADASA's supplies approximately 80% of its water to domestic customers and small businesses in and around the main population centres. Water is collected and carried to purification plants by a network of pipelines totalling 1,140 kms extending in all directions across the desert.

ADASA operates in strict compliance with current standards for water quality and arsenical content and its water purification plants achieve high production levels. Water discarded at various stages of the purification processes is subsequently recovered and reintroduced by means of decanting tanks, thickeners, centrifuging and by pumping water back into the plant's reservoirs. In 2007 ADASA formed the Rio Loa Vigilance Committee with other stakeholders to improve the management of the Rio Loa.

The quality of drinking water at ADASA is monitored by the regional health authorities and the Superintendency of Sanitary Services and reports on water quality at source and at the final purification stage are submitted regularly to comply with current regulations. In 2007, The Antofagasta Association of Industrialists awarded the Environmental Management Prize in recognition of the company's success in reducing the arsenic content in drinking water supplied in the II Region. Since 2003 it has consistently delivered water to domestic customers with arsenic levels in line with or below those limits stipulated by Chilean regulations and recommended by the World Health Organisation. ADASA's efforts have been recognised by Regional Health authorities who have awarded the company certification for reducing arsenic levels.

Energy

The Group is committed to conserving energy and aims to use and develop efficient energy conservation technology and energy saving practices. Chile experienced acute shortages of energy in 2007 as gas imports from Argentina decreased compared with previous years. The serious energy supply situation in northern Chile has imposed challenges to all mining operations in the region.

During 2007 AMSA studied this issue in the context of its current operations and future plans. As a result, it decided to invest in auxiliary equipment aimed at providing between 10% to 15% of El Tesoro, Michilla, and Esperanza's energy requirements.

An energy efficiency programme at Los Pelambres was designed during 2007 for implementation in 2008. Different energy sources were assessed including the feasibility of using renewable energy sources such as wind power. A hydroelectric generation project was also studied with the aim of providing Los Pelambres with 20MW of electricity. The company has acquired, as an interim solution, a generating plant with a capacity of 4.6MW to ensure energy supply to its operation. Los Pelambres is an active participant in Chile's Energy Efficiency Program.

The Esperanza project has recently signed a memorandum of understanding with Suez Energy to secure its energy requirements for its future operations.

The Chairman's Review describes some of the steps taken by the Group to address energy issues in the longer term on pages 14 and 15.

Osmosis plant at El Tesoro.

Emissions

The Group seeks to reduce air emissions and ensure good air quality in and around its operations and projects.

At Los Pelambres, several initiatives for dust control are used to counter dust emissions coming primarily from the sands dam of the tailings pond, roads and the crushed ore stockpiles. Dust particles of less than 10 microns (PM10) are monitored on a regular basis in 12 areas located inside and outside the mine's operations. The roads, mine area and stockpiles are regularly sprinkled with water and additives are used on roads to capture dust particles. Beyond the mine operation areas, samples are analysed to ensure air quality for the neighbouring communities including Cuncumén, Quelén Alto, Tranquila, Camisas and Caimanes. Current results show that the emission levels are below the limits set by law. Every effort is made to minimise dust emissions at the port and the concentrate stockpile and the conveyor systems are subject to negative pressure conditions. The loading of concentrates is done by extendible arms with emission collection systems. Close contact is maintained with the authorities and audits are conducted on a continuing basis.

Emissions of dust from mining operations and gases from the leaching process at El Tesoro are controlled by its Environmental Management System which reduces emissions into the atmosphere. Measurements confirm that the emission levels remain below the PM10 limit. Dust control has been improved by using reagents in water and continuous dust monitoring is carried out at the mine camp and the neighbouring town of Sierra Gorda.

Waste

The Group's activities generate mineral and non-mineral waste. Mineral waste includes mined rock with no economic value, tailings from the concentrator plant and leached residue from the heap-leach operations. These materials are disposed of in designated waste dumps or tailings dams for which environmental approval has been obtained. Non-mineral waste includes materials from processes which support mining and processing such as used tyres and waste oils. The Group's operations have systems to dispose of industrial and hazardous wastes according to applicable legal requirements. Regular contact is maintained with local authorities, the Health Service and the National Environmental Commission ("CONAMA") and audits of waste management are conducted on an on-going basis.

Environmental guidelines at Los Pelambres use a preventive approach and seek to minimise disturbance of surroundings, pollution, the use of resources, and the disposal of waste. An industrial waste management programme categorises hazardous waste in accordance with current standards and directives. For example, industrial wastes are recycled where possible or sorted and sold as scrap. A waste management plan to sell used lubricant oils to other companies for use as fuel and in the manufacture of explosives was approved by authorities and implemented. Los Pelambres also continued its composting facility for processing organic waste from the dining halls during 2007 and added a vermicomposting process. This enabled more waste to be treated and reduced the overall amount of waste. The disposal of heavy duty tyres is also carried out by a system of external recycling.

Michilla has also been working to improve industrial and hazardous waste management and will present a plan to the authorities for approval in 2008.

Waste disposal considerations at ADASA arise from both the purification process for providing potable water and the treatment and disposal of sewage.

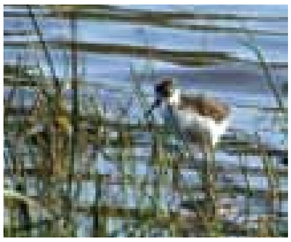
Water purification generates waste which could have an impact on the environment as it contains arsenic existing naturally in the Andean region. This waste material is disposed of in secure landfill sites which comply with regulatory requirements. The disposal of waste is subject to a fortnightly monitoring programme for pre-treated sewage and to monthly monitoring of the desalination plant, to comply with D.S.Nº90/00 "Emission Standard for the Regulation of Pollutants Associated with Liquid Industrial Waste Discharge to Marine and Inland Waters".

The policy for sewage is centred mainly on sustainable environmental disposal with minimal impact and in full compliance with current standards. ADASA has participated in a biotechnology project in conjunction with the University of Antofagasta to investigate ways to separate arsenic from the hydroxide so as to re-use this in the purification process. Sewage is first treated to remove solids, heavy material, faecal material, sand (fine solids) and oils and fats so it may be discharged safely into the ocean via submarine pipes beyond a coastal protection area established by current regulations. The solid waste generated from these processes is treated with lime prior to being transported to authorised dumps in accordance with relevant health authority requirements. During 2007, ADASA concentrated on improving its control programmes and disposal processes for solid waste generated by its sewage treatment plants in Taltal, Tocopilla and Mejillones. Steps taken, which also improved safety, included the fencing off of boundaries, covering waste and erecting warning notices at sites.

Biodiversity

The Group wants to maintain existing ecosystems, biodiversity and habitat in all its operations and projects and aims to be a good neighbour and wherever possible ensure continuing access to its properties. The Group accepts the importance of minimising disturbance and all its mining operations have formal closure plans for rehabilitation and restoration of land. In dealing with biodiversity issues it takes account of the interests and concerns of diverse groups including farmers and landowners, local communities and non-governmental organisations.

Los Pelambres has more than 25,000 hectares of protected areas including the Laguna Conchalí Wetlands, a nature sanctuary, the Monte Aranda property and the Quebrada de Llau Llau properties at Los Vilos and Quebrada de Talca, Alto Manque, Alto Piuquenes, Cerro Amerillo and Laguna El Pelado properties at Salamanca. These areas sustain protected species of trees and wild life including Quillay (Quillaja



The Laguna Conchalí nature sanctuary in Los Vilos is protected by Los Pelambres.

CSR REPORT

Case Study – In the desert: a sustainable response

The Esperanza project will use sea water for its needs

Challenge

The availability of water in the driest desert of the world is a formidable engineering challenge. At present, water from the high Andean plateau of the Antofagasta region is used mainly in agriculture, with little being recycled. There has been a rapid increase in demand for water for industrial and household use and it is essential that new projects develop alternative sources of water supply as well as optimise the efficient use of water as has been done by most of the large mines.

Description

Sea water will be transported 145 kms by pipeline from the coast to Esperanza which is 2,300 metres above sea level. The pipeline will run parallel to the one carrying copper concentrate to the coast. Esperanza will also develop a system of thickened tailings which compared to conventional tailings, allows a considerable amount of water to be saved.

Supply

All equipment will be adapted to use untreated sea water in both the mine and plant installations. There will be a need for fresh water – for example, for human consumption or for washing the concentrate – but this will not exceed 10% and will be obtained using two reverse osmosis plants: one on the coast and the other at the mine. The water contained in the concentrate will also be recovered and re-used, to avoid discharge into the ocean.

Savings

Esperanza is considering a second innovation related to reducing water consumption in its operations by introducing the Thickened Tailings System, which is recommended for desert areas with insufficient water basins.

The Esperanza tailings will consist of 67% solid material in a thick pulp made by increasing the consistency of the tailings and recovering the water in the thickeners, so that the material is no longer separable. The pulp will then be dried through evaporation, resulting in a dense, seismically stable deposit that cannot be liquefied.

Context

The Esperanza project, 30 kms from Sierra Gorda and 180 kms from Antofagasta, is located in a desert area characterised by low or zero precipitation.

Facts and figures

- The Esperanza project will transport sea water 145 kms to supply the mine site.
- The pumping system must be capable of delivering water from the coast to the project at an altitude of 2,300 metres.
- Approximately 10% of the transported water will be desalinated for human and industrial use.
- Antofagasta's copper production will increase by 40% from current levels after production at Esperanza begins at the end of 2010.

saponaria), Espino (Acacia caven), Huingan (Schinus polygamus), Chacay (Discaria sp.) and Canelo (Drymis winterii). The wild life includes the guanaco (Lama guanicoe) and several species of birds such as Cuervo del Pantano (Plegadis chi), and Cisne coscoroba (Coscoroba coscoroba).

Los Pelambres also manages a nature sanctuary in the Laguna Conchali Wetlands at Los Vilos (a Ramsar Convention site) which is an area near the Punta Chungo port with a complex ecosystem with many variations in biological diversity, forest structure, and endangered species. This area had previously been used by the local population for several years in an unsustainable way. Fulfilling its role, Los Pelambres has undertaken basic research into the wetlands, consulted extensively with local people about their concerns, established a conservation zone with local stakeholders and built an information centre. Los Pelambres has also requested that sanctuary status be granted to the Monte Aranda and Quebrada de Llau Llau properties at Los Vilos, as well as an area of the cordillera to the south of Salamanca (Laguna El Pelado).

Since 1997, Los Pelambres has allowed livestock herders from the Choapa Valley the use of land in the high southern cordillera in accordance with the company's good neighbour policy. The grazing land available for livestock during the summer benefited over 13,000 animals and 40 herders.

Los Pelambres continued its Biodiversity Monitoring Plan during 2007 and three guanaco monitoring programmes carried out relating to population census and behavioural and reproduction studies were completed. In addition, tracking by satellite telemetry (on a permanent basis) and radio transmitters (on an occasional basis) mapped the movement patterns and the locations of their habitats. Other monitoring programmes undertaken in recent years included:

- research of the Manque and Piuquenes valleys to study subsistence of the guanaco population;
- bird monitoring studies in Laguna Conchalí and the Hualtatas and Piuquenes valleys;
- flora and vegetation monitoring studies at Laguna El Pelado, Monte Aranda and Quebrada de Llau-Llau;
- ichthyic fauna and terrestrial fauna monitoring programmes carried out in connection with the construction and pre-operational phases of the Mauro tailings dam; and
- fish monitoring programmes.

Esperanza has detected 19 species of fauna in the Quebrada del Diablo area around its project which will be conserved and a programme to mitigate the potential impact of construction of pipelines on local flora, including a rescue and relocalisation plan for an endangered lizard, the Corredor de Atacama, will be introduced. A programme is also being designed to increase awareness of employees and subcontractors about biodiversity issues.

Since 2005 ADASA has been developing a habitat management plan in Salar del Carmen where ESSAN S.A., the previous water distributer, deposited arsenic sludge. ADASA has undertaken to protect and restore this area and provide an appropriate water supply.

Community Relations

The Group recognises its operations may have a social and environmental impact on neighbouring communities and regions and takes this into consideration in its decision-making. It recognises the diversity of its neighbouring communities and tries to minimise, mitigate or compensate for its impact where possible and to build solid long-term relationships from the start.

The Group is committed to supporting the development of local economies through mutual collaboration by supporting community based projects in a way that is sustainable and does not create dependency. It tries to employ local people and use local businesses where possible. The Group supports local communities in many ways, including providing education and training, fostering enterprises and encouraging small businesses, job creation, the arts, health, sport, recreational activites and general issues facing local communities. All Group operations and projects now have management systems or programmes to ensure that their efforts in these areas are relevant and effective.

Corporate Social Responsibility continued

Los Pelambres has also developed a community relations management system to identify, analyse and help resolve community related issues. It tries to assess its impact on the community and its contribution to development of the region through specific indicators. Recent initiatives of Los Pelambres include the support for:

- the Andrónico Luksic Abaroa Centre for Copper Mining and Sustainable Development, which is located near the Punta Chungo port and the Laguna Conchali Wetland. Since its inauguration in October 2006, the centre has had over 45,000 visitors;
- teachers in the Choapa valley by providing a new educational environmental programme, De Cordillera a Mar, which supported science at 15 elementary schools started in October 2007. An information technology school was also set up allowing workers to participate as volunteers to teach technology skills to members of the neighbouring village of Cuncumén;
- the introduction of a training programme between 2004 and 2005 enabling 1,200 people from the Choapa valley to be informed on safety and environmental matters, with a further 360 people trained for specific construction trades. The initiative encouraged contractor companies to employ local labour which provided approximately 50% of the workforce for the El Mauro project during construction between 2005 and 2007;
- the Museum of Contemporary Art (MAC) in Santiago during 2006-2007 where Los Pelambres is the principal sponsor. It also implemented a visiting programme to the museum, for over 400 students and teachers from schools from the areas of Los Vilos, Salamanca, Illapel and Canela;
- funding a cultural centre in Los Vilos to promote art and culture through art exhibitions, ceramic workshops and by providing access to local gardens;
- Los Pelambres donated US$4 million to the engineering faculty of the Pontificia Universidad Católica de Chile for the construction of a new centre for mining research and postgraduate study, an engineering museum and laboratory facilities; and

School children who have participated in a road safety programme funded by the Minera Los Pelambres Foundation.

- The "Together We Can Grow More" programmes which target environmental education, certification of schools' road and highway safety and the development of local suppliers.

In addition to the activities supported by Los Pelambres, the Minera Los Pelambres Foundation was created in 2003 to formalise the interaction and contribution of Los Pelambres to the welfare and development communities located in the Choapa Valley. The Foundation is an independent entity which develops programmes to encourage sustainable development in the region over a long-term period. The 2003-2007 Development Plan provided a total investment of US$5 million. Its targets are the optimisation of water usage, local production, education, agriculture and irrigation. Other programmes support local fishing communities by awarding scholarships and also help in developing teaching methods for schools. The Foundation also encourages the development of local businesses.

Specific projects funded by the Foundation over the years include:

- projects relating to irrigation – in 2005 a rotational fund was set up for the use of farmers for irrigation;
- projects in the agricultural sector in partnership with the Government;
- projects in the fishing industry – a work programme at Los Vilos has assisted 300 fishermen;
- projects to fund small businesses – over two years, 25 projects tailored for small business were supported through financial assistance and managerial training;
- projects in agriculture – the Foundation has established a 100 hectare agriculture project in Quebrada Manque in the Salamanca municipality to produce table grapes for export;
- projects in education – during 2006, the Foundation collaborated in the implementation of a free Wi-Fi system for the inhabitants of Salamanca to support education and local development making Salamanca one of the first towns in Latin America to have free wireless access; and

An agricultural project established by Minera Los Pelambres Foundation in Quebrada Manque.

- projects in art and culture – the Foundation has supported the activities of the Museum of Contemporary Art in Santiago.

During 2007, the Foundation continued to fund and support local farmers, fishing communities, local businesses and the development of apiculture. Several educational programmes were supported particularly in rural schools and scholarships were awarded to the children of local fishermen. Training courses included accountancy, e-learning, management and beekeeping.

El Tesoro has also supported community activities in education, employment creation, entrepreneurship, health and sports. During 2007, it supported the Caracoles school at Sierra Gorda, and has provided four scholarships for study at the Technological Mining Centre at the Arturo Prat University in Calama. In partnership with two other mines, Spence and Quadra Mining, and the Municipality of Sierra Gorda, El Tesoro helped develop an initiative called "Good Neighbours Team" to design and develop projects in local communities. This included conducted tours for community residents, sporting events and environmental campaigns for community hygiene.
El Tesoro also supported Santiago's Municipal Theatre diffusion plan which aims to widen its audience

Corporate Social Responsibility continued

The Minera Los Pelambres Foundation supports agricultural development in the Choapa Valley.

nationwide by sponsoring performances in one of Antofagasta's theatres together with AMSA, Esperanza and Michilla.

Michilla works closely with the communities of Mejillones and Caleta Michilla, a small community dependent on fishing. During 2007, the company supported Caleta Michilla by providing drinking water, electricity, and running an emergency service for households. Activities developed in 2007 included guided visits to its operations and a workshop holding discussions on alcohol and drug abuse. The company has continued to strengthen its relationship with other local stakeholders by participating in exhibitions and events locally.

Following a serious earthquake in northern Chile in November 2007, Michilla, El Tesoro and Esperanza were all involved in helping the people and towns affected by providing food, water and heavy duty equipment.

Although ADASA's prime objective is to provide good quality water to its customers it fully recognises its role in the supply and value chains in the area. In this regard, ADASA has established a supportive network with 16 educational bodies, health and municipal authorities and the National Environment Commission ("CONAMA"). The network has developed a programme called "Culture for Life in the Desert", designed to keep the local communities informed on health issues and environment awareness. Public meetings and seminars are held regularly, attended by employees and their families, local residents, representatives of professional organisations and regional authorities.

In 2004 the FCAB started programmes and projects for computer skills and basic literacy for its employees and their families and local communities and in August 2005 it started the Cyber Train project which was organised and funded by the Andrónico Luksic Abaroa Foundation. The joint project has contributed to the development and culture of vulnerable areas of the Antofagasta community, and was designed to improve opportunities for disadvantaged people. The Cyber Train itself is made up of passenger coaches dating from the 1900s which have been modified and equipped with networked computers and broadband to provide a virtual library and cultural centre. Technical support and supervisory help is provided and being mobile, the Train reaches out to the wider community. It has three modules:

- electronic literacy – basic training in surfing the internet, using email, chat rooms and word processors;
- reading development – designed to motivate electronic and traditional reading and use of library facilities; and
- cultural development which encourages people to surf the net and visit virtual museums and galleries.

The FCAB was the first company to be awarded the Digital Literacy Hallmark prize awarded by the Chilean National Training and Employment Service (SENCE) in the Antofagasta region. During 2006, the Cyber Train exceeded its targets as children and adults took advantage of its computer and educational services. These services were further developed in 2007 to reach a wider audience in neighbouring towns. The FCAB also equipped the Secondary School in Mejillones with computers and awarded student grants for further education at universities.

The FCAB's sponsorship of cultural and artistic activity includes a book fair and cinema festival as well as concerts and plays. Sporting activities have also been organised for the local community and for children. During 2007, the FCAB opened the doors of its Heritage Museum to the local community which has been widely appreciated.

Awards and Recognition

During the year, many of the Group's operations received awards and or recognitions for their contributions to good management, health, safety and the environment at both regional and national level. These included:

AMSA

- AMSA's Vice President of Operations, Sr. Jorge Gómez, was awarded the Distinguished Professional Prize by the Institute of Mining Engineers of Chile.
- In 2007, AMSA received The Award of Honour and other awards for Effective Action, Merit, Business Vision and Effective Executive from the Chilean Security Association. The award recognised the company's efficiency and active participation in controlling risks and the prevention of accidents and illness in the workplace.

Los Pelambres

- Los Pelambres received an award for the fifth time from the Servicio Nacional de Geología y Minería ("Sernageomin"), for Mining Safety since the beginning of its operations.
- The Palladium Group nominated Los Pelambres to the Balanced Scorecard Hall Of Fame For Executing Strategy™ for achieving outstanding performance results using the Balanced Scorecard ("BSC").
- Los Pelambres was awarded the Alberto Hurtado Cruchaga Prize by the Press Club. The award is given to individuals and institutions in recognition of their service to the community. Los Pelambres was identified as a leader and an example in the area of corporate social responsibility. The Prize recognised the company's contribution to improving the quality of life and employment conditions in the IV Region.
- It also received the National Safety Council and Excellence in Risk Prevention Awards from the National Safety Council of Chile.

El Tesoro

- El Tesoro received the CORESEMIN (Comité Regional de Seguridad Minera) Award 2007 for its safety performance and received The Excellence in Risk Prevention and National Safety Council Awards for its administrative and support areas. The company was also awarded The Effort in Risk Prevention Prize for its subcontractor companies who achieved a 25% reduction in injury rates.

FCAB

- FCAB received the SCM El Abra Prize for outstanding management in safety and occupational health in the workplace in respect of the previous year.

ADASA

- ADASA gained recognition from the National Safety Council and Mutual de Seguridad of Antofagasta with awards for safety.
- The Antofagasta Association of Industrialists awarded the Environmental Management Award in recognition of the company's achievement in reducing the arsenic content in drinking water in the II Region.

ADASA supplies drinking water with an arsenic content of less than 0.01 mg per litre, within guidelines set by the World Health Organisation and well within the local health authority's limit of 0.03 mg per litre.

Directors' Report

The Directors present their Annual Report, together with the audited financial statements for the year ended 31 December 2007.

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 15 to 17 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

Under section 234ZZB of the Companies Act 1985, the Company is required to provide a business review containing the following components:

- a fair review of the business of the Company; and
- a description of the principal risks and uncertainties facing the Group.

The business review is a balanced and comprehensive analysis of the development and performance of the business of the Company during the year and its position at the year end. The review includes an analysis using financial and non-financial key performance indicators to the extent that these are necessary for an understanding of the development, performance and position of the Group. Where appropriate, the Annual Report uses other performance indicators, including information relating to employees, health and safety and the environment. The review, where appropriate, includes references to, and explanations of, amounts included in the annual accounts.

The requirements of the business review are fulfilled in the disclosures contained within the Chairman's Review on pages 5 to 21, the Financial Review on pages 22 to 35, the Corporate Social Responsibility report on pages 36 to 59 and the Corporate Governance report on pages 64 to 71. A summary of the key performance indicators considered most relevant to the Group is included within the Financial Review on page 22. A description of the principal risks and uncertainties facing the Group is included within the Financial Review on pages 33 and 35.

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 page 31 and in Note 24(c) to the financial statements.

There were no significant events since the balance sheet date requiring disclosure in the financial statements.

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 minerals 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 14 to the financial statements.

Results and Dividends

The consolidated profit before tax has decreased from US$2,859.0 million in 2006 to US$2,750.2 million in 2007.

The Board has recommended a final dividend of US 43.4 cents (2006 – US 43.0 cents) per ordinary share, comprising an ordinary dividend of US 5.4 cents (2006 – US 5.0 cents) and a special dividend of US 38.0 cents (2006 – US 38.0 cents). An interim dividend of US 6.2 cents was paid on 11 October 2007, which comprised an ordinary dividend of US 3.2 cents (2006 – US 3.2 cents) and a special dividend of US 3.0 cents (2006 – US 2.0 cents). This gives total dividends per share proposed in relation to 2007 of US 49.6 cents (2006 – US 48.2 cents), including the special dividend. The total cost of dividends to ordinary shareholders (including special dividends) proposed in relation to 2007 will be US$489.0 million, compared with US$475.2 million in 2006.

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 (2006 – US$0.2 million).

Directors

The Directors who served during the year are set out on page 153. 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 65 to 68 and in particular in the sections headed "Performance Evaluation" and "Re-election".

Mr. J-P Luksic is Chairman. He was appointed a Director in 1990 and Deputy Chairman in 2000. 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. Mr. J-P Luksic will be aged 44 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., Compañia Cervecerias Unidas S.A. and Madeco S.A. Mr. G A Luksic is aged 52.

Mr. J G Claro was appointed as a Non-Executive Director in 2005. He holds several board positions in Chile, and is currently chairman of Empresas EMEL S.A., Embotelladora Andina S.A. and the Consejo Binacional de Negocios Chile-China (Council for Bilateral Business Chile-China). He is a former Chairman of the Sociedad de Fomento Fabril (Chilean Society of Industrialists) and the Confederación de la Produccion y del Comercio (Confederation of Chilean Business). Mr. Claro is aged 57.

Mr. J W Ambrus was appointed a Non-Executive Director in 2005. Mr. Ambrus is an internationally renowned geologist. He obtained a PhD in geological sciences from the University of Salamanca in Spain. Mr. Ambrus is aged 64.

Mr. C H Bailey was appointed a 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, RIT Capital Partners plc and Atrium Underwriting plc. Mr. Bailey will be aged 74 at the date of the Annual General Meeting.

Mr. G S Menendez was appointed a Non-Executive Director in 1985. He is a director of Quiñenco S.A. and Banco de Chile, and is Chairman of Banco Latinoamericano de Exportaciones (BLADEX). Mr. Menendez is aged 59.

Biographical details of the other Directors are given below:

Mr. R F Jara was appointed a Non-Executive Director in 2003. He is a lawyer and a director of several industrial companies. Mr. Jara will be aged 55 at the date of the Annual General Meeting.

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 S.A. and AES Gener S.A. He is also a qualified accountant. Mr. D E Yarur is aged 52.

Mr. W M Hayes was appointed a Non-Executive Director in 2006. He was previously a senior executive with Placer Dome Inc. from 1988 to 2006. Mr. Hayes is a former president of the Consejo Minero, an industry body representing the 17 largest international mining companies operating in Chile. Mr. Hayes is aged 63.

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 73.

Directors' Indemnities
The Company has made qualifying third party indemnity provisions for the benefit of its Directors which remain in force at the date of this report.

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 28. 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 22. 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.

There are no specific restrictions on the size of a shareholding nor on the transfer of shares, which are both governed by the general provisions of the Company's Articles of Association and prevailing legislation. 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, the Companies Act 1985 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 in the United Kingdom of US$127,655 during the year ended 31 December 2007 (2006 – US$92,479). These donations principally related to educational studies with a focus on Chile.

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 33 days (2006 – 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.

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 133, 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.

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 Social Responsibility report on pages 36 to 59.

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.

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

Annual General Meeting and Class Meetings

The Annual General Meeting and Class Meetings of the Company will be held from 10.30 a.m. on 11 June 2008 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
10 March 2008

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. While 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 2007. 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 seven times during 2007, 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 the Chairman of the Group, and 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 2007 are set out on page 153. There were no changes to the membership of the Board during 2007.

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

Chairman and Chief Executive

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 Sepulveda is chief executive officer of the Antofagasta Railway Company plc; and Mr. Marco Kutulas 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 Menendez, 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 61.

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. Menendez 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 Banco de Chile, part of the Quiñenco Group. 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. Menendez'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 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 two 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 ten 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 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 Ingeniera y Servicios Computacionales Geovectra S.A., a company controlled by Mr. Ambrus, are disclosed in Note 37 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. Jara provides advisory services to the Group, as explained in the Remuneration Report on pages 72 and 73. 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. Menendez are also non-executive directors of Quiñenco and some of its listed subsidiaries. Like Antofagasta, Quiñenco is also controlled by the Luksic family.

Appointments to the Board

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

As explained above, Mr. Bailey and Mr. Menendez 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 he has 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 continually 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 of 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 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 was conducted during 2007 by Mr. G S Menendez, with the assistance of senior management, covering the Board, its committees and its individual members. 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 at the forthcoming Annual General Meeting during 2008. The Board is satisfied

Directors' attendance at meetings in 2007

The number of Board and Committee meetings held during 2007, together with details of each Director's attendance, is set out below:

	Board		Audit Committee		Nomination Committee		Remuneration Committee	
	Number attended	Maximum possible	Number attended	Maximum possible	Number attended	Maximum possible	Number attended	Maximum possible
J-P Luksic	7	7	–	–	–	–	–	–
C H Bailey	7	7	4	4	1	1	3	3
G S Menendez	7	7	4	4	1	1	3	3
R F Jara	6	7	–	–	1	1	–	–
D E Yarur[1]	5	7	3	4	–	–	3	3
G A Luksic	4	7	–	–	–	–	–	–
J W Ambrus	7	7	–	–	–	–	–	–
J G Claro	6	7	–	–	–	–	–	–
W M Hayes	7	7	–	–	–	–	–	–

[1] Mr. D E Yarur was unable to attend 1 Board meeting and 1 Audit Committee meeting between August and October 2007 due to a serious accident during the year from which he has now fully recovered.

All Directors in office at the time of the Annual General Meeting in June 2007 attended that meeting.

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

that each Director continues to contribute effectively and demonstrates commitment to his role.

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. J-P Luksic, Mr. C H Bailey, Mr. G S Menendez, Mr. G A Luksic, Mr. J W Ambrus and Mr. J G Claro. Biographical details of these Directors are set out in the Directors' Report on page 61.

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 72 to 75.

Accountability and Audit

Financial reporting – 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; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

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 Act 1985.

The Board's statement on going concern is included in the Financial Review on page 32.

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 2007 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.

Corporate social responsibility

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. Through the Group's risk management processes described under Internal Control above, key issues of social responsibility are identified and assessed. More information on corporate social responsibility is given on pages 36 to 59 of the Annual Report.

"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 is responsible for implementing, developing and updating the Ethics Code and investigating any allegations of impropriety. The Ethics Committee reports directly to the Audit Committee, which considered the results of its work and the operation of the Ethics Code together with 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 Menendez 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 (and normally four times) 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 & Touche LLP, have provided non-audit services to the Company, which amounted to US$95,000. This comprised the provision of services relating to tax compliance, implementation advice regarding IAS 32/39 on financial instruments 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 in any way 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 & Touche 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 a number of meetings with major shareholders during the year. 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 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 interim 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.

The Company's Annual General Meeting ("AGM") is also used as an opportunity to communicate with both institutional and private shareholders and the Board of Directors encourages their attendance. 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 2007 and to the date of this report except as follows:

- the Board does not have a separately identified Chief Executive and there is no formal separation of the functions of Chairman and Chief Executive at Board level (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 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 by 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 follows:

- as explained on page 71, 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 did not make use of external consultants to provide advice 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 and in Chile. 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 size and complexity. Remuneration levels for Non-Executive Directors are based on comparable levels for companies of a similar size and complexity, and take into account specific responsibilities undertaken. Remuneration includes fees paid for non-executive directorships of subsidiary companies 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 Directors currently receive pension contributions.

Non-Executive Directors' fees

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

	2007 GBP '000	2007 US$000	2006 GBP '000	2006 US$000
Base fee	**50**	**100**	36	66
Audit committee chairman	**10**	**20**	10	18
Audit committee member	**5**	**10**	5	9
Remuneration committee chairman	**8**	**16**	7	13
Remuneration committee member	**5**	**10**	4	7
Nomination committee chairman	**5**	**10**	3	6
Nomination committee member	**2**	**4**	2	4

The fees are set and paid in sterling. The fees have been translated into US dollars at the average exchange rates for the relevant year for the purpose of this report. 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 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 75.

Service contracts and letters of appointment

Mr. J-P Luksic has a contract for services with each of the Antofagasta Railway Company plc and with Minera El Tesoro. Both contracts for services can be terminated by either party on one month's notice. There is also a contract between Antofagasta Minerals S.A. and Asesorías Ramón F Jara EIRL 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 reviewed periodically in line with the Company's policy on Directors' pay. Amounts paid during 2006 and 2007 have been included in the table of Directors' remuneration on page 75.

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 AGM. These letters require the Non-Executive Directors to undertake that they will have sufficient time to discharge their responsibilities. The appointments are terminable 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 contacts and letters of appointment do not provide for any compensation for loss of office beyond payments in lieu of notice.

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 2007	1 January 2007
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 2007 and the date of this report.

Remuneration Report continued

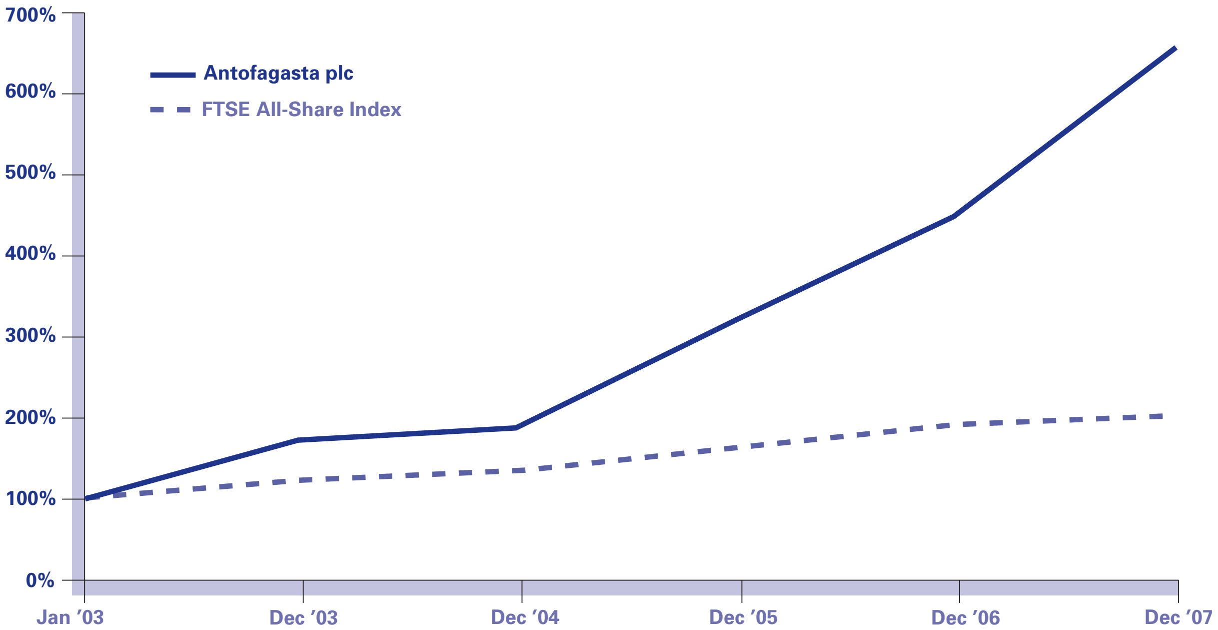
Performance graph

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[1] – Antofagasta plc vs FTSE All Share Index

Total Return Basis Index – 1 January 2003 = 100



Source – Datastream.

(1) Total Shareholder Return represents share price growth plus dividends reinvested over the period.

REMUNERATION REPORT

Audited Information

Directors' remuneration

The remuneration of the Directors in the year is set out below in US dollars. Amounts paid in sterling or Chilean pesos have been translated at average rates for the relevant year, which are set out in Note 36 to the financial statements. Increases over 2006 result mainly from the annual review by the Remuneration Committee carried out at the beginning of 2007 to ensure that pay levels remain in line with companies of a similar size and complexity. The annual review for 2008 which has been carried out by the Remuneration Committee in early 2008 has concluded that no further increase in the rate of fees will be made in 2008.

	Base salary and fees		Benefits		Total remuneration	
	2007 US$000	2006 US$000	2007 US$000	2006 US$000	2007 US$000	2006 US$000
Executive Chairman						
J-P Luksic[1]	2,900	1,784	82	81	2,982	1,865
Non-Executive Directors						
C H Bailey	134	95	–	–	134	95
G S Menendez	278	220	–	–	278	220
R F Jara[2]	683	536	–	–	683	536
D E Yarur	138	98	–	–	138	98
G A Luksic	116	83	–	–	116	83
J W Ambrus[3]	141	107	–	–	141	107
J G Claro	122	88	–	–	122	88
W M Hayes[4]	124	27	–	–	124	27
P J Adeane[5]	–	50	–	–	–	50
	4,636	3,088	82	81	4,718	3,169

(1) During 2007, remuneration of US$1,000,000 (2006 – US$607,000) 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$2,900,000 (2006 – US$1,784,000). The benefits expense represents the provision of car usage to Mr. J-P Luksic.

(2) During 2007, remuneration of US$434,000 (2006 – US$331,000) for the provision of services by Mr. R F Jara was paid to Asesorías Ramón F Jara EIRL. This amount is included in the amounts attributable to Mr. Jara of US$683,000 (2006 – US$536,000).

(3) Details of fees paid to Ingeniera y Servicios Computacionales Geovectra S.A. ("Geovectra"), a company controlled by Mr. J W Ambrus, are disclosed in Note 37 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. W M Hayes was appointed as a Director on 29 September 2006. Fees paid during 2006 therefore reflected the period since his appointment.

(5) Mr. P J Adeane retired from the Board on 29 September 2006. Fees paid during 2006 reflected the period during which he was a Non-Executive Director until his retirement from the Board. 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$20,000) under this contract for services during 2007 (2006 – £2,500; approximately US$4,600), which has not been included in his fees as a Director in the table above.

Approved on behalf of the Board

G S Menendez
Chairman of the Remuneration Committee
10 March 2008

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 2007 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 39. 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 2007.

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 on pages 68 and 69.

Our responsibility is to audit the Group financial statements and the part of the Remuneration Report described as having been audited 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.

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 including the unaudited part of the Remuneration Report 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 judgments 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 2007 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.

Separate opinion in relation to IFRS

As explained in Note 1 to the Group financial statements, the Group in addition to complying with its legal obligation to comply with IFRS as adopted by the European Union, has also complied with IFRS as issued by the International Accounting Standards Board.

In our opinion the Group financial statements give a true and fair view, in accordance with IFRS, of the state of the Group's affairs as at 31 December 2007 and of its profit for the year then ended.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
10 March 2008

Consolidated Income Statement

For the year ended 31 December 2007

	Notes	2007 US$m	2006 US$m
Group turnover	4,5	3,826.7	3,870.0
Total operating costs		(1,173.3)	(1,065.9)
Operating profit from subsidiaries and joint ventures	4,5	2,653.4	2,804.1
Share of income from associate	4,5,16	1.4	1.1
Total profit from operations and associates	4,5	2,654.8	2,805.2
Investment income		113.4	78.3
Interest expense		(20.4)	(25.2)
Other finance items		2.4	0.7
Net finance income	8	95.4	53.8
Profit before tax	5	2,750.2	2,859.0
Income tax expense	9	(638.4)	(664.9)
Profit for the financial year	5	2,111.8	2,194.1
Attributable to:			
Minority interests		729.7	839.8
Equity holders of the Company (net earnings)	10	1,382.1	1,354.3

		US cents	US cents
Basic earnings per share	10	140.2	137.4

Dividends to ordinary shareholders of the Company Per share	11	US cents	US cents
Dividends per share proposed in relation to the year			
– ordinary dividend (interim)		3.2	3.2
– ordinary dividend (final)		5.4	5.0
– special dividend (interim)		3.0	2.0
– special dividend (final)		38.0	38.0
		49.6	48.2
Dividends per share paid in the year and deducted from net equity			
– ordinary dividend (interim)		3.2	3.2
– ordinary dividend (final)		5.0	4.8
– special dividend (interim)		3.0	2.0
– special dividend (final)		38.0	14.0
		49.2	24.0

In aggregate	11	US$m	US$m
Dividends proposed in relation to the year		489.0	475.2
Dividends paid in the year and deducted from net equity		485.0	236.6

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.

Turnover and operating profit are derived from continuing operations.

FINANCIAL STATEMENTS

Consolidated Balance Sheet

At 31 December 2007

	Notes	2007 US$m	2006 US$m
Non-current assets			
Intangible assets	12	207.7	205.3
Property, plant and equipment	13	2,679.8	2,373.7
Investment property	14	3.5	3.2
Investment in associate	16	2.5	3.5
Trade and other receivables	20	32.0	39.3
Derivative financial instruments	24	1.4	–
Available for sale investments	18	3.3	6.2
Deferred tax assets	26	14.7	3.1
		2,944.9	2,634.3
Current assets			
Inventories	19	130.3	120.3
Trade and other receivables	20	540.4	510.1
Current tax assets		26.9	7.5
Derivative financial instruments	24	0.5	7.3
Cash and cash equivalents	21	2,212.5	1,805.5
		2,910.6	2,450.7
Total assets		5,855.5	5,085.0
Current liabilities			
Short-term borrowings	22	(101.8)	(97.6)
Derivative financial instruments	24	(1.4)	–
Trade and other payables	23	(246.5)	(211.5)
Current tax liabilities		(16.9)	(204.8)
		(366.6)	(513.9)
Non-current liabilities			
Medium and long-term borrowings	22	(164.2)	(261.1)
Trade and other payables	23	(2.6)	(4.8)
Post-employment benefit obligations	25	(29.1)	(24.1)
Long-term provisions	27	(10.9)	(9.8)
Deferred tax liabilities	26	(375.6)	(323.2)
		(582.4)	(623.0)
Total liabilities		(949.0)	(1,136.9)
Net assets		4,906.5	3,948.1
Equity			
Share capital	28	89.8	89.8
Share premium	28	199.2	199.2
Hedging, translation and fair value reserves	28	25.1	12.3
Retained earnings	28	3,750.9	2,853.8
Equity attributable to equity holders of the Company		4,065.0	3,155.1
Minority interests	29	841.5	793.0
Total equity		4,906.5	3,948.1

Approved by the Board and signed on its behalf on 10 March 2008.

J-P Luksic
Chairman

CH Bailey
Director

FINANCIAL STATEMENTS

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Notes	2007 US$m	2006 US$m
Cash flows from operations	33	2,817.7	2,810.1
Interest paid		(20.2)	(24.6)
Dividends from associate	16	2.4	0.4
Income tax paid		(806.0)	(498.2)
Net cash from operating activities		1,993.9	2,287.7
Investing activities			
Acquisition of subsidiaries		–	(487.5)
Disposal and part-disposal of subsidiaries	31	4.9	84.3
Disposal of joint-venture interest	17	6.0	–
Disposal of available for sale investments	18	16.6	–
Recovery of Chilean VAT paid on purchase of water concession		8.8	8.7
Purchases of property, plant and equipment		(481.7)	(506.6)
Interest received		111.3	77.6
Net cash used in investing activities		(334.1)	(823.5)
Financing activities			
Dividends paid to equity holders of the Company		(485.0)	(236.6)
Dividends paid to preference shareholders of the Company		(0.2)	(0.2)
Dividends paid to minority interests		(681.2)	(630.6)
Net proceeds from issue of new borrowings	33	7.0	3.8
Repayments of borrowings	33	(99.3)	(109.6)
Repayments of obligations under finance leases	33	(0.9)	(1.8)
Net cash used in financing activities		(1,259.6)	(975.0)
Net increase in cash and cash equivalents		400.2	489.2

	Notes	2007 US$m	2006 US$m
Cash and cash equivalents at beginning of the year		1,805.5	1,316.8
Net increase in cash and cash equivalents		400.2	489.2
Effect of foreign exchange rate changes		6.8	(0.5)
Cash and cash equivalents at end of the year	21,33	2,212.5	1,805.5

Consolidated Statement of Changes in Equity

For the years ended 31 December 2006 and 2007

	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 2006		16.6	272.4	–	–	16.6	1,736.1	2,041.7	721.3	2,763.0
Profit for the financial year		–	–	–	–	–	1,354.3	1,354.3	839.8	2,194.1
Currency translation adjustment		–	–	–	–	(4.3)	–	(4.3)	–	(4.3)
Capitalisation of share premium on bonus issue of ordinary shares	28	73.2	(73.2)	–	–	–	–	–	–	–
Acquisition of minority interest		–	–	–	–	–	–	–	(137.5)	(137.5)
Dividends		–	–	–	–	–	(236.6)	(236.6)	(630.6)	(867.2)
At 31 December 2006 and 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	18	–	–	–	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)
Deferred tax effects arising from hedge accounting		–	–	–	–	–	–	–	–	–
Dividends		–	–	–	–	–	(485.0)	(485.0)	(681.2)	(1,166.2)
At 31 December 2007		89.8	199.2	(0.2)	(0.5)	25.8	3,750.9	4,065.0	841.5	4,906.5

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").

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 8 "Operating Segments".

– IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions".

– IFRIC 12 "Service Concession Arrangements".

– IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction".

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 as follows:

– 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.

– IFRIC 12 "Service Concession Arrangements". This interpretation requires the present classification of certain assets (acquired through the Group's water concession) within property, plant and equipment, to be reassessed when it comes into effect for periods commencing on or after 1 January 2008.

b) Change in accounting policy and adoption of new accounting standards

(i) 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 any ineffective portion 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.

This change in accounting policy must be applied prospectively and accordingly no restatement of prior period information is required.

(ii) The Group has adopted IFRS 7 "Financial Instruments: Disclosures" (and the related amendment to IAS 1 "Presentation of Financial Statements") which is effective from annual reporting periods beginning on or after 1 January 2007. The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital.

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 of.

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 a parent's net investment in its subsidiary, 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").

The Group has recognised on its balance sheet the tangible assets transferred to it by way of concession where the economic benefits are primarily to be consumed over the life of the concession arrangement. An intangible asset (a "concession right") has been 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 was measured as the difference between the cost of the concession and the fair values of the assets and liabilities recognised on 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.

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.

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 estimates of the quantities of proven and probable reserves, and assumptions as to future 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 increase 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. The production cost of inventory includes an appropriate proportion of depreciation and production overheads. Raw materials and 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 24(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 24, 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 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 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.

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, and gains or losses on interest and exchange derivatives being recorded within net finance costs.

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 profit or loss.

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 profit or loss to the

2 Principal Accounting Policies continued

s) Other financial instruments continued

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 reserve 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. 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

3 Critical Accounting Judgements and Key Sources of Estimation Uncertainty continued

c) Provisions for decommissioning and site restoration costs continued

reserves or processing levels. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

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:

	2007 US$m	2006 US$m
Sales of goods	3,716.0	3,770.7
Rendering of services	110.7	99.3
Group turnover	3,826.7	3,870.0
Other operating income	31.2	10.3
Investment income	113.4	78.3
Total revenue	3,971.3	3,958.6

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:

	2007 US$m	2006 US$m
Group turnover	3,826.7	3,870.0
Cost of sales	(966.5)	(805.1)
Gross profit	2,860.2	3,064.9
Administrative expenses	(183.1)	(152.6)
Closure provision	(0.5)	(0.6)
Severance charges	(5.3)	(7.7)
Exploration costs	(38.1)	(21.5)
Other operating income	31.2	10.3
Other operating expenses	(11.0)	(88.7)
Operating profit from subsidiaries and joint ventures	2,653.4	2,804.1
Share of income from associate	1.4	1.1
Total profit from operations and associates	2,654.8	2,805.2

Notes to total profit from operations and associates

(i) In 2007, cost of sales includes an inventory write-off of US$18.8 million relating to high carbonate ore inventories at El Tesoro (see Note 19).

(ii) In 2007, other operating income includes a gain of US$10.5 million relating to the disposal of shares held in Mercator Minerals Ltd (see Note 18), 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 17(a)), and a gain of US$1.6 million from a settlement in respect of the remaining consideration receivable for the disposal of Minera Tamaya S.A. in 2002. These items totalled US$21.8 million.

(iii) In 2006, other operating expenses included losses on commodity derivatives prior to the application of the hedge accounting provisions of IAS 39 "Financial Instruments: Recognition and Measurement" with effect from 1 January 2007 (see Note 5(a)(i)(iii) and Note 24(e)).

5 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.

5 Segment Information continued

a) Primary reporting format – by business segment

(i) Turnover, EBITDA and operating profit/(loss) from subsidiaries and joint ventures analysed by business segment

	Turnover		EBITDA		Operating profit/(loss) from subsidiaries and joint ventures	
	2007 US$m	2006 US$m	2007 US$m	2006 US$m	2007 US$m	2006 US$m
Los Pelambres	2,651.9	2,701.3	2,178.0	2,297.0	2,098.6	2,223.7
El Tesoro	673.9	664.8	430.9	456.0	380.3	409.9
Michilla	316.8	334.9	169.2	158.4	154.0	145.5
Exploration	–	–	(38.1)	(21.5)	(38.1)	(21.5)
Corporate and other items	–	–	(5.6)	(16.9)	(6.8)	(17.6)
Mining	3,642.6	3,701.0	2,734.4	2,873.0	2,588.0	2,740.0
Railway and other transport services	117.0	105.3	48.9	42.9	35.0	32.6
Water concession	67.1	63.7	40.7	41.4	30.4	31.5
Group turnover (segment revenue), EBITDA and operating profit from subsidiaries and joint ventures (segment result)	3,826.7	3,870.0	2,824.0	2,957.3	2,653.4	2,804.1

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

	2007 US$m	2006 US$m
Segment result	2,653.4	2,804.1
Share of income from associate	1.4	1.1
Total profit from operations and associates	2,654.8	2,805.2
Net finance income	95.4	53.8
Profit before tax	2,750.2	2,859.0
Income tax expense	(638.4)	(664.9)
Profit for the financial year (including amounts attributable to minority interests)	2,111.8	2,194.1

Notes to turnover by business segment (segment revenue)

i) Turnover by business segment equates to segment revenue as defined by IAS 14. Turnover from Railway and other transport services and Water concession are stated after eliminating inter-segmental sales to the mining division of US$10.5 million (2006 – US$9.6 million) and US$0.4 million (2006 – nil) respectively. Inter-segmental sales provided by Railway and other transport services and Water concession are charged at amounts equal to competitive market prices for external sales of similar services.

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 24(d).

iii) In the current year turnover includes realised net losses on commodity derivatives of US$14.0 million, comprising a gain of US$0.2 million at El Tesoro and a loss of US$14.2 million at Michilla. The classification of these amounts within turnover is due to the application of the hedge accounting provisions of IAS 39

5 Segment Information continued

a) Primary reporting format – by business segment continued

"Financial Instruments: Recognition and Measurement" with effect from 1 January 2007. Prior to this point, gains and losses on commodity derivatives (including both gain and losses realised in the year and year-end mark-to-market adjustments), were included in other operating income or expense. Further details of such gains or losses are given in Note 24(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$2,915.9 million (2006 – US$3,144.7 million) comprising copper concentrate sales at Los Pelambres of US$1,925.2 million (2006 – US$2,145.0 million) and copper cathode sales at El Tesoro and Michilla of US$990.7 million (2006 – US$999.7 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$1.4 million (2006 – US$1.1 million).

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

viii) As explained in Note 5(a)(i)(iii) above, in the current year EBITDA and operating profit include realised gains on commodity derivatives at El Tesoro of US$0.2 million and realised losses at Michilla of US$14.2 million (recorded within turnover). In 2006 EBITDA and operating profit included losses on commodity derivatives (including both losses realised in the year and year-end mark-to-market adjustments) at El Tesoro of US$44.8 million and Michilla of US$39.7 million. Further details are given in Note 24(e).

ix) Exploration cost relating to Tethyan Copper Company Limited ("Tethyan") (see Note 17(b)) 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 4(i) and Note 19, in the current period EBITDA and operating profit at El Tesoro include an inventory write-off of US$18.8 million.

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

Turnover at Los Pelambres by mineral:

	Before deducting tolling charges		Tolling charges		Net of tolling charges	
	2007 US$m	2006 US$m	2007 US$m	2006 US$m	2007 US$m	2006 US$m
Copper	**2,094.6**	2,399.0	**(169.4)**	(254.0)	**1,925.2**	2,145.0
Molybdenum	**699.8**	536.4	**(23.4)**	(22.6)	**676.4**	513.8
Gold and silver	**51.0**	43.1	**(0.7)**	(0.6)	**50.3**	42.5
Los Pelambres	**2,845.4**	2,978.5	**(193.5)**	(277.2)	**2,651.9**	2,701.3

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5 Segment Information continued

a) Primary reporting format – by business segment continued

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

	Capital expenditure		Depreciation and amortisation		Loss on disposals	
	2007 US$m	2006 US$m	2007 US$m	2006 US$m	2007 US$m	2006 US$m
Los Pelambres	323.4	463.5	(79.3)	(72.8)	(0.1)	(0.5)
El Tesoro	28.0	16.3	(49.3)	(43.4)	(1.3)	(2.7)
Michilla	11.4	7.7	(11.2)	(10.4)	(4.0)	(2.5)
Esperanza	43.7	6.6	–	–	–	–
Corporate and other items	15.2	13.9	(0.9)	(0.3)	(0.3)	(0.4)
Mining	421.7	508.0	(140.7)	(126.9)	(5.7)	(6.1)
Railway and other transport services	38.9	25.2	(11.3)	(8.4)	(2.6)	(1.9)
Water concession	5.4	5.8	(10.2)	(9.7)	(0.1)	(0.2)
	466.0	539.0	(162.2)	(145.0)	(8.4)	(8.2)

(iii) Other non-cash expenses by business segment

	Severance		Closure		Total other non-cash expenses	
	2007 US$m	2006 US$m	2007 US$m	2006 US$m	2007 US$m	2006 US$m
Los Pelambres	(2.2)	(1.0)	(0.1)	(0.1)	(2.3)	(1.1)
El Tesoro	0.1	(2.3)	(0.2)	(0.3)	(0.1)	(2.6)
Michilla	(0.2)	(0.9)	(0.1)	(0.1)	(0.3)	(1.0)
Corporate and other items	(1.3)	(1.0)	–	–	(1.3)	(1.0)
Mining	(3.6)	(5.2)	(0.4)	(0.5)	(4.0)	(5.7)
Railway and other transport services	(1.3)	(2.5)	–	–	(1.3)	(2.5)
Water concession	(0.4)	–	(0.1)	(0.1)	(0.5)	(0.1)
	(5.3)	(7.7)	(0.5)	(0.6)	(5.8)	(8.3)

(iv) Assets and liabilities by business segment

	Segment assets		Segment liabilities		Segment net assets	
	2007 US$m	2006 US$m	2007 US$m	2006 US$m	2007 US$m	2006 US$m
Los Pelambres	2,338.4	2,103.4	(137.9)	(125.5)	2,200.5	1,977.9
El Tesoro	563.5	591.8	(61.1)	(53.3)	502.4	538.5
Michilla	77.2	74.5	(28.8)	(24.8)	48.4	49.7
Esperanza	92.8	–	(2.2)	–	90.6	–
Corporate and other items	155.1	145.8	(21.4)	(12.3)	133.7	133.5
Mining	3,227.0	2,915.5	(251.4)	(215.9)	2,975.6	2,699.6
Railway and other transport services	184.0	158.8	(27.7)	(25.2)	156.3	133.6
Water concession	181.1	181.7	(11.4)	(9.1)	169.7	172.6
	3,592.1	3,256.0	(290.5)	(250.2)	3,301.6	3,005.8

5 Segment Information continued

a) Primary reporting format – by business segment continued

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

	Segment assets		Segment liabilities		Segment net assets	
	2007 US$m	2006 US$m	2007 US$m	2006 US$m	2007 US$m	2006 US$m
Segment assets/(liabilities)	**3,592.1**	3,256.0	**(290.5)**	(250.2)	**3,301.6**	3,005.8
Investment property	**3.5**	3.2	**–**	–	**3.5**	3.2
Investment in associate	**2.5**	3.5	**–**	–	**2.5**	3.5
Available for sale investments	**3.3**	6.2	**–**	–	**3.3**	6.2
Deferred tax assets/(liabilities)	**14.7**	3.1	**(375.6)**	(323.2)	**(360.9)**	(320.1)
Current tax assets/(liabilities)	**26.9**	7.5	**(16.9)**	(204.8)	**10.0**	(197.3)
Cash and cash equivalents/(borrowings)	**2,212.5**	1,805.5	**(266.0)**	(358.7)	**1,946.5**	1,446.8
Entity assets/(liabilities)	**5,855.5**	5,085.0	**(949.0)**	(1,136.9)	**4,906.5**	3,948.1

Notes to segment assets, liabilities and capital expenditure

i) Segment assets are operating assets and at 31 December 2007 comprise the intangible assets of US$207.7 million (2006 – US$205.3 million); property, plant and equipment of US$2,679.8 million (2006 – US$2,373.7 million); inventories of US$130.3 million (2006 – US$120.3 million); current and non-current trade and other receivables of US$572.4 million (2006 – US$549.4 million); and current and non-current derivative financial instruments relating to commodities of US$1.9 million (2006 – US$7.3 million).

ii) Segment liabilities are operating liabilities and at 31 December 2007 comprise derivative financial instruments principally relating to commodities of US$1.4 million (2006 – nil); current and non-current trade and other payables of US$249.1 million (2006 – US$216.3 million); post-employment benefits of US$29.1 million (2006 – US$24.1 million) and other long-term provisions of US$10.9 million (2006 – US$9.8 million).

iii) Capital expenditure represents purchase of property, plant and equipment and is stated on an accruals basis and may therefore differ from the amount included in the cash flow. Capital expenditure is analysed by category of asset in Note 13.

iv) Assets and liabilities of Tethyan Copper Company Limited (see Note 30) have been included within Corporate and other items.

v) Esperanza has been identified as a separate business segment within the mining division with effect from 1 January 2007 and any segment assets, segment liabilities and capital expenditure attributable to Esperanza has been reclassified from Corporate and other items with effect from this date.

5 Segment Information continued

b) Secondary reporting format – by geographical segment

(i) Geographical analysis of turnover by location of customer

	2007 US$m	2006 US$m
Europe		
– United Kingdom	0.1	8.1
– Switzerland	321.9	396.5
– Rest of Europe	742.1	877.1
Latin America		
– Chile	377.8	407.5
– Rest of Latin America	190.3	165.2
North America	511.4	472.7
Asia		
– Japan	1,000.6	1,008.2
– China	416.8	317.5
– Rest of Asia	265.7	213.5
Australia	–	3.7
	3,826.7	3,870.0

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

	Segment assets		Segment liabilities		Segment net assets		Capital expenditure	
	2007 US$m	2006 US$m	2007 US$m	2006 US$m	2007 US$m	2006 US$m	2007 US$m	2006 US$m
Chile	3,436.6	3,105.2	(282.6)	(243.8)	3,154.0	2,861.4	457.2	529.9
Bolivia	35.5	30.2	(3.3)	(4.6)	32.2	25.6	6.7	8.3
Other	120.0	120.6	(4.6)	(1.8)	115.4	118.8	2.1	0.8
	3,592.1	3,256.0	(290.5)	(250.2)	3,301.6	3,005.8	466.0	539.0

Segment assets and segment liabilities are reconciled to entity assets and liabilities in Note 5(a)(iv). Certain segment assets relating to 2006 have been reclasified from other to Chile. The adjustment has no effect on total segment assets.

6 Profit for the Year

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

	2007 US$m	2006 US$m
Net foreign exchange gains		
– included in net finance costs	2.9	1.6
– included in income tax expense	28.5	2.4
Amortisation of intangible asset included in cost of sales	(3.8)	(4.0)
Depreciation of property, plant and equipment		
– owned assets	(152.7)	(135.7)
– assets held under finance leases	(0.4)	(0.4)
– assets held under concession	(5.3)	(4.9)
Property, plant and equipment written-off	(8.4)	(8.2)
Cost of inventories recognised as expense	(700.1)	(573.1)
Change in fair value of financial instruments classified as held for trading (derivatives not in designated hedging relationships)	–	51.8
Employee benefit expense	(145.8)	(108.1)
Auditors' remuneration		
– audit services	(0.7)	(0.6)
– non-audit services	(0.1)	(0.1)

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 & Touche LLP and its associates by the Group including UK and overseas subsidiaries. Fees paid for audit services to Deloitte & Touche LLP by the Company and its UK subsidiaries in 2007 were US$0.2 million (2006 – US$0.2 million). Fees paid for non-audit services to Deloitte & Touche LLP by the Company in 2007 were less than US$0.1 million (2006 – US$0.1 million). There were no fees paid for non-audit services by the Group's other UK subsidiaries to Deloitte & Touche LLP in either 2006 or 2007.

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

	2007 US$000	2006 US$000
Statutory audit		
– Antofagasta plc Annual Report	(377)	(351)
– Subsidiary entities	(315)	(263)
	(692)	(614)
Non-audit services		
– Tax services	(27)	(17)
– IAS 32/39 implementation advice	(12)	(11)
– Other consultancy services	(56)	(24)
	(787)	(666)

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7 Employee Benefit Expense

a) Average number of employees

The average number of employees, including the Executive Director but excluding associates' employees, was as follows:

	2007 Number	2006 Number
Los Pelambres	645	590
El Tesoro	458	442
Michilla	444	396
Exploration	25	24
Corporate and other employees		
– Chile	136	85
– United Kingdom	8	6
– Other	20	18
Mining	1,736	1,561
Railway and other transport services	1,338	1,341
Water concession	249	237
	3,323	3,139

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.

Corporate and other employees (Chile) includes 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:

	2007 US$m	2006 US$m
Wages and salaries	(138.1)	(97.8)
Social security costs	(2.4)	(2.6)
Post-employment benefits – severance charge in the year	(5.3)	(7.7)
	(145.8)	(108.1)

c) Key managment 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:

	2007 US$m	2006 US$m
Salaries and short-term employee benefits	6.6	4.9
Post-employment benefits – severance charge in the year	–	0.1
	6.6	5.0

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 72 to 75.

8 Net Finance Income

Net finance income was as follows:

	2007 US$m	2006 US$m
Investment income		
Interest receivable	113.4	78.3
Interest expense		
Interest payable	(19.8)	(24.6)
Amortisation of deferred finance costs	(0.4)	(0.4)
Preference dividends	(0.2)	(0.2)
	(20.4)	(25.2)
Other finance items		
Mark-to-market effect of derivatives	–	0.3
Time value effect of derivatives	0.7	–
Discount charge relating to provisions	(1.2)	(1.2)
Foreign exchange	2.9	1.6
	2.4	0.7
Net finance income	95.4	53.8

The discount charge relating to provisions has been reclassified from interest expense to other finance items, and the prior year comparatives have been restated accordingly. The reclassification has no effect on net finance income in either year.

There was no interest capitalised in either year.

9 Taxation

	2007 US$m	2006 US$m
Current tax charge		
– Corporate tax (principally first category tax in Chile)	(441.3)	(474.2)
– Mining tax (Royalty)	(50.6)	(58.5)
– Withholding tax provision	(135.3)	(61.9)
– Exchange gains on corporate tax balances	28.5	2.4
	(598.7)	(592.2)
Deferred tax charge		
– Corporate tax (principally first category tax in Chile)	(8.1)	(2.4)
– Mining tax (Royalty)	(0.8)	1.9
– Withholding tax provision	(30.8)	(72.2)
	(39.7)	(72.7)
Total tax charge (Income tax expense)	(638.4)	(664.9)

The current tax charge of US$598.7 million (2006 – US$592.2 million) comprises Chilean taxes of US$598.1 million (2006 – US$592.1 million) and other overseas taxes of US$0.6 million (2006 – US$0.1 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.

9 Taxation continued

The rate of first category (i.e. corporation) tax in Chile was 17% for both 2007 and 2006. 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. For 2006 and 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, when the ability to offset will no longer be available, 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 2006 and 2007 and 4% 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 effective tax rate for the year was 23.2% in 2007 and 23.3% in 2006, compared with the Chilean statutory tax rate of 17.0%. The differences are explained below:

	2007		2006	
	US$m	%	US$m	%
Profit before tax	2,750.2		2,859.0	
Tax at the Chilean corporation tax rate of 17%	(467.5)	17.0	(486.0)	17.0
Tax effect of share of results of associate	(0.3)	–	(0.2)	–
Deferred tax assets not recognised in the year	(2.7)	0.1	(3.0)	0.1
Tax effect of items not deductible in generating taxable profit (principally exploration costs and certain corporate costs)	21.1	(0.8)	12.6	(0.4)
Royalty	(51.4)	1.9	(56.6)	2.0
Withholding taxes provided in the year	(166.1)	6.0	(134.1)	4.7
Exchange differences	28.5	(1.0)	2.4	(0.1)
Tax expense and effective tax rate for the year	(638.4)	23.2	(664.9)	23.3

10 Earnings Per Share

	2007 US$m	2006 US$m
Profit for the year attributable to equity holders of the Company (Net earnings)	1,382.1	1,354.3

	2007 Number	2006 Number
Ordinary shares in issue throughout each year	985,856,695	985,856,695

	2007 US cents	2006 US cents
Basic earnings per share	140.2	137.4

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.

11 Dividends

Amounts recognised as distributions to equity holders in the period:

	2007 US$m	2006 US$m	2007 US cents per share	2006 US cents per share
Final dividend paid in June (proposed in relation to the previous year)				
– ordinary	49.3	47.3	5.0	4.8
– special	374.6	138.0	38.0	14.0
	423.9	185.3	43.0	18.8
Interim dividend paid in October				
– ordinary	31.5	31.6	3.2	3.2
– special	29.6	19.7	3.0	2.0
	61.1	51.3	6.2	5.2
	485.0	236.6	49.2	24.0

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 these financial statements, is as follows:

	2007 US$m	2006 US$m	2007 US cents per share	2006 US cents per share
Final dividend proposed in relation to the 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

This gives total ordinary dividends proposed in relation to 2007 (including the interim dividend) of 49.6 cents per share or US$489.0 million (2006 – 48.2 cents per share or US$475.2 million).

In accordance with IAS 32, preference dividends have been included within interest expense (see Note 8) and amounted to US$0.2 million (2006 – US$0.2 million).

Further details relating to dividends for each year are given in the Directors' Report on pages 60 and 61.

12 Intangible assets

	Concession right 2007 US$m	Exploration licences 2007 US$m	Total intangible assets 2007 US$m	Total intangible assets 2006 US$m
Cost				
Balance at the beginning of the year	101.3	115.0	216.3	105.1
Acquisition (see Note 30)	–	–	–	230.0
Disposal (see Note 31)	–	–	–	(115.0)
Foreign currency exchange difference	6.9	–	6.9	(3.8)
Balance at the end of the year	108.2	115.0	223.2	216.3
Amortisation				
Balance at the beginning of the year	(11.0)	–	(11.0)	(7.4)
Charge for the year	(3.8)	–	(3.8)	(4.0)
Foreign currency exchange difference	(0.7)	–	(0.7)	0.4
Balance at the end of the year	(15.5)	–	(15.5)	(11.0)
Carrying amount				
Balance at the end of the year	92.7	115.0	207.7	205.3

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 (see Note 35).

The exploration licences relate to the Group's proportionate share of the full unencumbered value attributed to the interest in exploration licences in the Reko Diq prospect in the Chagai Hills region of south-west Pakistan acquired on the purchase of Tethyan Copper Company Limited in 2006 (see Note 30(a)). This intangible asset will be amortised in accordance with the Group's policy for mining properties as set out in Note 2(i)(ii) when the related mining properties enter into production.

13 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 2006	454.7	1,076.4	38.0	70.9	838.8	189.7	2,668.5
Acquisitions (see Note 30)	170.9	–	–	–	0.7	–	171.6
Additions	8.0	4.5	–	2.5	13.0	511.0	539.0
Reclassifications	2.5	56.9	1.6	3.3	152.4	(216.7)	–
Asset disposals	(0.1)	(2.8)	–	(2.4)	(7.1)	(2.0)	(14.4)
Disposal (see Note 31)	(4.3)	–	–	–	(0.4)	–	(4.7)
Foreign currency exchange difference	0.1	(3.0)	–	(0.4)	(0.2)	(0.1)	(3.6)
At 31 December 2006 and 1 January 2007	631.8	1,132.0	39.6	73.9	997.2	481.9	3,356.4
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)	5.8	–	2.0	1.4	0.3	9.4
At 31 December 2007	**632.8**	**1,155.2**	**45.1**	**97.2**	**1,128.1**	**731.2**	**3,789.6**
Accumulated depreciation and impairment							
At 1 January 2006	(103.9)	(275.5)	(6.4)	(33.8)	(424.9)	(4.0)	(848.5)
Charge for the year	(28.6)	(43.8)	0.1	(6.0)	(62.7)	–	(141.0)
Reclassifications	–	(0.5)	–	–	0.5	–	–
Asset disposals	–	0.1	–	1.5	4.6	–	6.2
Foreign currency exchange difference	–	0.4	–	0.1	0.1	–	0.6
At 31 December 2006 and 1 January 2007	(132.5)	(319.3)	(6.3)	(38.2)	(482.4)	(4.0)	(982.7)
Charge for the year	(38.4)	(47.1)	(1.4)	(7.2)	(64.3)	–	(158.4)
Asset disposals	–	0.1	0.1	1.4	32.2	–	33.8
Foreign currency exchange difference	–	(1.3)	–	(0.9)	(0.3)	–	(2.5)
At 31 December 2007	**(170.9)**	**(367.6)**	**(7.6)**	**(44.9)**	**(514.8)**	**(4.0)**	**(1,109.8)**
Net book value							
At 31 December 2007	**461.9**	**787.6**	**37.5**	**52.3**	**613.3**	**727.2**	**2,679.8**
At 31 December 2006	499.3	812.7	33.3	35.7	514.8	477.9	2,373.7
Assets under finance leases included in the totals above							
Net book value							
At 31 December 2007	**–**	**–**	**–**	**–**	**1.1**	**–**	**1.1**
At 31 December 2006	–	–	–	–	1.9	–	1.9

The net book value of assets under concession at 31 December 2007 was US$67.0 million (2006 – US$63.0 million).

The Group has pledged assets with a carrying value of US$32.0 million (2006 – US$27.0 million) as security against bank loans provided to the Group.

At 31 December 2007 the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to US$432.6 million (2006 – US$385.7 million). Commitments at 31 December 2007 included US$261.4 million relating to the Esperanza project; US$65.7 million relating to the Mauro tailings dam project and US$78.9 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$2.3 million in 2007 (2006 – US$0.1 million).

14 Investment Property

Cost	2007 US$m	2006 US$m
Balance at the beginning of the year	3.2	3.4
Foreign currency exchange difference	0.3	(0.2)
Balance at the end of the year	**3.5**	3.2

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 2007 was US$11.0 million (2006 – US$11.0 million), based on an independent valuation carried out during 2005 by Forestal TerraSur Ltda., who are not connected with the Group. 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 (2006 – US$0.2 million).

15 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 Northern Mines Limited	Great Britain	Chile	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	100%
Minera Michilla S.A.	Chile	Chile	Mining	74.2%
Minera Esperanza	Chile	Chile	Mining	100%
Equatorial Mining Limited	Australia	Chile	Mining	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.

16 Investment in Associate

	2007 US$m	2006 US$m
Balance at the beginning of the year	3.5	2.8
Share of profit before tax	1.7	1.3
Share of tax	(0.3)	(0.2)
Share of income from associate	1.4	1.1
Dividends received	(2.4)	(0.4)
Balance at the end of the year	**2.5**	3.5

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:

	2007 US$m	2006 US$m
Total assets (net of fair value adjustments)	3.8	4.8
Total liabilities	(1.3)	(1.3)
Turnover	7.2	5.7
Profit after tax and minorities	1.4	1.1

17 Joint Venture Agreements

a) 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 March 2007 the Group agreed to sell 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 agreement was subject to a number of conditions including financing by Panoro and regulatory approvals. These conditions were fulfilled in June 2007 and the disposal was completed at that point. 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 has resulted in a gain of US$9.7 million being recognised during the year, recorded within other operating income.

b) Tethyan Copper Company Limited

As explained in Note 30(a), 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. Further details of the part-disposal of Tethyan to Barrick Gold to give effect to the joint venture are set out in Note 31(a).

During 2007 and 2006 Tethyan was wholly engaged in mineral exploration activities and did not generate any revenue in the period before or after acquisition by the Group. The Group's operating loss resulting from Tethyan for the year was US$34.0 million (2006 – US$5.3 million), which relates mainly to exploration costs expensed in accordance with the Group's accounting policy.

17 Joint Venture Agreements continued

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:

	2007 US$m	2006 US$m
Total non-current assets	117.5	115.7
Total current assets	2.1	2.6
Total current liabilities	(4.4)	(0.9)
Total non-current liabilities	(0.1)	(0.1)
Group's share of jointly controlled entity's net assets	115.1	117.3
Operating loss	(17.0)	(2.0)
Net finance income	0.1	2.0
Tax	(0.6)	–
Group's share of jointly controlled entity's results	(17.5)	–

In addition to these amounts, the Group incurred US$0.7 million (2006 – nil) relating to Tethyan which is included in Corporate and other items.

18 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:

	2007 US$m	2006 US$m
Balance at the begining of the year	6.2	0.1
Additions	3.7	–
Acquisition (see Note 17(a))	–	5.6
Movements in fair value	10.0	0.5
Disposal	(16.6)	–
Balance at the end of the year	3.3	6.2

The additions during the period represents the shares in Panoro Minerals Limited acquired as part consideration for the disposal of the Group's share of the joint venture entity Cordillera de las Minas S.A.. The fair value of these shares at 31 December 2007 was US$3.2 million. The mark-to-market loss in respect of these shares in the balance sheet at the end of the year was US$0.5 million.

The balance at 31 December 2006 includes US$6.1 million related to the investment in Mercator Minerals Ltd. shares, acquired at a cost of US$5.6 million. These shares were sold during the year for US$16.6 million, and the gain of US$10.5 million was recognised in other operating income.

The fair value of the remaining available for sale investments of less than US$0.1 million (2006 – US$0.1 million) held by the Group are mainly Chilean-peso denominated and did not differ materially from cost at either year end.

19 Inventories

	2007 US$m	2006 US$m
Raw materials and consumables	41.1	36.6
Work in progress	71.1	68.6
Finished goods	18.1	15.1
	130.3	120.3

Work in progress includes US$9.6 million (2006 – US$25.3 million) related to high carbonate ore inventories at El Tesoro of which US$5.3 million are expected to be processed more than twelve months after the balance sheet date. During the year a write-off of US$18.8 million was recorded in respect of these inventories.

20 Trade and Other Receivables

	Due in one year		Due after one year		Total	
	2007 US$m	2006 US$m	2007 US$m	2006 US$m	2007 US$m	2006 US$m
Trade debtors	403.5	425.5	0.6	0.5	404.1	426.0
Other debtors	136.9	84.6	31.4	38.8	168.3	123.4
	540.4	510.1	32.0	39.3	572.4	549.4

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 54 days (2006 – 52 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. Further details of these adjustments are given in Note 24(d).

Movements in the provision for doubtful debts were as follows:

	2007 US$m	2006 US$m
Balance at the beginning of the year	(2.7)	(2.3)
Charge for the year	(0.5)	(0.4)
Unused amounts reversed	0.1	–
Balance at the end of the year	(3.1)	(2.7)

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
At 31 December 2007	561.6	9.1	0.7	1.0	572.4
At 31 December 2006	536.7	11.8	0.4	0.5	549.4

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$40.2 million (2006 – US$28.9 million) relating to prepayments for the purchase of property, plant and equipment and US$4.7 million (2006 – US$12.9 million) of Chilean VAT relating to the acquisition of the water concession in 2003.

21 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 2007 and 31 December 2006, 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:

	2007 US$m	2006 US$m
US dollars	2,148.0	1,683.3
Chilean pesos	40.2	99.8
Australian dollars	23.5	19.4
Euros	0.3	0.1
Sterling	–	0.6
Other	0.5	2.3
	2,212.5	1,805.5

22 Borrowings

a) Analysis by type of borrowing

Borrowings may be analysed by business segment and type as follows:

	Notes	2007 US$m	2006 US$m
Los Pelambres			
Corporate loans	(i)	(229.0)	(305.3)
Other loans	(ii)	(4.7)	(9.5)
El Tesoro			
Corporate loans	(iii)	(14.0)	(27.9)
Finance leases	(iv)	(0.1)	(0.2)
Michilla			
Finance leases	(iv)	(0.1)	(0.9)
Railway and other transport services			
Loans	(v)	(14.1)	(10.8)
Other			
Preference shares	(vi)	(4.0)	(4.1)
		(266.0)	(358.7)

(i) Corporate loans at Los Pelambres are unsecured and US dollar denominated. The balance of US$229.0 million represents syndicated loans of US$230.0 million less deferred financing costs of US$1.0 million. These loans are repayable in semi-annual instalments with 3 years remaining and carry interest at approximately LIBOR six-month rate plus 0.24%.

22 Borrowings continued

(ii) Other loans at Los Pelambres represent a US dollar denominated bank loan taken out in 2002 to refinance the purchase of a power line. The loan is unsecured and the balance is repayable in semi-annual instalments over 1 remaining year and carries interest at LIBOR six-month rate plus 0.875%.

(iii) Corporate loans at El Tesoro are unsecured and US dollar denominated. These loans are repayable in semi-annual instalments with 1 year remaining and carry interest at LIBOR six-month rate plus 0.42%.

(iv) Finance leases at El Tesoro and Michilla relate to equipment purchases and are US dollar denominated. These are generally fixed rate with interest rates ranging from 4.51% to 9.37%. These loans are repayable within 1 year.

(v) Railway loans include US dollar customer advances of US$5.9 million. An interest rate of LIBOR plus 1.5% is payable on these loans. Euro-denominated loans of US$0.7 million have a fixed rate of interest of 2% and are repayable over 1 year. Dollar denominated loans of US$5.0 million have a weighted floating interest rate (Bolivian Reference Interest Rate Index) plus 6.4% and are repayable over 1.87 years and the remaining loans are interest free. The balance at 31 December 2007 also includes a bank overdraft of US$2.2 million which was repaid on 2 January 2008. There were also interest free loans of US$0.3 million.

(vi) 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 2007 and 31 December 2006. 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 28) in any general meeting of the Company.

b) Analysis of borrowings by currency

The exposure of the Group's borrowings to currency risk is as follows:

At 31 December 2007	Euros US$m	Sterling US$m	US dollars US$m	2007 Total US$m
Corporate loans	–	–	(243.0)	(243.0)
Other 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)

At 31 December 2006	Euros US$m	Sterling US$m	US dollars US$m	2006 Total US$m
Corporate loans	–	–	(333.2)	(333.2)
Other loans	(1.2)	–	(19.1)	(20.3)
Finance leases	–	–	(1.1)	(1.1)
Preference shares	–	(4.1)	–	(4.1)
	(1.2)	(4.1)	(353.4)	(358.7)

22 Borrowings continued

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 2007	Fixed US$m	Floating US$m	Interest free US$m	2007 Total US$m
Corporate loans	–	(243.0)	–	(243.0)
Other 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)

At 31 December 2006	Fixed US$m	Floating US$m	Interest free US$m	2006 Total US$m
Corporate loans	–	(333.2)	–	(333.2)
Other loans	(1.2)	(18.8)	(0.3)	(20.3)
Finance leases	(1.1)	–	–	(1.1)
Preference shares	(4.1)	–	–	(4.1)
	(6.4)	(352.0)	(0.3)	(358.7)

d) Maturity profile

The maturity profile of the Group's borrowings is as follows:

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	(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)

At 31 December 2006	Within 1 year US$m	Between 1-2 years US$m	Between 2-5 years US$m	After 5 years US$m	2006 Total US$m
Corporate loans	(90.3)	(90.4)	(152.5)	–	(333.2)
Other loans	(6.4)	(7.1)	(6.8)	–	(20.3)
Finance leases	(0.9)	(0.2)	–	–	(1.1)
Preference shares	–	–	–	(4.1)	(4.1)
	(97.6)	(97.7)	(159.3)	(4.1)	(358.7)

The amounts included above for finance leases are based on the present value of minimum lease payments.

22 Borrowings continued

d) Maturity profile continued

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	Total US$m
At 31 December 2007					
Finance leases	**(0.2)**	**–**	**–**	**–**	**(0.2)**
At 31 December 2006					
Finance leases	(1.0)	(0.2)	–	–	(1.2)

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:

	2007 US$m	2006 US$m
Expiring in one year or less	**355.3**	278.3
Expiring in more than one but not more than two years	**20.0**	–
Expiring in more than two years	**25.0**	60.0
	400.3	338.3

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$357.6 million (2006 – US$296.5 million) are denominated in US dollars, US$39.5 million (2006 – US$38.6 million) in Unidades de Fomento (i.e. inflation-linked Chilean pesos) and US$3.2 million (2006 – US$3.2 million) in Chilean pesos.

23 Trade and Other Payables

	Due in one year		Due after one year		Total	
	2007 US$m	2006 US$m	2007 US$m	2006 US$m	2007 US$m	2006 US$m
Trade creditors	**(85.2)**	(72.1)	**(2.6)**	(4.1)	**(87.8)**	(76.2)
Other creditors and accruals	**(161.3)**	(139.4)	**–**	(0.7)	**(161.3)**	(140.1)
	(246.5)	(211.5)	**(2.6)**	(4.8)	**(249.1)**	(216.3)

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 33 days (2006 – 33 days).

24 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:

	2007 US$m	2006 US$m
Financial assets		
Financial assets held for trading – derivatives not in designated hedge accounting relationships	–	7.3
Derivatives in designated hedge accounting relationships	1.9	–
Available for sale investments	3.3	6.2
Loans and receivables (including cash and cash equivalents)	2,784.9	2,354.9
Financial liabilities		
Derivatives in designated hedge accounting relationships	(1.4)	–
Financial liabilities measured at amortised cost	(515.1)	(575.0)
	2,273.6	1,793.4

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 2007 or 2006.

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 Quality and 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 Quality and 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

24 Financial Instruments and Financial Risk Management continued

c) Financial risk management continued

sales and previous sales which remain open as to final pricing. In 2007, sales of copper and molybdenum concentrate and copper cathodes represented 95.2% 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 24(d). Details of commodity rate derivatives entered into by the Group are given in Note 24(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$6.5 million (2006 – US$11.6 million) and there would have been no additional impact on equity.

If the copper forward price as at the reporting date had decreased by 10 cents, net earnings would have decreased by US$6.5 million (2006 – US$10.9 million) and there would have been no additional impact on equity.

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$5.3 million (2006 – US$5.9 million) and earnings per share by 0.5 cents (2006 – 0.5 cents), based on production volumes in 2007, 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$10.7 million (2006 – US$10.5 million), and earnings per share by 1.1 cents (2006 – 1.1 cents), based on production volumes in 2007, and without taking into account the effects of provisional pricing.

(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.

24 Financial Instruments and Financial Risk Management continued

c) Financial risk management continued

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 24(e).

The currency exposure of the Group's cash and cash equivalents is given in Note 21, and the currency exposure of the Group's borrowings is given in Note 22. The effect of exchange gains and losses included in the income statement is given in Note 6. 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 81.

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 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$3.2 million (2006 – US$6.0 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$3.9 million (2006 – US$7.4 million); 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 24(e).

The interest rate exposure of the Group's cash and cash equivalents is given in Note 21, and the interest rate exposure of the Group's borrowings is given in Note 22.

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$15.1 million (2006 – US$11.2 million). There would have been no additional impact on equity.

24 Financial Instruments and Financial Risk Management continued

c) Financial risk management continued

(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$0.3 million (2006 – US$0.6 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 Financial Review on pages 22 to 25.

(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 majority of borrowings comprise corporate loans at Los Pelambres and El Tesoro which are repayable in semi-annual instalments over three years and one year remaining respectively.

At the end of both 2007 and 2006, the Group was in a net cash position, as disclosed in Note 33(c). Details of cash and cash equivalents are given in Note 21, while details of borrowings including the maturity profile are given in Note 22. Details of undrawn committed borrowing facilities are also given in Note 22.

24 Financial Instruments and Financial Risk Management continued

c) Financial risk management continued

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 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	(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)

At 31 December 2006	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	2006 Total US$m
Corporate loans	(56.8)	(55.6)	(107.2)	(163.3)	(382.9)
Other loans	(1.7)	(1.6)	(6.9)	(1.4)	(11.6)
Finance leases	(0.5)	(0.4)	(0.2)	–	(1.1)
Preference shares	(0.1)	(0.1)	(0.2)	(*)	(0.4)
Trade and other payables	(212.0)	(0.2)	(1.6)	(2.6)	(216.4)
Derivative financial instruments	–	–	–	–	–
	(271.1)	(57.9)	(116.1)	(167.3)	(612.4)

* The preference shares pay an annual dividend of £100,000 (US$200,000) 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 22, cash and cash equivalents as disclosed in Note 21 and equity attributable to equity holders of the Company, comprising issued capital, reserves and retained earnings as disclosed in Note 28.

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.

24 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 2007 US$m	2006 US$m
Los Pelambres – copper concentrate	(72.8)	(110.1)
Los Pelambres – tolling charges for copper concentrate	(5.1)	7.6
Los Pelambres – molybdenum concentrate	0.1	(2.4)
El Tesoro – copper cathodes	(1.0)	1.3
Michilla – copper cathodes	0.1	(0.6)
	(78.7)	(104.2)

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24 Financial Instruments and Financial Risk Management continued

d) Embedded derivatives – provisionally priced sales continued

(i) Copper sales

	Los Pelambres Copper concentrate 2007 US$m	El Tesoro Copper cathodes 2007 US$m	Michilla Copper cathodes 2007 US$m	Los Pelambres Copper concentrate 2006 US$m	El Tesoro Copper cathodes 2006 US$m	Michilla Copper cathodes 2006 US$m
Provisionally invoiced gross sales	2,041.8	678.8	332.2	2,175.5	653.1	326.0
Effects of pricing adjustments to previous year invoices						
Reversal of mark-to-market adjustments at the end of the previous year	110.1	(1.3)	0.6	(33.2)	(0.2)	0.1
Settlement of copper sales invoiced in the previous year	(88.1)	(6.5)	(3.3)	169.2	2.0	0.6
Total effect of adjustments to previous year invoices in the current year	22.0	(7.8)	(2.7)	136.0	1.8	0.7
Effects of pricing adjustments to current year invoices						
Settlement of copper sales invoiced in the current year	103.6	3.7	1.4	197.6	8.6	8.8
Mark-to-market adjustments at the end of the current year	(72.8)	(1.0)	0.1	(110.1)	1.3	(0.6)
Total effects of adjustments to current year invoices	30.8	2.7	1.5	87.5	9.9	8.2
Realised gains/(losses) on commodity derivatives	–	0.2	(14.2)	–	–	–
Turnover before deducting tolling charges	2,094.6	673.9	316.8	2,399.0	664.8	334.9
Tolling charges	(169.4)	–	–	(254.0)	–	–
Turnover net of tolling charges	1,925.2	673.9	316.8	2,145.0	664.8	334.9

i) Copper concentrate

Copper concentrate sales at Los Pelambres have an average settlement period of approximately four months from shipment date. At 31 December 2007, sales totalling 99,400 tonnes remained open as to price, with an average mark-to-market price of 302.4 cents per pound compared with an average provisional invoice price of 335.7 cents per pound. At 31 December 2006, copper concentrate sales totalling 127,100 tonnes remained open as to price, with an average mark-to-market price of 287.0 cents per pound compared with an average provisional invoice price of 326.3 cents per pound.

Tolling charges include a mark-to-market loss for copper concentrate sales open as to price at 31 December 2007 of US$5.1 million (31 December 2006 – mark-to-market gain of US$7.6 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 2007, sales totalling 11,000 tonnes remained open as to price, with an average mark-to-market price of 301.7 cents per pound compared with an average provisional invoice price of 305.4 cents per pound. At 31 December 2006, sales totalling 11,600 tonnes remained open as to price with an average mark-to-market price of 286.6 cents per pound compared with an average provisional invoice price of 294.0 cents per pound.

24 Financial Instruments and Financial Risk Management continued

d) Embedded derivatives – provisionally priced sales continued

(ii) Molybdenum sales

	Los Pelambres Molybdenum concentrate 2007 US$m	Los Pelambres Molybdenum concentrate 2006 US$m
Provisionally invoiced gross sales	670.9	547.8
Effects of pricing adjustments to previous year invoices		
Reversal of mark-to-market adjustments at the end of the previous year	2.4	12.6
Settlement of molybdenum sales invoiced in the previous year	(1.0)	(27.5)
Total effect of adjustments to previous year invoices in the current year	1.4	(14.9)
Effects of pricing adjustments to current year invoices		
Settlement of molybdenum sales invoiced in the current year	27.4	5.9
Mark-to-market adjustments at the end of the current year	0.1	(2.4)
Total effects of adjustments to current year invoices	27.5	3.5
Turnover before deducting tolling charges	699.8	536.4
Tolling charges	(23.4)	(22.6)
Turnover net of tolling charges	676.4	513.8

Molybdenum sales at Los Pelambres have an average settlement period of approximately three months after shipment date. 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. At 31 December 2006 sales totalling 2,100 tonnes remained open as to price, with an average mark-to-market price of US$25.0 per pound compared with an average provisional invoice price of US$25.5 per pound.

e) Derivative financial instruments

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 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.

24 Financial Instruments and Financial Risk Management continued

e) Derivative financial instruments continued

(i) Commodity derivatives

The Group periodically uses commodity derivatives to reduce its exposure to the copper price. 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	
	2007 US$m	2006 US$m	2007 US$m	2006 US$m
El Tesoro	–	–	0.4	(44.8)
Michilla	0.5	7.3	(13.7)	(39.7)
	0.5	7.3	(13.3)	(84.5)

	2007 US$m	2006 US$m
Analysed between:		
Non-current assets	1.4	–
Current assets	0.5	7.3
Current liabilities	(1.4)	–
	0.5	7.3

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.

During the year ended 31 December 2006 a loss of US$84.5 million was recognised within other operating expenses, comprising US$44.8 million at El Tesoro and US$39.7 million at Michilla. This comprised losses on derivatives which matured in the year of US$136.3 million partly offset by mark-to-market gains of US$7.3 million at 31 December 2006 in respect of derivatives maturing after the year end, and the reversal of opening mark-to-market losses of US$44.5 million.

At 31 December 2007, the Group had min/max instruments for 70,200 tonnes of copper production (of which 60,000 tonnes relate to El Tesoro and 10,200 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 2008 is 11 months. The instruments have a weighted average floor of 248.9 cents per pound and a weighted average cap of 389.2 cents per pound.

At 31 December 2007, 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 to 31 January 2009. The remaining weighted average period covered by these instruments was 7 months.

Between 31 December 2007 and the date of this report, Michilla entered into further min/max instruments for 15,000 tonnes of copper production, covering a total period up to 31 December 2008. The weighted average remaining period covered by these hedges calculated with effect from 1 January 2008 is 6.5 months. The instruments have a weighted average floor of 292.1 cents per pound and a weighted average cap of 342.1 cents per pound.

24 Financial Instruments and Financial Risk Management continued

e) Derivative financial instruments continued

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
At 31 December 2007	0.5	(0.2)	(0.1)	(0.1)	–	–
At 31 December 2006	7.3	4.2	2.1	2.1	–	–

(ii) Interest and exchange derivatives

There were no outstanding interest derivative instruments at 31 December 2006 or 2007. During the year ended 31 December 2006 a gain of US$0.3 million was recognised within other finance items in respect of interest rate collars which matured during the year.

There were no outstanding exchange derivative instruments at 31 December 2006 or 2007.

25 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 both 2006 and 2007 was 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 2007 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:

	2007	2006
Average nominal discount rate	5.5%	5.5%
Average rate of increase in salaries	2.0%	1.5%
Average staff turnover	4.5%	3.9%

25 Post-Employment Benefit Obligations continued

b) Severance provisions continued

Amounts included in the income statement in respect of severance provisions are as follows:

	2007 US$m	2006 US$m
Current service cost (charge to operating profit)	(1.8)	(5.1)
Actuarial gains and losses (charge to operating profit)	(3.5)	(2.6)
Interest cost (charge to interest expenses)	(0.7)	(0.8)
Foreign exchange ((charge)/credit to other finance items)	(2.1)	0.8
Total charge to income statement	(8.1)	(7.7)

Movement in the present value of severance provisions were as follows:

	2007 US$m	2006 US$m
Balance at the beginning of the year	(24.1)	(20.6)
Current service cost	(1.8)	(5.1)
Actuarial gains and losses	(3.5)	(2.6)
Interest cost	(0.7)	(0.8)
Paid in the year	3.1	4.2
Foreign currency exchange difference	(2.1)	0.8
Balance at the end of the year	(29.1)	(24.1)

26 Deferred Tax

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during 2006 and 2007.

	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 2006	(181.8)	0.8	(52.4)	9.8	(0.5)	5.2	(218.9)
(Charge)/credit to income	(17.1)	32.0	(72.2)	(11.6)	1.2	(4.5)	(72.2)
Acquisition (see Note 30)	–	(29.0)	–	–	–	–	(29.0)
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 31 December 2007	(234.9)	21.1	(155.4)	(1.1)	(0.1)	9.5	(360.9)

The charge to the income statement of US$40.8 million (2006 – US$72.2 million) includes a charge for foreign exchange differences of US$1.1 million (2006 – net of a credit of US$0.5 million).

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset):

	2007 US$m	2006 US$m
Deferred tax assets	14.7	3.1
Deferred tax liabilities	(375.6)	(323.2)
Net deferred tax balances	(360.9)	(320.1)

26 Deferred Tax continued

At 31 December 2007, the Group had unused tax losses of US$72.1 million (2006 – US$21.7 million) available for offset against future profits. A deferred tax asset has been recognised in respect of US$55.8 million (2006 – US$4.3 million) of such losses. No deferred tax asset has been recognised in respect of the remaining US$16.3 million (2006 – US$17.4 million) due to the unpredictability of future profit streams. These losses may be carried forward indefinitely.

At 31 December 2007, other deductible temporary differences for which no deferred tax assets were recognised in the balance sheet amounted to US$5.7 million (2006 – US$13.9 million).

At 31 December 2006, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was US$2,882.4 million (2006 – US$2,184.5 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 probable that such differences will not reverse in the foreseeable future.

Temporary differences arising in connection with the interest in associate are insignificant.

27 Long-term Provisions

	2007 US$m	2006 US$m
Balance at the beginning of the year	(9.8)	(9.8)
Charge to operating profit in the year	(0.5)	(0.6)
Release of discount to net interest in the year	(0.5)	(0.4)
Acquisition (see Note 30)	–	(0.8)
Disposal (see Note 31)	–	0.8
Utilised in year	–	0.8
Foreign currency exchange difference	(0.1)	0.2
Balance at the end of the year	(10.9)	(9.8)
Analysed as follows:		
Decommissioning and restoration	(10.4)	(9.4)
Termination of water concession	(0.5)	(0.4)
Balance at the end of the year	(10.9)	(9.8)

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 40 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.

28 Share Capital and Other Reserves

a) Share capital

The ordinary share capital of the Company is as follows:

	2007 Number	2006 Number	2007 US$m	2006 US$m
Authorised				
Ordinary shares of 5p each	**1,300,000,000**	1,300,000,000	**118.9**	118.9

	2007 Number	2006 Number	2007 US$m	2006 US$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.

At the Company's Annual General Meeting and the separate class meetings of the ordinary and preference shareholders of the Company held on 14 June 2006, resolutions were passed to:

- increase the authorised share capital from £12,727,000 to £67,000,000 by the creation of 1,085,460,000 ordinary shares of 5p each;
- issue, by way of bonus issue, four new ordinary shares of 5p each (credited as fully paid) for every one ordinary share held by the shareholders of the Company at the close of business on 16 June 2006, by applying £39.4 million from the Company's share premium account in paying up and allotting the new ordinary shares; and
- increase the voting rights of each preference share from 20 votes to 100 votes, to prevent dilution of the voting rights of each preference share as a proportion of the total votes to be exercised at a general meeting.

The ordinary shares were issued at the opening of business on 19 June 2006, and the effect of the bonus issue of ordinary shares is disclosed in the Consolidated Statement of Changes in Equity. The increase in ordinary share capital of US$73.2 million and corresponding reduction in the share premium account was recorded at the closing exchange rate on 16 June 2006.

There were no other changes in the authorised or issued share capital of the Company in either 2006 or 2007. Details of the Company's preference share capital, which is included within borrowings in accordance with IAS 32, are given in Note 22(a)(vi).

b) Other reserves

Details of the share premium account, hedging, fair value and translation reserves and retained earnings for both 2006 and 2007 are included within the Consolidated Statement of Changes in Equity on page 81.

29 Minority Interests

The minority interests of the Group are as follows:

	At 01.01.07 US$m	Share of profit for the financial year US$m	Share of dividends US$m	At 31.12.07 US$m
Los Pelambres	754.1	695.4	(642.5)	807.0
Michilla	26.5	33.5	(38.7)	21.3
Railway and other transport services	12.4	0.8	–	13.2
Total	793.0	729.7	(681.2)	841.5

The minority share of movements in reserves was less than US$0.1 million.

30 Acquisition of Subsidiaries

No acquisitions of subsidiaries or associates have been made during 2007. Details of acquisitions undertaken during 2006 are set out below.

Prior year acquisitions

a) Tethyan Copper Company Limited

On 20 April 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, following a recommended cash offer first made on 14 February 2006. The fair value of the net assets acquired, including the recognition of the fair value of the exploration licences held by Tethyan, was US$170.4 million. No further fair value adjustments to the acquisition net assets have been made during the current year.

On 14 February 2006, the Group separately entered into an agreement with BHP Billiton whereby BHP Billiton's rights to claw-back a material interest in certain of Tethyan's mineral interests ("Claw-Back Right") would be extinguished for a consideration of US$60 million. Following the disposal of 50% of Tethyan to Barrick Gold Corporation ("Barrick Gold") (see Note 31(a) below), the Group contributed US$30 million to Tethyan for its share of the cost of extinguishing the Claw-Back Right on 23 November 2006. This amount was included in the net cash outflow on acquisition for 2006.

On 22 September 2006 the Group 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. Further details of the part-disposal of Tethyan to Barrick Corporation to give effect to the joint venture are set out in Note 31(a).

b) Equatorial Mining Limited

On 24 August 2006 the Group acquired 100% of the issued share capital of Equatorial Mining Limited ("Equatorial") for a cash consideration (including transaction costs) of US$406.1 million, following a recommended cash offer first made on 15 August 2006. Equatorial's principal asset was a 39% interest in El Tesoro, in which the Group held the remaining 61% and which it had accounted for as a subsidiary.

The fair value of the net assets acquired, including a fair value adjustment to mining properties (including those mining properties held by El Tesoro), was US$268.6 million. No further fair value adjustments to the acquisition net assets have been made during the current year. The acquisition also resulted in the elimination of a minority interest of US$137.5 million recognised in the Group's balance sheet immediately prior to acquisition.

31 Disposal and Part-Disposal of Subsidiaries

No disposals or part-disposals of subsidiaries or associates have been made during 2007. Details of disposals made during 2006 are set out below.

Prior year disposals and part disposals

a) Atacama Copper Pty Limited and joint venture with Barrick Gold Corporation

On 22 September 2006, the Group entered into a 50:50 joint venture agreement with Barrick Gold Corporation ("Barrick Gold") in relation to Tethyan's mineral interests in Pakistan. The Group disposed of 50% of the issued share capital of Atacama Copper Pty Limited ("Atacama"), the immediate parent company of Tethyan Copper Company Limited, to Barrick Gold for US$86.8 million.

The book value of net assets sold of US$85.6 million represented 50% of the consolidated carrying value of Atacama and its subsidiaries including Tethyan at the date of disposal. Following the disposal, the Group has treated its remaining 50% interest in Atacama as a jointly controlled entity under the proportionate consolidation method.

The US$1.2 million profit on disposal principally represented the recovery of 50% of the exploration costs incurred and expensed by Tethyan between 20 April 2006, the date of its acquisition by the Group, and 22 September 2006, the date of the part-disposal to Barrick Gold. This amount was recorded within other operating expenses.

b) Equatorial Mining North America Inc.

On 11 December 2006, the Group entered into an agreement to dispose of Equatorial Mining North America Inc. ("EMNA"), a wholly-owned subsidiary of Equatorial Mining Limited, to Idaho General Mines Inc ("IGM"). EMNA and its subsidiaries formerly owned and operated the Tonopah copper mine in Nevada, over which they retained royalties. The consideration of US$4.9 million was received in January 2007, and has been accounted for in the current year cash flow statement. No amount has been recognised in respect of further contingent consideration of US$6.0 million which is payable should production at the Tonopah mine commence.

32 Other Transactions

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 does not have any material impact on any of the amounts included within these financial statements.

33 Notes to the Consolidated Cash Flow Statement

a) Reconciliaton of profit before tax to net cash inflow from operating activities

	2007 US$m	2006 US$m
Profit before tax	2,750.2	2,859.0
Depreciation and amortisation	162.2	145.0
Loss on disposal of property, plant and equipment	8.4	8.2
Profit on disposal of joint venture interest	(9.6)	–
Profit on disposal of available for sale investments	(10.5)	–
Net finance income	(95.4)	(53.8)
Share of profit of associate	(1.4)	(1.1)
Increase in inventories	(9.9)	(21.5)
Increase in debtors	(11.7)	(135.5)
Increase in creditors and provisions	35.4	9.8
Cash flows from operations	2,817.7	2,810.1

33 Notes to the Consolidated Cash Flow Statement continued

b) Analysis of changes in net cash

	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**

	At 1.1.06 US$m	Cash flows US$m	Other US$m	Exchange US$m	At 31.12.06 US$m
Cash and cash equivalents	1,316.8	489.2	–	(0.5)	1,805.5
Bank borrowings due within one year	(95.8)	95.4	(96.2)	(0.1)	(96.7)
Bank borrowings due after one year	(363.0)	10.4	95.8	–	(256.8)
Finance leases due within one year	(1.4)	1.7	(1.2)	–	(0.9)
Finance leases due after one year	(1.5)	0.1	1.2	–	(0.2)
Preference shares	(3.6)	–	–	(0.5)	(4.1)
Total borrowings	(465.3)	107.6	(0.4)	(0.6)	(358.7)
Movement in net cash	851.5	596.8	(0.4)	(1.1)	1,446.8

c) Net cash

	2007 US$m	2006 US$m
Cash and cash equivalents	**2,212.5**	1,805.5
Total borrowings	**(266.0)**	(358.7)
	1,946.5	1,446.8

34 Operating Lease Arrangements

	2007 US$m	2006 US$m
Minimum lease payments under operating leases recognised in income for the year	**10.9**	13.6

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:

	2007 US$m	2006 US$m
Within one year	**6.1**	9.1
In the second to fifth years inclusive	**4.6**	4.8
	10.7	13.9

Operating lease payments relate mainly to rental of plant and equipment by operating subsidiaries of the Group.

Notes to the Financial Statements continued

35 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 property, plant and equipment 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. Further details of amounts included in intangible assets and in property, plant and equipment are given in Notes 12 and 13 respectively.

Aguas de Antofagasta will also be required to transfer to ESSAN any property, plant and equipment 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 27.

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. During 2006, a regulatory review was completed, which resulted in an average reduction in tariffs (compared with previous levels) of approximately 5% from July 2006.

36 Exchange Rates in US Dollars

The principal exchange rates expressed in US dollars used in the preparation of the 2007 financial statements are as follows:

	2007	2006
Year end rates	US$1.9912 = £1; US$1 = Ch$497	US$1.9569 = £1; US$1 = Ch$532
Average rates	US$2.0004 = £1; US$1 = Ch$523	US$1.8386 = £1; US$1 = Ch$530

37 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 Menendez, are also directors of Quiñenco.

37 Related Party Transactions continued

a) Quiñenco S.A. continued

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$2.9 million (2006 – US$4.3 million) to Madeco S.A., a subsidiary of Quiñenco. The balance due from Madeco at the end of the year was US$0.2 million (2006 – US$0.4 million);
- the Group bought copper wire from Madeco for US$0.1 million (2006 – US$0.1 million);
- the Group earned interest income of US$0.2 million (2006 – US$1.0 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 US$4.7 million (2006 – US$30.1 million); and
- the Group's transport division provided trucking services for beverages amounting to US$3.2 million (2006 – US$5.0 million) to CCU S.A., an associate of Quiñenco. The balance due from CCU S.A. at the end of the year was US$0.6 million (2006 – US$0.4 million).

b) Compañía de Inversiones Adriático S.A.

In 2007, 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 (2006 – US$0.6 million).

c) Compañía Antofagasta Terminal Internacional S.A.

As explained in Note 16, 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 2007, the Group received a dividend of US$2.4 million from ATI (2006 – US$0.4 million).

d) Antomin Limited

The Group holds a 51% interest in Antomin Limited, which owns a number of copper exploration properties in Chile's II and IV Regions. These include (but are not limited to) Buey Muerto, some properties in the Sierra Gorda district (including Tesoro North-East) and a small proportion of the Esperanza project. The Group acquired its interest in Antomin Limited pursuant to an agreement in 2001 for a nominal consideration from Mineralinvest Establishment, a company controlled by the Luksic family, which continues to hold the remaining 49% of Antomin Limited. Under the terms of the acquisition agreement, the Group committed to meet in full the exploration and pre-feasibility costs relating to these properties.

During the year the Group incurred US$3.1 million (2006 – US$1.5 million) of exploration and pre-feasibility costs in respect of these properties. The cumulative amount incurred to 31 December 2007 was US$11.8 million (2006 – US$8.7 million).

e) Tethyan Copper Company Limited

As explained in Note 17(b), 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$15.1 million (2006 – US$33.0 million including US$30.0 million to extinguish BHP Billiton's claw-back right) 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$2.2 million (2006 – nil). 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 17(b).

Notes to the Financial Statements continued

37 Related Party Transactions continued

f) Acquisition of Equatorial Mining Limited

During 2006 the Group acquired Equatorial Mining Limited, a company listed on the Australian Stock Exchange in which AMP held an interest of approximately 97%. Equatorial's principal asset was a 39% interest in Minera El Tesoro, in which the Group held the remaining 61% and which it accounted for as a subsidiary. AMP was a related party of the Group for the purposes of the Listing Rules of the United Kingdom Listing Authority as it held an indirect substantial interest in Minera El Tesoro. The total consideration for the acquisition of Equatorial amounted to US$406.1 million. Further details of the acquisition are given in Note 30(b), and in the 2006 Annual Report and Financial Statements.

g) Ingeniera y Servicios Computacionales Geovectra S.A.

In 2007, the Group paid fees of approximately US$66,000 (2006 – US$78,000) for geological and technology services to Ingeniera 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 2006 and 2007. These services were on normal arm's length commerical 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 pages 72 to 75. Information relating to the remuneration of key management personnel including the Directors is given in Note 7(c).

38 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 are set out below:

a) Los Pelambres – Mauro tailings dam

(i) In November 2006, the Court of Appeals of Santiago upheld a challenge by claimants in the Pupio Valley against the Chilean Water Authority (Direccion General de Aguas) in relation to the award of one of the sectoral permits issued during 2005 for the construction of the Mauro tailings dam by Los Pelambres. The Court of Appeals has rejected four requests by the claimants that work on the dam should be suspended. This has enabled Los Pelambres to continue construction pending a final resolution by the Chilean Supreme Court, where Los Pelambres has sought to reverse the November decision as an affected party together with the Direccion General de Aguas. The Group believes that Los Pelambres has received all the necessary technical and legal permits and that these have been properly applied for and granted entirely in accordance with the applicable regulations. It is confident that this view will be upheld by the Chilean Supreme Court.

(ii) On 19 April 2007 a first instance court in Santiago upheld a claim relating to a purchase agreement entered into in 1992 between two former owners of land in the area of the Mauro tailings dam, in which the validity of that purchase agreement was challenged by the plaintiff seller. Los Pelambres, which acquired the land in 2001, participated in this trial to protect its interest and has appealed against this decision to the Court of Appeals of Santiago. The appeal has the effect of suspending the effect of the first instance resolution. The Group is confident that Los Pelambres' legal title to the land in question will be upheld on appeal. On 18 May 2007 the Court rejected a second petition by the plaintiff in that case that works on the Mauro tailings dam should cease immediately, confirming Los Pelambres' right to complete its construction. The court nevertheless has held that operation of the dam by depositing tailings cannot for the moment commence.

(iii) On 24 August 2007, a first instance court in Los Vilos notified Los Pelambres of a new claim made by the same individuals involved in other litigation against the Mauro tailings dam. The claim was filed earlier the same

38 Contingent Assets and Contingent Liabilities continued

a) Los Pelambres – Mauro tailings dam continued

week and Los Pelambres was neither notified of nor represented in the hearing. The court also notified Los Pelambres of an order to suspend those works which directly affect the Pupio stream. Los Pelambres believes that it has obtained all the necessary approvals and permits for the construction of the Mauro tailings, which was 98.5% complete at the end of 2007.

(iv) There are other claims at first instance currently in the Chilean courts against governmental authorities. These claims are not against Los Pelambres, but in some cases the company has intervened in case an eventual judgement affects the project.

Current operations are unaffected as the Quillayes dam which is expected to have capacity until early 2009 remains in use.

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 judgment 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 July 2006, Equatorial Mining Limited ("Equatorial") received notice of a claim by Errigal Limited in the New South Wales Supreme Court. Errigal claims that it is a former minority shareholder in one of Equatorial's subsidiaries whose interest was acquired by Equatorial in 1993. The claim is for amounts payable under the 1993 acquisition agreement. The Group does not agree with the interpretation of the 1993 agreement advanced by Errigal and the action will continue to be defended vigorously.

39 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 interest of Metalinvest Establishment and the E. Abaroa Foundation are given in the Directors' Report on page 62.

40 Antofagasta plc – Balance Sheet of the Parent Company and Related Notes

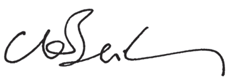
Parent Company Balance Sheet

At 31 December 2007

	Notes	2007 US$m	2006 US$m
Fixed assets			
Investment in subsidiaries	40D	665.4	665.2
Current assets			
Debtors – amounts falling due within one year		0.5	0.4
– amounts owed by subsidiaries	40D	565.0	455.0
Current asset investments (term deposits)		6.6	5.0
Cash at bank and in hand		1.1	0.6
		573.2	461.0
Creditors – amounts falling due within one year			
Other creditors		(0.9)	(0.7)
Amounts owed to subsidiaries		(299.5)	(299.5)
		(300.4)	(300.2)
Net current assets		272.8	160.8
Total assets less current liabilities		938.2	826.0
Creditors – amounts falling due after more than one year			
Preference shares	40E	(4.0)	(3.9)
Total assets less total liabilities		934.2	822.1
Capital and reserves			
Called up share capital			
– Ordinary shares – equity	40F	89.8	89.8
Reserves			
– Share premium account	40F	199.2	199.2
– Profit and loss account	40F	645.2	533.1
Shareholders' funds (including non-equity interests)	40F	934.2	822.1

Approved by the Board and signed on its behalf on 10 March 2008.

J-P Luksic
Chairman



CH Bailey
Director

40A 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 2007.

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$597.1 million (2006 – US$485.9 million).

40B 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 40D, 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.

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.

40B Principal Accounting Policies of the Parent Company continued

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.

40C Employee Benefit Expense

a) Average number of employees

The average number of employees, including any Executive Directors was 8 (2006 – 6).

b) Aggregate remuneration

The aggregate remuneration of the employees mentioned above was as follows:

	2007 US$m	2006 US$m
Wages and salaries	3.1	2.1
Social security costs	0.3	0.2
Post-employment benefits – severance charge in the year	0.1	0.1
	3.5	2.4

Remuneration includes amounts paid to Executive Directors of the Parent Company.

40D Subsidiaries

a) Investment in subsidiaries

	2007 US$m	2006 US$m
Shares in subsidiaries at cost	57.6	57.6
Amounts owed by subsidiaries due after more than one year	607.8	607.6
	665.4	665.2

40D Subsidiaries continued

a) Investment in subsidiaries continued

	Shares US$m	Loans US$m	Total US$m
1 January 2007	57.6	607.6	665.2
Loans made	–	0.2	0.2
31 December 2007	**57.6**	**607.8**	**665.4**

b) Amounts owed by subsidiaries due within one year

At 31 December 2007, amounts owed by subsidiaries due within one year were US$565.0 million (2006 – US$455.0 million).

40E 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 2007 and 31 December 2006. As explained in Note 40B(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 22(a)(vi)) at any general meeting of the Company.

40F 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 2006 (equity)	16.6	272.4	283.8	572.8
Capitalisation of share premium on bonus issue of ordinary shares	73.2	(73.2)	–	–
Profit for the financial year	–	–	485.9	485.9
Dividends paid	–	–	(236.6)	(236.6)
At 31 December 2006 and 1 January 2007	89.8	199.2	533.1	822.1
Profit for the financial year	–	–	597.1	597.1
Dividends paid	–	–	(485.0)	(485.0)
31 December 2007 (equity)	**89.8**	**199.2**	**645.2**	**934.2**

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.

40G 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 2007 which comprise the Parent Company balance sheet and the related notes 40A to 40F. 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 2007 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, the Remuneration 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 on pages 68 and 69.

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 Directors' Report is consistent with the parent Company financial statements.

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 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.

40G Independent Auditors' Report on the Parent Company Financial Statements to the Members of Antofagasta plc continued

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 2007;
- 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 & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
10 March 2008

FINANCIAL STATEMENTS

Five Year Summary

Information for the years 2004, 2005 and 2006 and 2007 is stated under IFRS. Information for the year 2003 is stated under UK GAAP based on the 2004 financial statements, without adjustment for any subsequent changes in UK GAAP which would have applied in 2005, 2006 or 2007.

	IFRS 2007 US$m	IFRS 2006 US$m	IFRS 2005 US$m	IFRS 2004 US$m
Consolidated Balance Sheet				
Intangible assets	**207.7**	205.3	97.7	93.2
Property, plant and equipment	**2,679.8**	2,373.7	1,820.0	1,796.1
Investment property	**3.5**	3.2	3.4	3.2
Investment in associate	**2.5**	3.5	2.8	2.9
Trade and other receivables	**32.0**	39.3	–	–
Derivative financial instruments	**1.4**	–	–	–
Available for sale investments	**3.3**	6.2	0.1	0.1
Deferred tax assets	**14.7**	3.1	6.6	1.6
Non-current assets	**2,944.9**	2,634.3	1,930.6	1,897.1
Current assets	**2,910.6**	2,450.7	1,849.0	1,302.3
Current liabilities	**(366.6)**	(513.9)	(389.1)	(404.5)
Non-current liabilities	**(582.4)**	(623.0)	(627.5)	(724.9)
	4,906.5	3,948.1	2,763.0	2,070.0
Share capital	**89.8**	89.8	16.6	16.6
Share premium	**199.2**	199.2	272.4	272.4
Reserves (retained earnings and hedging, translation and fair value reserves)	**3,776.0**	2,866.1	1,752.7	1,176.5
Equity attribtutable to equity holders of the Company	**4,065.0**	3,155.1	2,041.7	1,465.5
Minority interests	**841.5**	793.0	721.3	604.5
	4,906.5	3,948.1	2,763.0	2,070.0

	UK GAAP 2003 US$m
Consolidated Balance Sheet	
Intangible fixed assets	90.6
Tangible fixed assets	1,863.2
Investment in associate	–
Other investments	0.4
Fixed assets	1,954.2
Current assets	451.9
Current liabilities	(308.9)
Long-term liabilities and provisions	(848.2)
	1,249.0
Share capital (including preference shares)	21.0
Share premium	300.4
Reserves (profit and loss and revaluation)	584.5
Shareholders' funds (including non-equity interests)	905.9
Minority interests	343.1
	1,249.0

	IFRS 2007 US$m	IFRS 2006 US$m	IFRS 2005 US$m	IFRS 2004 US$m
Consolidated Income Statement				
Group turnover	**3,826.7**	3,870.0	2,445.3	1,942.1
Total profit from operations and associates	**2,654.8**	2,805.2	1,507.3	1,203.4
Profit before tax	**2,750.2**	2,859.0	1,536.3	1,198.5
Income tax expense	**(638.4)**	(664.9)	(308.1)	(241.9)
Minority interests	**(729.7)**	(839.8)	(502.4)	(377.1)
Net earnings (profit attributable to equity holders of the Company)	**1,382.1**	1,354.3	725.8	579.5
EBITDA(2)	**2,824.0**	2,957.3	1,674.1	1,356.7

	UK GAAP 2003 US$m
Consolidated Profit and Loss Account	
Turnover(1)	978.0
Operating profit	387.3
Profit before tax	357.2
Tax	(64.4)
Minority interests	(112.1)
Profit after tax and minorty interests	180.7
EBITDA(2)	524.3

	IFRS 2007 US cents	IFRS 2006 US cents	IFRS 2005 US cents	IFRS 2004 US cents
Earnings per share(3)				
Basic earnings per share	**140.2**	137.4	73.6	58.8

	UK GAAP 2003 US cents
Earnings per share(3)	
Earnings per share	18.3

See footnotes on page 142.

Dividends to Ordinary Shareholders of the Company[3]

	IFRS			
	2007	2006	2005	2004
	US cents	US cents	US cents	US cents
Dividends per Share Proposed in relation to the Year				
Ordinary dividends (interim and final)	**8.6**	8.2	8.0	7.8
Special dividends	**41.0**	40.0	14.0	8.0
	49.6	48.2	22.0	15.8
Dividends per share paid in the year and deducted from equity	**49.2**	24.0	16.0	7.8

	IFRS			
	2007	2006	2005	2004
	US$m	US$m	US$m	US$m
Consolidated Cash Flow Statement				
Cash flow from operations	**2,817.7**	2,810.1	1,647.5	1,253.5
Interest paid	**(20.2)**	(24.6)	(23.3)	(32.5)
Dividends from associates	**2.4**	0.4	1.0	–
Income tax paid	**(806.0)**	(498.2)	(343.8)	(14.3)
Net cash from operating activities	**1,993.9**	2,287.7	1,281.4	1,206.7
Investing activities				
Acquisitions and disposals of subsidiaries, joint ventures, associates and available for sale investments and recovery of VAT	**36.3**	(394.5)	7.7	2.9
Purchases and disposals of property, plant and equipment	**(481.7)**	(506.6)	(218.9)	(80.2)
Interest received	**111.3**	77.6	37.9	11.1
Net cash used in investing activities	**(334.1)**	(823.5)	(173.3)	(66.2)
Financing activities				
Dividends paid to equity holders of the Company	**(485.0)**	(236.6)	(155.4)	(76.5)
Dividends paid to preference holders and minorities	**(681.4)**	(630.8)	(385.8)	(113.5)
New borrowings less repayment of borrowings and finance leases	**(93.2)**	(107.6)	(139.4)	(263.3)
Movement on medium term deposits[5]	–	–	–	27.0
Net cash used in financing activities	**(1,259.6)**	(975.0)	(680.6)	(426.3)
Net increase in cash and cash equivalents[6]	**400.2**	489.2	427.5	714.2

See footnotes on page 142.

Dividends to Ordinary Shareholders of the Company[3]

	UK GAAP
	2003
	US cents
Ordinary Dividends per Share – Equity	
Ordinary dividends (interim and final)	7.0
Special dividend[4]	22.2
	29.2

	UK GAAP
	2003
	US$m
Consolidated Cash Flow Statement[5]	
Net cash inflow from operating activities	510.2
Tax	(12.9)
Acquisitions and disposals	(195.2)
Capital expenditure and financial investment	(78.2)
Equity dividends paid	(58.2)
Returns on investment and servicing of finance	(108.7)
Net cash outflow from financing	(111.4)
Management of liquid resources – movement in medium-term deposits[5]	52.9
Net cash outflow in the year	(1.5)
Net cashflow in the year before movement in term deposits[6]	109.9

Five Year Summary continued

	IFRS			
	2007	2006	2005	2004
	US$m	US$m	US$m	US$m
Consolidated Net Cash				
Cash and cash equivalents	**2,212.5**	1,805.5	1,316.8	881.4
Short-term borrowings(7)	**(101.8)**	(97.6)	(97.2)	(104.7)
Medium and long-term borrowings(7)	**(164.2)**	(261.1)	(368.1)	(498.1)
	(266.0)	(358.7)	(465.3)	(602.8)
Net cash at the year-end	**1,946.5**	1,446.8	851.5	278.6

	UK GAAP
	2003
	US$m
Consolidated Net Debt	
Cash at bank and in hand	7.6
Current asset investments	188.1
	195.7
Loans due within one year(8)	(166.7)
Loans due after more than one year(8)	(690.8)
	(857.5)
Net debt at the year-end	(661.8)

(1) Turnover is presented net of tolling charges for concentrate sales and the comparatives for 2003 have been restated accordingly.

(2) EBITDA refers to Earnings Before Interest, Tax, Depreciation and Amortisation and is defined in Note 5(a)(i)(vii) to the financial statements. EBITDA for 2006 and 2007 is reconciled to operating profit from subsidiaries and joint ventures in the Financial Review on page 26.

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

(4) During 2003, Antofagasta plc demerged its 33.6% investment in Quinenco S.A. As a result of the demerger, ordinary shareholders in Antofagasta received a special dividend on one share in Andsberg Limited for each share held in Antofagasta. Andsberg is an unlisted Jersey-registered company which has as its principal asset the investment in Quiñenco. The Andsberg shares were redeemable for a limited period at 22.2 cents per share (US$111 per share prior to the restatement for the 2006 bonus issue) and this value has been used to derive the value of the total dividend per share of 29.2 cents (restated) for 2003.

(5) The order of presentation of items of the summary UK GAAP cash flow statements for 2003 has been amended to facilitate comparison with the summary IFRS cash flow statements for 2004, 2005, 2006 and 2007.

(6) Short-term cash investments maturing within three months of acquisition previously disclosed under UK GAAP as "current asset investments" are classified under IFRS as "cash equivalents". Due to these differences in classification, the net increase in cash and cash equivalents under IFRS does not correspond to the net cash outflow in the year under UK GAAP. For the summary UK GAAP cash flow statement for 2003, net cashflow in the year before movement in term deposits has been computed to provide a more comparable (but not equivalent) measure to net increase in cash and cash equivalents under IFRS.

(7) Borrowings under IFRS include amounts due under finance leases and preference shares.

(8) Loans under UK GAAP include amounts due under finance leases.

Mining Production and Sales, Transport and Water Statistics

For the year ended 31 December 2007

	Q1	Q2	Q3	Q4	2007 Year	2006 Year
Group Total						
Total copper production volume ('000 tonnes)	105.9	106.1	100.6	115.4	428.1	465.5
Total copper sales volume ('000 tonnes)	106.3	107.8	84.6	129.8	428.5	467.8
Total molybdenum production volume ('000 tonnes)	2.1	2.8	2.5	2.7	10.2	9.8
Total molybdenum sales volume ('000 tonnes)	2.2	2.7	2.5	2.6	10.0	9.9
Weighted average realised copper price (cents per pound)	297.1	380.2	371.2	277.2	326.6	329.5
Realised molybdenum price (dollars per pound)	27.4	33.6	33.5	32.0	31.7	24.6
Weighted average cash costs (cents per pound)						
– excluding by-product credits and tolling charges	76.2	94.0	94.3	97.8	90.6	68.0
– excluding by-product credits	93.4	115.3	116.7	117.0	110.7	95.6
– net of by-product credits	35.8	24.8	30.1	35.5	31.6	40.2
Los Pelambres (60% owned)						
Daily average ore treated ('000 tonnes)	125.0	126.0	120.9	133.3	126.3	127.4
Average ore grade (%)	0.71	0.70	0.68	0.73	0.71	0.81
Average recovery (%)	92.5	91.9	91.1	93.6	92.3	88.7
Concentrate produced ('000 tonnes)	186.5	202.6	208.8	274.3	872.1	842.6
Average concentrate grade (%)	39.6	36.5	32.9	30.7	34.5	39.9
Fine copper in concentrate ('000 tonnes)	73.1	73.6	68.9	84.5	300.1	335.2
Payable copper in concentrate – production volume ('000 tonnes)	70.7	71.1	66.6	81.6	289.9	324.2
Payable copper in concentrate – sales volume ('000 tonnes)	71.9	71.3	49.7	96.5	289.4	324.8
Average moly ore grade (%)	0.033	0.030	0.027	0.030	0.030	0.028
Average moly recovery (%)	66.7	75.6	78.7	76.8	74.2	76.1
Payable moly in concentrate – production volume ('000 tonnes)	2.1	2.8	2.5	2.7	10.2	9.8
Payable moly in concentrate – sales volume ('000 tonnes)	2.2	2.7	2.5	2.6	10.0	9.9
Realised copper price (cents per pound)	304.8	392.6	387.2	267.9	328.3	335.0
On-site and shipment costs (cents per pound)	64.7	82.0	77.3	80.6	76.3	56.4
Tolling charges for concentrates (cents per pound)	25.7	31.9	33.8	27.3	29.6	39.7
Cash costs (before by-product) (cents per pound)	90.4	113.9	111.1	107.9	105.9	96.1
By-product credits (cents per pound)	(86.3)	(135.2)	(130.8)	(115.4)	(116.7)	(79.7)
Cash costs (cents per pound)	4.2	(21.3)	(19.6)	(7.5)	(10.8)	16.4
El Tesoro (100% owned; 61% until 24 August 2006)						
Daily average ore treated ('000 tonnes)	27.8	26.3	24.7	28.5	26.8	28.7
Average ore grade (%)	1.21	1.25	1.27	1.19	1.23	1.16
Average recovery (%)	77.4	77.3	79.4	77.0	77.8	78.1
Copper cathodes – production volume ('000 tonnes)	23.6	23.2	22.5	23.7	93.0	94.0
Copper cathodes – sales volume ('000 tonnes)	22.2	24.6	23.8	22.7	93.3	95.3
Realised copper price (cents per pound)	278.9	360.5	358.7	307.1	327.6	316.4
Cash costs (cents per pound)	87.4	106.5	116.9	128.6	109.8	78.6
Michilla (74.2% owned)						
Daily average ore treated ('000 tonnes)	15.2	15.4	15.1	13.7	14.8	15.2
Average ore grade (%)	1.04	1.04	1.04	1.00	1.03	1.05
Average recovery (%)	81.2	78.3	78.3	78.5	79.1	78.2
Copper cathodes – production volume ('000 tonnes)	11.6	11.8	11.4	10.2	45.1	47.3
Copper cathodes – sales volume ('000 tonnes)	12.2	11.9	11.1	10.6	45.8	47.7
Realised copper price (cents per pound)	284.8	346.5	326.5	297.0	313.8	318.5
Cash costs (cents per pound)	123.1	141.4	148.8	163.4	143.5	126.4
Transport (100% owned)						
Rail tonnage transported ('000 tons)	1,253	1,301	1,195	1,259	5,008	4,486
Road tonnage transported ('000 tons)	321	342	340	309	1,313	1,456
Water (100% owned)						
Water volume sold – potable and untreated ('000m^3)	10,069	9,740	9,679	10,369	39,858	37,798

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 300,000 m^3 in Q1, 266,000 m^3 in Q2, 348,000 m^3 in Q3 and 343,000 m^3 in Q4, totalling 1,258,000 m^3 for 2007 (2006 – 1,604,000 m^3).

The Q4 2007 water volumes include 77,000 m^3 of water supplied during the first nine months of 2007 but not originally recorded within those periods.

e) The totals in the table may include some small apparent differences as the specific individual figures have not been rounded.

Ore Reserve and Mineral Resource Estimates

At 31 December 2007

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. All 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. All 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 names of the Competent Persons are lodged at the registered office of Antofagasta plc in London and are available on request.

Antofagasta'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.

In previous years, ore reserve estimates included a category of possible reserves. As possible reserves are not a recognised category of reserves under the JORC Code, these have been excluded from the ore reserve estimates presented in this report and prior year estimates have been restated accordingly. The mine plan for each operation or project may include part of the inferred resource estimate and may exceed (but will not be less than) the proven and probable reserve estimates disclosed in this report. The exclusion of possible reserves from this report therefore does not imply any change to the underlying mine plan of any operation or project as compared with the previous year.

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 page 147. 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.

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 2007

Ore reserves	Tonnage millions of tonnes 2007	2006	Copper (%) 2007	2006	Molybdenum (%) 2007	2006	Gold (g/tonne) 2007	2006	Silver (g/tonne) 2007	2006
Los Pelambres (see note (a))										
Proved	1,007.0	1,030.9	0.66	0.67	0.018	0.019	0.034	0.034	1.12	1.16
Probable	660.0	633.9	0.60	0.62	0.015	0.016	0.031	0.032	0.78	0.82
Total	1,667.0	1,664.8	0.64	0.65	0.017	0.018	0.033	0.033	0.99	1.03
El Tesoro (see note (b))										
Proved	121.3	106.8	0.79	0.74	–	–	–	–	–	–
Probable	6.1	9.9	0.92	0.73	–	–	–	–	–	–
Total	127.4	116.7	0.80	0.74	–	–	–	–	–	–
Michilla (see note (c))										
Proved	6.9	8.7	0.72	0.87	–	–	–	–	–	–
Probable	5.1	6.9	1.31	1.37	–	–	–	–	–	–
Total	12.0	15.6	0.97	1.09	–	–	–	–	–	–
Esperanza sulphides (see note (d))										
Proved	349.0	–	0.59	–	0.010	–	0.250	–	–	–
Probable	131.0	–	0.50	–	0.009	–	0.200	–	–	–
Total	480.0	–	0.57	–	0.010	–	0.236	–	–	–
Group total	2,286.4	1,797.1	0.63	0.66	–	–	–	–	–	–

Mineral resources (including ore reserves)	Tonnage millions of tonnes 2007	2006	Copper (%) 2007	2006	Molybdenum (%) 2007	2006	Gold (g/tonne) 2007	2006	Silver (g/tonne) 2007	2006
Los Pelambres (see note (a))										
Measured	1,099.0	1,150.2	0.66	0.66	0.018	0.018	0.034	0.030	1.12	1.12
Indicated	810.0	815.4	0.60	0.60	0.015	0.015	0.031	0.030	0.78	0.78
Measured + Indicated	1,909.0	1,965.6	0.63	0.64	0.017	0.017	0.033	0.030	0.98	0.98
Inferred	1,019.0	973.2	0.57	0.57	0.013	0.014	0.032	0.030	0.47	0.46
Total	2,928.0	2,938.8	0.61	0.61	0.015	0.017	0.032	0.030	0.80	0.80
El Tesoro (see note (b))										
Measured	129.7	135.3	0.79	0.72	–	–	–	–	–	–
Indicated	24.7	28.7	0.70	0.69	–	–	–	–	–	–
Measured + Indicated	154.4	164.0	0.78	0.71	–	–	–	–	–	–
Inferred	13.2	1.5	0.55	0.52	–	–	–	–	–	–
Total	167.6	165.5	0.76	0.72	–	–	–	–	–	–
Michilla (see note (c))										
Measured	14.4	15.4	1.68	1.45	–	–	–	–	–	–
Indicated	31.7	32.3	1.54	1.37	–	–	–	–	–	–
Measured + Indicated	46.1	47.7	1.58	1.40	–	–	–	–	–	–
Inferred	16.6	17.9	1.28	1.22	–	–	–	–	–	–
Total	62.7	65.6	1.50	1.35	–	–	–	–	–	–
Esperanza sulphides (see note (d))										
Measured	421.5	359.3	0.56	0.61	0.011	0.011	0.220	0.250	–	–
Indicated	236.1	160.3	0.45	0.53	0.011	0.011	0.160	0.200	–	–
Measured + Indicated	657.6	519.6	0.52	0.59	0.011	0.011	0.200	0.240	–	–
Inferred	472.9	256.1	0.34	0.44	0.012	0.014	0.110	0.130	–	–
Total	1,130.5	775.7	0.45	0.54	0.011	0.012	0.162	0.204	–	–
Esperanza oxides (see note (d))										
Measured	105.1	65.4	0.36	0.43	0.007	0.007	0.155	0.190	–	–
Indicated	10.4	5.0	0.32	0.40	0.008	0.007	0.121	0.130	–	–
Measured + Indicated	115.4	70.4	0.36	0.43	0.007	0.007	0.150	0.190	–	–
Inferred	4.1	2.0	0.31	0.40	0.005	0.004	0.110	0.120	–	–
Total	119.6	72.4	0.35	0.43	0.007	0.007	0.149	0.188	–	–
Reko Diq – Western Porphyries (see note (e))										
Measured	167.0	–	0.53	–	–	–	0.336	–	–	–
Indicated	715.0	943.0	0.51	0.54	–	–	0.305	0.280	–	–
Measured + Indicated	882.0	943.0	0.51	0.54	–	–	0.311	0.280		
Inferred	3,267.0	666.0	0.49	0.54	–	–	0.286	0.310	–	–
Total	4,149.0	1,609.0	0.50	0.54	–	–	0.291	0.292	–	–
Group total	8,557.4	5,627.0	0.54	0.59	–	–	–	–	–	–

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 130 cents per pound.

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 increase in the ore reserve estimate of 2 million tonnes is due to the updating of the geological model based on infill drilling (48 million tonnes) less extraction of ore during 2007 (46 million tonnes).

The decrease in the mineral resource estimate of 11 million tonnes is due to extraction of ore during 2007 (46 million tonnes) partly offset by updating of the geological model for resources (35 million tonnes).

During 2006 and 2007, Los Pelambres carried out a primary exploration programme in the areas surrounding its open pit. The results of this programme are currently under review and have not been included in the mineral resource above.

b) El Tesoro

El Tesoro is 100% owned by the Group. During 2007, the mine plan for El Tesoro was updated to include Tesoro North-East, a deposit located near the El Tesoro open pit, and the ore reserve and mineral resource estimates for El Tesoro above are presented on a combined basis to include Tesoro North-East. Tesoro NorthEast is owned by Antomin Limited (see note (g) below), and comprises an ore reserve estimate of 28.5 million tonnes with an average copper grade of 1.03% and an ore resource estimate of 54.9 million tonnes with an average copper grade of 0.82%. The cut-off grade applied to the determination of ore reserves and mineral resources for both El Tesoro and Tesoro North-East was 0.41%.

The increase in the ore reserve estimate of 11 million tonnes is due to the inclusion of Tesoro North-East (28.5 million tonnes) less a reduction due to changes in the mine plan of the open pit since the end of 2006 (8 million tonnes) and extraction of ore during 2007 (10 million tonnes).

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% at the open pit (2006 – 0.4%), 1.2% at the underground mine (2006 – 1.2%) and 1.0% at other workings (2006 – 1.5%).

The decrease in the ore reserve estimate of 4 million tonnes is due to extraction of ore during 2007 (5 million tonnes) partly offset by updating of the geological model based on drilling during the year in respect of the underground mine and other workings (1 million tonnes).

The decrease in the mineral resource estimate of 3 million tonnes is due to extraction of ore during 2007 (5 million tonnes) partly offset by updating of the geological model based on drilling during the year in respect of the underground mine and other workings (2 million tonnes).

d) Esperanza

The Esperanza project is wholly owned by the Group. However, a small portion of the Esperanza deposit included within this project is owned by Antomin (see note (g) below) and the ore reserve and mineral resource estimates above are shown inclusive of the portion held by Antomin. Esperanza completed a feasibility study and received board approval for its development during 2007 and an ore reserve estimate was accordingly established during the year. The cut-off grade applied to the determination of ore reserves and mineral resources in 2007 was 0.2% equivalent copper (2006 – mineral resources only – 0.3%).

The increase in the mineral resource estimate compared with 2006 was principally due to the reduction in the cut-off grade to 0.2% equivalent copper as part of the economic evaluation in the course of the feasibility study.

e) Reko Diq

The Group holds a 50% interest in Tethyan Copper Company Limited ("Tethyan"), a joint venture with Barrick Gold Corporation. Tethyan owns a 75% interest in an exploration licence ("EL-5") encompassing the Reko Diq prospects, in which the Government of Balochistan holds the remaining 25%, giving the Group an effective 37.5% interest in these properties. Tethyan also owns a 100% interest in certain other licences ("EL-6 and EL-8").

In 2007, Tethyan completed a detailed drilling programme at the Western Porphyries deposit (the H14 and H15 zones) within EL-5, resulting in the updated mineral resource estimate above of 4.1 billion tonnes (2006 – 1.6 billion tonnes). The cut-off grade applied to the determination of mineral resources in both years was 0.3% equivalent copper.

In addition, the resource estimates at other deposits within EL-5 of 0.8 billion tonnes with an average copper grade of 0.45% and 0.22 g/t of gold have not been updated, giving the previous resource estimate reported in 2006 of 2.4 billion tonnes.

f) Other resources

The ore reserves and mineral resources disclosed in the table above relate only to the Group's current operations and its principal projects. The Group also owns or is interested in a number of other properties which have been the subject of exploration programmes, some of them not made under JORC standards but currently under review. These include:

(i) In the Sierra Gorda district:

- various oxide deposits in the Sierra Gorda region with a combined mineral resource estimate of 241 million tonnes with an average copper grade of 0.48%. Some of these properties are owned by Antomin Limited (see note (g) below).
- the Telegrafo deposit which is wholly owned by the Group. Preliminary estimated resources are 404 million tonnes of 0.41% copper, 0.1 g/t of gold and 0.013% of molybdenum at Telegrafo Norte and 898 million tonnes of 0.45% copper, 0.17 g/t of gold and 0.013% of molybdenum at Telegrafo Sur, both based on a 0.3% cut-off grade for copper.
- Caracoles, a porphyry copper-gold system in which the Group has an 81.5% interest.

(ii) the Antucoya deposit, for which the mineral resource estimate is 531.4 million tonnes with an average copper grade of 0.39% (2006 – 460 million tonnes with an average copper grade of 0.41%). The increase resulted from the completion of a drilling programme during 2007. The Antucoya deposit includes Buey Muerto, which is owned by Antomin Limited (see note (g) below), and which comprises a mineral resource of 205 million tonnes with an average copper grade of 0.39% included in the estimate for Antucoya.

(iii) other properties principally in Chile's II and IV Regions, with an estimated mineral resource around 1.4 billion tonnes with a copper grade between 0.44% and 0.55%.

g) Antomin Limited

The Group holds a 51% interest in Antomin Limited ("Antomin"), which owns a number of copper exploration properties in Chile's II and IV Regions. The Group acquired its interest in Antomin pursuant to an agreement in 2001 for a nominal consideration from Mineralinvest Establishment, a company controlled by the Luksic family, which continues to hold the remaining 49% of Antomin. Under the terms of the acquisition agreement, the Group committed to meet in full the exploration costs (including costs incurred during the pre-feasibility stage) in respect of these properties. Antomin's properties include (but are not limited to) Buey Muerto (which forms part of Antucoya), Tesoro North-East and a small proportion of the Esperanza project. Further details are set out in Note 37(d) to the financial statements.

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 II 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.

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 2007 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).

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.

CECOM
Company Ethics Committee.

CECOR
Corporate Ethics Committee.

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
Principal legislation for United Kingdom company law.

Company
Antofagasta plc.

CONAMA
Comisión Nacional del Medio Ambiente de Chile (Chilean National Environmental Commission).

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 wholly-owned subsidiary of the Group incorporated in Chile.

EMS
Environmental Management System.

EPS
Earnings per share.

Equatorial
Equatorial Mining Limited, a wholly-owned subsidiary of the Group incorporated in Australia.

Esperanza
Minera Esperanza, a wholly-owned subsidiary of the Group Company incorporated in Chile.

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 II 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 II 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, representing approximately 82% of the UK's market capitalisation.

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, representing approximately 98% of the UK's market capitalisation.

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.

Michilla
Minera Michilla S.A., a 74.2%-owned subsidiary of the Group incorporated in 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.

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.

Sterling
United Kingdom currency.

SVS
Superintendencia de Valores y Seguros de Chile, the Chilean securities regulator.

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.

Glossary and Definitions continued

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 orebody 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.

PM10 Limit
The air quality standard PM-10 (Environmental Protection Agency – US) includes particles with a diameter of 10 micrometres (10 microns) or less (0.0004 inches or one-seventh the width of a human hair).

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 and Class Meetings

The Annual General Meeting and Class Meetings will be held at Church House Conference Centre, Dean's Yard, Westminster, London SW1P 3NZ from 10.30 a.m. on Wednesday, 11 June 2008.

Shareholder Calendar 2008

30 April 2008	Quarterly Production Report – Q1 2008
7 May 2008	Ex Dividend Date for 2007 Final Dividend
9 May 2008	Record Date for 2007 Final Dividend
29 May 2008	Quarterly Financial Report – Q1 2008
11 June 2008	Annual General Meeting
12 June 2008	Payment Date for 2007 Final Dividend
31 July 2008	Quarterly Production Report – Q2 2008
28 August 2008	Interim Results Announcement – Half Year 2008
17 September 2008	Ex Dividend Date for 2008 Interim Dividend
19 September 2008	Record Date for 2008 Interim Dividend
9 October 2008	Payment Date for 2008 Interim Dividend
4 November 2008	Quarterly Production Report – Q3 2008
27 November 2008	Quarterly Financial Report – Q3 2008

Dividends

Details of dividends proposed in relation to the year are given in the Directors' Report on pages 60 and 61, and in Note 11 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 record date of 9 May 2008.

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 43.4 cents per ordinary share will be paid on 12 June 2008 to shareholders on the register at the close of business on 9 May 2008. The conversion rate for final dividends to be paid in sterling will be set on 13 May 2008.

Share Capital

Details of the Company's share capital are given in Note 28 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

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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 Class Meetings and on the Group's website.

Directors and Advisors

Directors

J-P Luksic	Chairman
C H Bailey	Non-Executive
G S Menendez	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 & Touche 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

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