

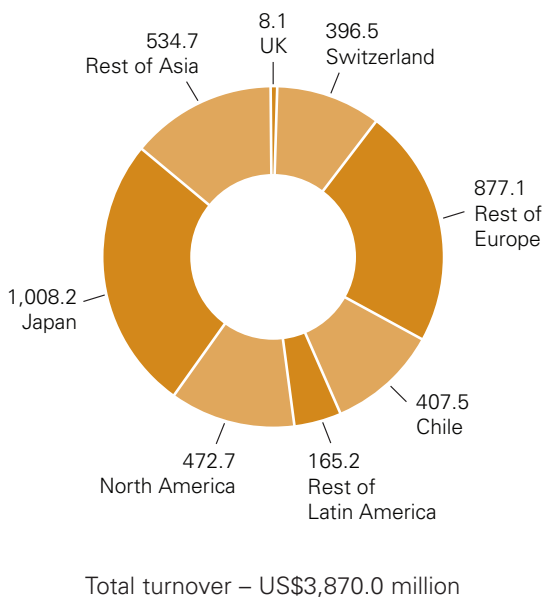
Chairman's Review



Geographical locations – operations, projects and exploration

Geographical analysis of turnover by location of customer

US\$ million



Overview

Group Performance

The Group produced record results against a background of optimum market conditions. Profit before tax was up 86.1 per cent to US\$2,859.0 million (2005 – US\$1,536.3 million) with earnings per share up 86.7 per cent to US 137.4 cents (2005 – US 73.6 cents). LME copper prices averaged US 305.3 cents per pound (2005 – US 167.1 cents per pound), an increase of 82.7 per cent, which in real terms is the highest it has been since 1966. Molybdenum market prices settled at US\$24.8 per pound, still a historically high price but down from the average of US\$32.0 per pound in 2005. Payable copper production fell marginally to 465,500 tonnes from 467,300 tonnes in 2005 due to lower grades as anticipated. Molybdenum production increased from 8,700 tonnes in 2005 to 9,800 tonnes. Group cash costs rose significantly during the year to US 40.2 cents per pound from US 13.9 cents per pound in 2005 due to several factors including increased treatment and refining

charges, higher price participation with smelters, lower by-product credits from molybdenum and higher on-site costs.

During 2006 the Group continued to develop and expand its mining operations. Los Pelambres, which produced 324,200 tonnes of payable copper, marginally ahead of 2005, increased throughput capacity at the concentrator from 125,000 tonnes per day to 140,000 tonnes per day. Construction of the Mauro tailings dam moved ahead with completion scheduled for the last quarter of 2007. Preliminary results from the first stage of an exploration programme focused to the south east of the Los Pelambres orebody in order to identify additional resources have been encouraging. El Tesoro produced 94,000 tonnes of cathodes after increasing its throughput to counter lower ore grades and lower recovery rates. Michilla produced 47,300 tonnes of cathodes, 1.9 per cent above 2005, with increasing throughput and higher recovery rates.

The Esperanza project is now near to completion of its feasibility study and expects to submit an Environmental Impact Assessment (EIA) in the near future. Following environmental and board approvals, Esperanza is expected to be developed as a copper-gold mine producing an average of 175,000 tonnes of payable copper in concentrate and 197,000 ounces of gold annually over the first 13 years of its mine life. Molybdenum production after year four is also expected.

Two acquisitions were completed during the year:

- the purchase of Tethyan Copper Company Limited ("Tethyan"), registered in Australia, and the subsequent joint venture arrangement with Barrick Gold Corporation; and
- the purchase of Equatorial Mining Limited, whose principal asset was a 39 per cent interest in El Tesoro, increasing the Group's interest in this mine to 100 per cent.

The Group's transport and water divisions produced very favourable results. FCAB's road and rail networks increased their overall tonnage carried and Aguas de Antofagasta (ADASA) increased sales of water to both its domestic customers and industrial users.

Economic Background

The Chilean economy grew strongly in 2006 buoyed by the exceptional value of exports of copper and other metals which increased 45 per cent to US\$59 billion generating a trade surplus of US\$23 billion and a current account surplus estimated at US\$5 billion. The pace of growth in domestic investment, however, was subdued in response to a perception among medium-sized and smaller businesses of a decline in marginal returns and consumption growth continued to be restrained by concerns over unemployment. The outcome was an increase in GDP of 4.0 per cent, marginally below initial expectations.

The public accounts were boosted by the receipt of exceptionally high tax payments from both the private mining sector – even before the new royalty tax payable from 1 January 2006 – and from Codelco, the state owned company and world's largest copper producer. The Government recorded a surplus equivalent to 7.9 per cent of GDP and decided to invest these funds mainly outside Chile in order to provide a reserve for future government expenditure. A small part of the surplus has been employed to pre-pay public debt. The Banco Central's inflation-targeting approach held consumer price inflation to 3.4 per cent in 2006, despite a slight weakening of the peso against the US dollar and the high oil prices towards the year end. Short and long term interest rates remain low by the standards of recent history.

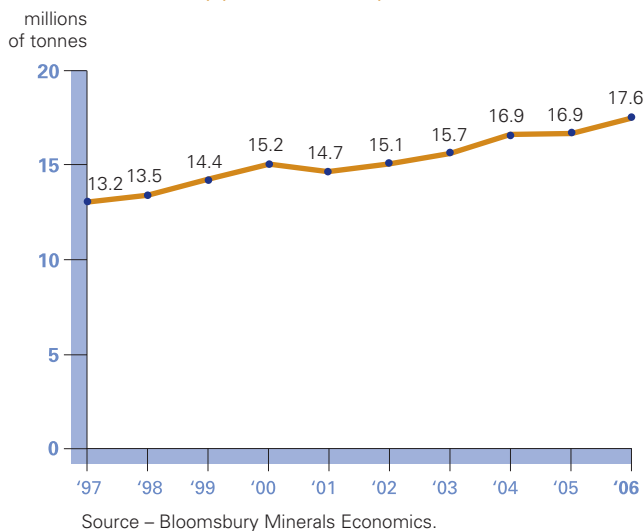
President Bachelet's left of centre Government, which took office in March 2006, appears committed to maintain the macro-economic stability established by Chile over the last 20 years although there is little expectation that it will introduce micro-economic reforms since fiscal revenues are so strong at the present time.

Prospects for 2007 are positive. Prices for most of Chile's commodity exports are still high. Salaried employment is expected to increase further in Chile this year, supporting consumption growth, and it is anticipated that Government spending will increase, particularly in infrastructure, reflecting continuing strong revenues.

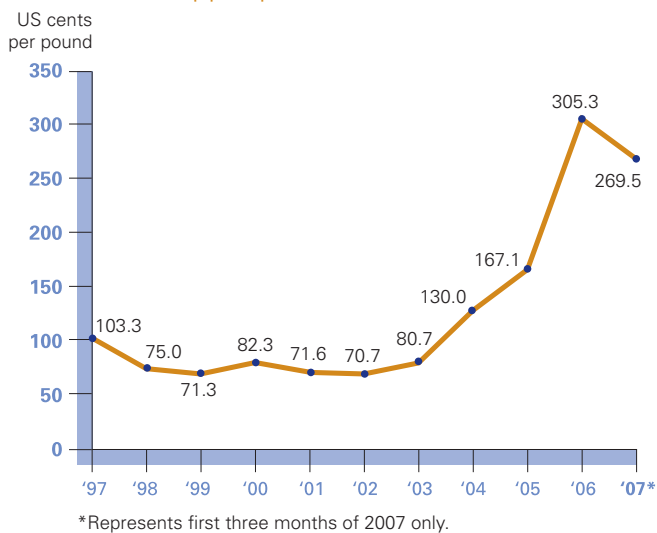
Chairman's Review continued

The international economic environment remains favourable with sustained growth in China and other Asian countries and evidence of a tentative recovery in some of the larger European economies offsetting a slowdown in the United States. However there are signs that the international economic cycle which led to the recent strong rise in commodity prices may have peaked as central banks grow more sensitive to asset price inflation and its consequences and raise short-term interest rates. It is likely that global economic growth will now see some consolidation at lower levels.

World copper consumption



LME copper price



Copper Market

Copper prices continued to trend higher in 2006 rising from US 206 cents per pound at the start of the year to US 285 cents per pound at the year end, an increase of over 38 per cent, and averaged US 305 cents per pound for the year.

Notwithstanding a slowing in the US economy, particularly in the housing construction sector, demand continued to grow supported by China which now accounts for over 22 per cent of world consumption. Other factors contributing to the rise in copper prices were lower than expected production at various mines due to strikes, and supply chain disruptions. Market fundamentals changed in the last quarter as production increased and scrap, responding to high prices, became more readily available.

This oversupply situation reversed rapidly in the first quarter of 2007 as China, it appears, finished de-stocking and producers struggled to hold production at the 2006 last quarter levels. It is possible that a deficit market could re-occur in the second quarter of 2007 which is normally the peak consumption period.

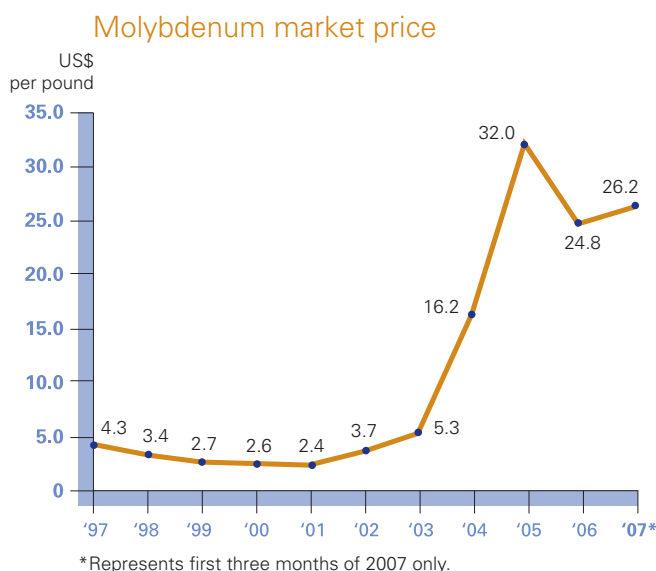
Overall inventories of refined copper are still at historically low levels of about two and a half weeks consumption and concentrate inventories have fallen below last year's levels. The consensus view is that most stocks have been consumed and working stocks at smelters are below desired levels. Supply growth is expected to increase by 4.5 per cent but could again fall short of expectations due to the challenges that the mining industry is facing such as declining grades, limited availability of mining equipment, uncertainty on power and water supplies and, in some cases, shortages of skilled labour. Increased environmental regulations are causing delays to mine expansions and new mine production. On the other hand, demand is expected to continue growing at a rate close to 3.5 per cent which may be an underestimate as the effect of any re-stocking could put pressure on the market which is nearly balanced.

The outlook for copper prices, supported by fundamentals, remains strong and market commentators forecast an average price of over US 260 cents per pound for 2007, continuing at a similar level in 2008.

Molybdenum Market

Molybdenum prices eased back gradually to average US\$24.8 per pound in 2006 compared to US\$32.0 per pound in 2005, but offtake remains strong for molybdenum, particularly for steel and alloys. Prices may again return to the high levels of 2005 due to continued robust demand in the present situation of low inventories and negligible supply growth.

No significant increases in production are expected during 2007 as the main producers in Chile and Peru, representing 30 per cent of world production, foresee a reduction of up to 10 per cent in their output. Increased molybdenum production from the United States, Canada, Mexico and possibly China is expected to add only 2.5 per cent to total world production. The vulnerability of the market to supply problems could, therefore, push prices to exceed US\$30.0 per pound during the coming months.



Mining

Antofagasta Minerals S.A. – AMSA

(100 per cent owned)

AMSA is the corporate centre of the mining side of the Group's business with overall responsibility for developing and implementing the strategy for managing the mining assets. In addition AMSA is charged with finding, evaluating and developing new projects and business opportunities across the mining group.

AMSA also provides legal and financial services to Antofagasta's mining, transportation and water operations and manages the marketing and sales of the mining division.

Los Pelambres (60 per cent owned)

Los Pelambres achieved its best ever results in 2006 due to record copper prices, historically strong molybdenum prices and good production figures.

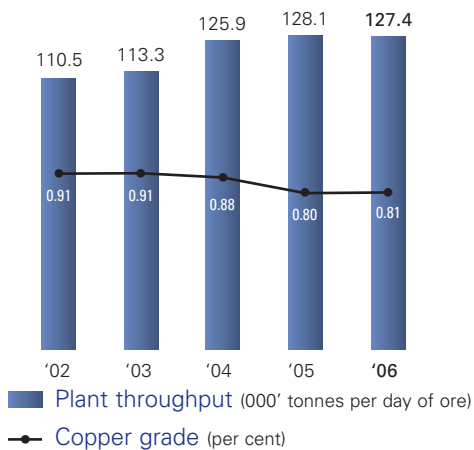
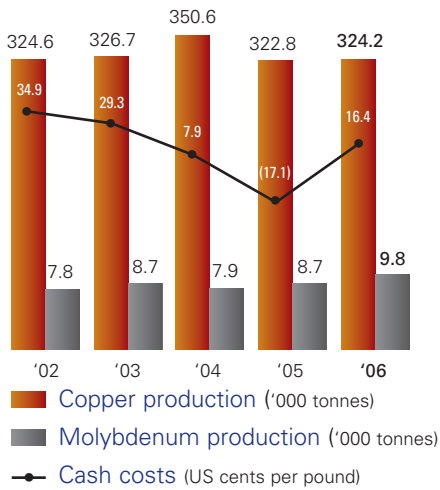
Operating profits increased to US\$2,223.7 million from US\$1,350.4 million in 2005 as LME copper prices averaged US 305.3 cents per pound and molybdenum prices averaged US\$24.8 per pound. The company was able to pay US\$1,450.0 million in dividends to its shareholders.

Production of payable copper was 324,200 tonnes in 2006 compared to 322,800 tonnes in 2005 with an improved copper grade of 0.81 per cent compared to 0.80 per cent last year. Molybdenum production increased by 13 per cent to 9,800 tonnes from 8,700 tonnes due to higher grades of 0.028 per cent compared to 0.022 per cent and better recovery rates. The average price of molybdenum for 2006 was US\$24.8 per pound against US\$32.0 per pound in 2005.

Los Pelambres still ranks among the ten lowest cost copper producers in the world although cash costs increased sharply to US 16.4 cents per pound compared to a negative US 17.1 cents per pound in 2005 – due mainly to lower molybdenum by-product credits.

Chairman's Review continued

Selected data for Los Pelambres



Los Pelambres



The US\$180 million concentrator plant expansion project initiated in mid 2005 to boost ore throughput from 125,000 tonnes per day to 140,000 tonnes per day was substantially completed on schedule and under budget. The repowering of the two SAG mills, the installation of a fifth ball mill and additional flotation cells contributed to higher production earlier than expected for 2006. The feasibility study for a further expansion to 175,000 tonnes per day throughput within the existing environmental approval will be completed by mid-2007.

The first stage of a two year exploration programme to identify additional resources beyond the present 2.9 billion tonnes has been encouraging. Preliminary indications show the existence of a potential copper-gold porphyry adjacent and south-east of the Los Pelambres orebody and a molybdenum zone may be discovered.

No major accidents occurred at Los Pelambres in 2006 and the mine was awarded for the third time in six years the highest Certificate for Safety by the Servicio Nacional de Geología y Minería.

Los Pelambres will enter wage negotiations with its mine and port union in September 2007 and with its plant union in July 2008. Labour agreements in Chile are for a minimum period of two years and a maximum period of four years.

Copper production in 2007 is expected to be 321,000 tonnes with a grade of 0.74 per cent copper, slightly down on 2006 because of a larger percentage of harder rock. Molybdenum production is expected to increase from 9,800 tonnes to 11,000 tonnes in 2007.

El Mauro Tailings Dam

The Mauro dam, which will provide storage capacity for the tailings from the 2 billion tonnes of ore reserves at Los Pelambres, is 80 per cent complete with cumulative costs of US\$323 million incurred by the end of 2006. This will support the mine life to 2047 at current production levels.

Project costs have risen substantially, mainly in the areas of steel, energy and mining equipment while

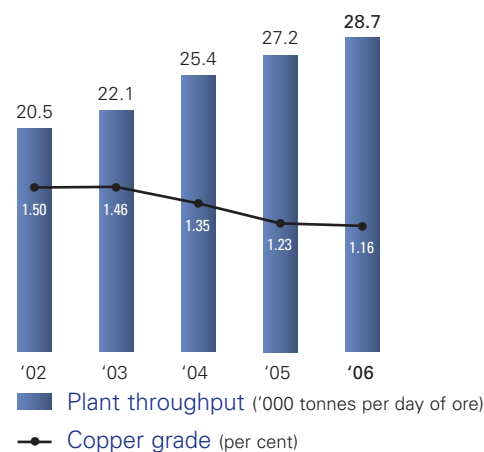
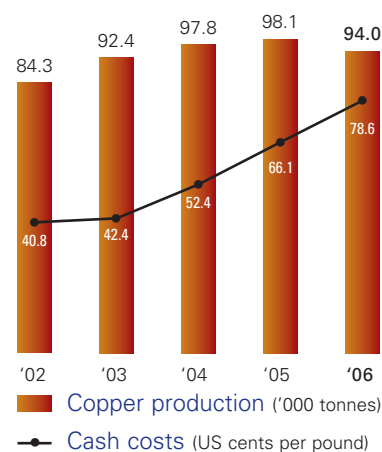
labour costs in US dollars have risen due to the continued strengthening of the Chilean peso. Final costs for the Mauro dam are expected to be in the region of US\$534 million (before any further appreciation of the Chilean peso), a substantial increase over the original budget due to the factors mentioned above but also because of permitting delays and inferior rock quality encountered in two of the three tunnels totalling 8.4 kms.

Los Pelambres has been mindful of its responsibilities in the region spending over US\$25 million on improvements to infrastructure for the local communities and on providing aid and assistance to local farmers and small businesses affected by this project.

In November 2006, the Court of Appeals of Santiago upheld a challenge by claimants in the Pupio Valley against the Chilean Water Authority (Dirección General de Aguas) in relation to the granting of one of the sectoral permits relating to the El Mauro tailings dam. In December, however, the Court of Appeals rejected a second request by the claimants that work on the dam should be suspended and confirmed that Los Pelambres was entitled to continue construction pending a final resolution by the Chilean Supreme Court, to whom Los Pelambres had appealed, as an affected party, together with the Dirección General de Aguas. Management of Los Pelambres continues to believe that all the technical and legal permits it has received have been correctly applied for and granted and is confident that this view will be upheld by the Chilean Supreme Court. Construction is continuing on schedule. There are other claims at first instance currently in the Chilean courts against third parties (either governmental authorities or former owners of land in the El Mauro area). These claims are not against Los Pelambres but in some instances the company has participated in these legal procedures in case an eventual judgement affects the project.

The Mauro project, which began in late 2004, is expected to be completed in the last quarter of 2007.

Selected data for El Tesoro



El Tesoro

(100 per cent owned – from 24 August 2006)

El Tesoro produced 94,000 tonnes of Grade A cathode in 2006, compared to 98,100 tonnes in 2005. The decrease resulted from lower ore grades of 1.16 per cent down from 1.23 per cent in 2005 despite the increase of 5.5 per cent in throughput. However, El Tesoro benefited from the strong premium obtained in a tight cathode market and achieved above average copper prices of US 316.4 cents per pound compared to US 175.7 cents per pound in 2005.

Operating profit has more than doubled to US\$409.9 million from US\$172.9 million in 2005. This includes the impact of a hedging programme implemented in 2005 and completed in 2006, which reduced operating profit by US\$44.8 million. Cash costs averaged US 78.6 cents per pound up

Chairman's Review continued

from US 66.1 cents in 2005 and resulted from a combination of higher input costs and operational factors which included higher acid consumption and lower ore grades. The price of sulphuric acid for example, which is an important input for cathode production, is expected to rise 23 per cent from 2006 to US\$82.7 per tonne in 2007.

In August 2006, the Group acquired the remaining 39 per cent interest in Minera El Tesoro through the acquisition of Equatorial Mining Limited, Australia, at a cost of US\$406.1 million (including directly attributable costs). Equatorial's interests in North America were subsequently sold to Idaho General Mines for US\$4.9 million.

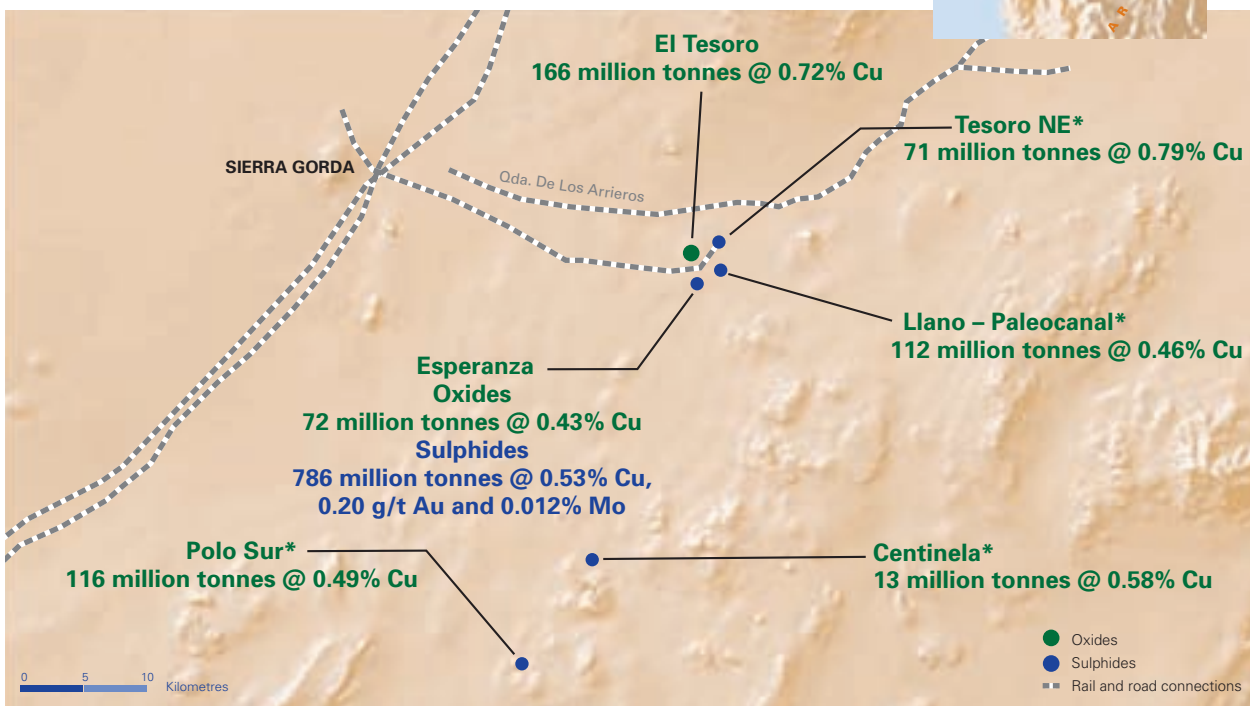
The acquisition of Equatorial Mining Limited will enable the Group to consolidate its position in the Sierra Gorda mining district where it already owns or

has a 51 per cent controlling interest through Antomin Limited in several mining properties containing oxide and/or sulphide resources. As announced in 2001 these properties were part of a mining portfolio acquired from the Luksic family which hold the remaining interest. An exploration programme in the district will be started in the third quarter in order to assess the potential synergies in this portfolio of properties.

Cathode production in 2007 will be marginally lower due to an expected lower ore grade of 1.15 per cent and costs are expected to be higher at around US 100 cents due to increased acid consumption, lower production and similar adverse cost factors as in 2006.

Bank debt, which was US\$27.9 million at the year end, will be reduced by a further US\$14.0 million in 2007.

El Tesoro and Esperanza



* Properties 51% controlled by the Group.

Other than El Tesoro, the above resources do not form part of the Group's statement of reserves and resources.

Michilla (74.2 per cent owned)

Total production of Grade A cathode increased by 1.9 per cent to 47,300 tonnes compared to 46,400 tonnes in 2005. Increased throughput and higher recovery rates were partly offset by a lower grade. Cash costs were US 126.4 cents per pound in 2006, an increase of 6.4 per cent over 2005, due mainly to the additional costs incurred in processing ore from third parties to supplement ore from Michilla's deposits and, to a lesser extent, other higher input costs.

Operating profit increased to US\$145.5 million compared with a loss of US\$31.1 million in 2005, as Michilla benefited from better copper prices and the premium obtainable in the cathode market.

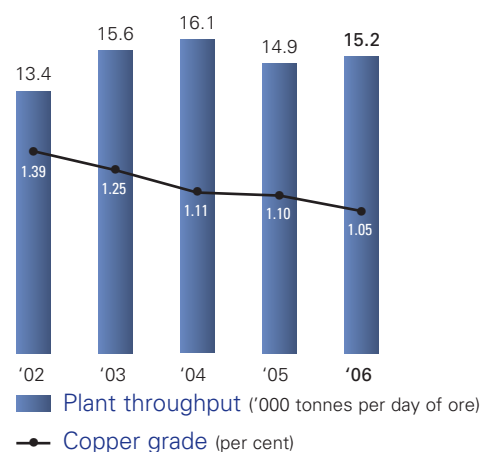
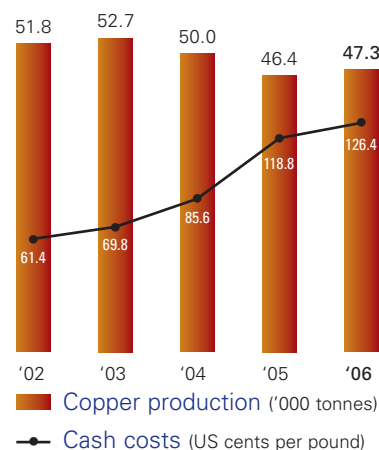
Following a technical review of its reserves, Michilla has revised its mine plan, and now estimates production of approximately 39,000 tonnes per year over the remaining three years of its mine life at an average cash cost of approximately US 130 cents per pound. Cathode production in 2007 is expected to be approximately 45,000 tonnes at a cash cost of US 136 cents per pound. Several alternative options are currently being reviewed in order to extend Michilla's mine life and the continuance of its production facilities at its SX-EW plant, including the possible development of the Antucoya – Buey Muerto deposit described on page 14.

Esperanza Copper Project

Esperanza has almost completed its feasibility study for the copper, gold and molybdenum project and now plans to submit an E.I.A. (Environmental Impact Assessment) in May 2007 with approval expected during the second quarter of 2008. All geological information as well as the data from the 2.3 km decline has been reviewed and externally audited by AMEC Consultants.

The current total copper sulphide geological resource at Esperanza is 786 million tonnes of 0.53 per cent copper, 0.20 g/t gold and 0.012 per cent molybdenum at a cut-off grade of 0.3 per cent copper. In addition, 72 million tonnes of oxide ore of 0.43 per cent copper at a similar cut-off grade of 0.3 per cent are confirmed. To date 70 per cent of the total resource is in the measured-and-indicated category. Following Board and environmental approvals, Esperanza, which

Selected data for Michilla



Chairman's Review *continued*

is located four kms from the El Tesoro oxide deposit, would be developed as a 90,000 tonnes per day mine producing 175,000 tonnes of payable copper in concentrate and 197,000 ounces of gold annually for the first 13 years of its 16 year mine life. Molybdenum production is planned to commence from year five until year 16 due to its location in the orebody.

Esperanza contemplates using seawater in its processing facilities combined with a newly developed thickened tailings disposal system (TTD) which is anticipated to be more acceptable environmentally in this desert mining region of Chile where fresh water resources are increasingly limited.

Antucoya – Buey Muerto

In May 2006, the Group acquired the Antucoya property from Soquimich for US\$8.0 million plus a future net smelter return. Antucoya is estimated to contain 322 million tonnes of oxide ore with an average copper grade of 0.4 per cent, and is adjacent to Buey Muerto, a deposit in which the Antofagasta Group has a controlling interest and which is estimated to contain 138 million tonnes of oxide ore with a grade of 0.43 per cent. The Group has a 51 per cent interest in Buey Muerto, which was acquired on the same terms in 2001 as the Sierra Gorda properties referred to on page 12.

The Group is currently conducting initial engineering and technical studies as well as further drilling to examine the viability of on-site leaching of the deposits to provide enriched solution to utilise any excess capacity at Michilla's SX-EW plant. By the end of 2006, 19,000 metres of drilling had been completed and the studies are expected to be concluded in the second half of 2007.

Tethyan Copper Company Limited

(50 per cent owned)

In the course of 2006 the Group, through its subsidiary Atacama Copper Pty Limited, registered in Australia, acquired 100 per cent of the Tethyan Copper Company Limited. Subsequently a joint venture was entered into with Barrick Gold Corporation of Canada which acquired a 50 per cent interest in Atacama Copper Pty Limited. Tethyan then cancelled the claw-back rights held by BHP Billiton. The overall cost to the Antofagasta Group of this acquisition and the

claw-back rights was US\$113.6 million of which US\$30 million was the Group's share of the claw-back cost.

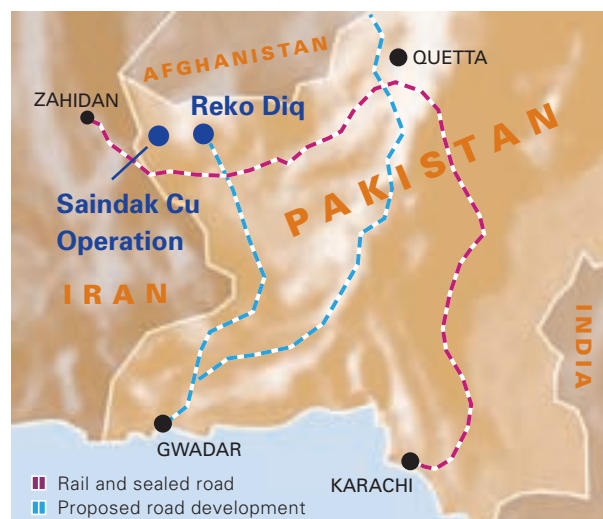
Tethyan's main asset is a 75 per cent interest in the exploration licence encompassing the Reko Diq prospect in the Chagai Hills region of South West Pakistan. The remaining 25 per cent is owned by the Balochistan government. Atacama Copper also owns through Tethyan 100 per cent of other licences in the same area but exploration has not yet begun on these properties.

Tethyan has reported total indicated and inferred mineral resource estimates at these properties of 2.4 billion tonnes with a copper grade of 0.51% and a gold grade of 0.27g/t.

The drilling programme at Reko Diq is concentrated mainly in the Western Porphyries and Tanjeel areas. The company is currently studying power and water requirements and improving access roads. Accommodation facilities at the camp have been upgraded and improvements to the medical facilities have been made. Health and safety issues are being treated as a top priority and an air strip is being built in order to improve communication to this remote site.

Antofagasta believes that this acquisition in partnership with Barrick Gold presents an excellent opportunity to explore in an interesting and under developed prospective mining area of the world.

Tethyan



Exploration

The Group's exploration programme has become much more global although we continue to concentrate on Chile in particular and Latin America in general. This has necessitated a substantial expansion of our geology and corporate finance teams.

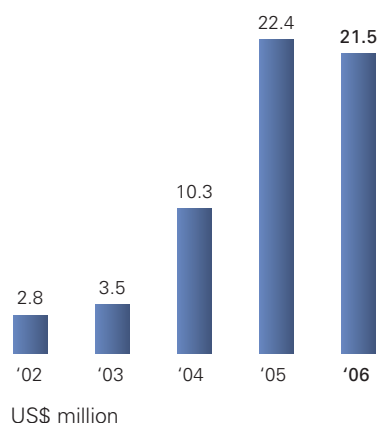
Colombia – Joint Venture with AngloGold Ashanti

On 14 July 2006, the Group announced a Head of Terms agreement with AngloGold Ashanti Limited ("AngloGold"), one of the world's largest gold producers. This sets out the terms of the proposed Colombia joint venture agreement to explore, discover and develop copper and gold mining projects in an area of interest in southern Colombia extending over approximately 30,000 square kilometres. AngloGold has agreed to contribute its mineral interests in the area covered by the joint venture and Antofagasta has committed to funding US\$1.3 million in exploration costs over a period of twelve months. The agreement allows Antofagasta to fund an additional US\$6.7 million in exploration costs within four years (representing a total contribution of US\$8.0 million), in exchange for an option over a 50 per cent interest in the joint venture. US\$0.9 million has been spent on this venture in 2006.

Ecuador – Exploration Agreement with Ascendant Copper

On 14 November 2006 the Group signed a Letter of Agreement with Ascendant Copper Corporation ("Ascendant"), a mining company listed on the Toronto Stock Exchange, to acquire an interest in Ascendant's Chaucha Project. The Project is a copper-molybdenum prospect located in the Western Cordillera of the Andes in southern Ecuador, approximately 70 kilometres west of the town of Cuenca. The mineral concession covers an area of 2,544 hectares with applications by Ascendant in progress for further mineral concessions from the appropriate government entities. The Group has committed to fund at least US\$1 million of expenditure and will subsequently earn its equity interest of up to 60 per cent in successive stages by spending a total US\$40 million over a six-year period in four distinct phases of qualifying expenditures. These will cover exploration and advancement costs including, in the later phases, preparation of

Group exploration expenditure



a feasibility study and a final payment on completion to Ascendant. No expenditure was incurred on this project during 2006.

Peru – Sale of Cordillera de Las Minas S.A.

On 2 March 2007, the Group agreed to sell its 50 per cent interest in Cordillera de Las Minas S.A. ("CMSA") to Panoro Limited ("Panoro"), a company listed on the TSX Venture Exchange. CMSA was the joint venture entity with Companhia Vale do Rio Doce ("CVRD") through which the Group's interests in southern Peru were held. The Group's share of the consideration comprises US\$6 million plus 6 million shares in Panoro. The agreement is subject to a number of conditions including raising finance by Panoro and regulatory approvals. Subject to these conditions being met, closing is expected to occur by June 2007.

Exploration in Colombia and Ecuador



Transportation

Railway Operations – Chile

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

The Antofagasta Railway Company plc (FCAB) carried record volumes of 4.5 million tons in 2006 compared to 4.3 million tons in 2005 exceeding forecasts for the year. FCAB's main business continued to be the transportation of sulphuric acid to, and copper cathodes from, copper mines located in the Antofagasta region.

BHP Billiton's Spence mine began operations in 2006 and the San Cristobal polymetallic project located in southwest Bolivia is on schedule and is expected to start shipments of concentrates through the Chilean port of Mejillones in the third quarter of 2007.

Freight carried grew 3.5 per cent over 2005 as various important mining customers increased their shipments of cathodes and sulphuric acid including El Abra, Escondida, Zaldivar, Lomas Bayas and the Group's El Tesoro mine.

The record tonnages in 2006 followed the massive build-up which has been taking place in the mining sector in the Antofagasta region over the last decade. In order to ensure long term services and resources several mining companies have recently entered into 12-year transportation contracts with the FCAB, thus

building confidence between both parties into the future. Additional tonnages are expected in 2007 from the Spence mine located 107 kilometres from Antofagasta and from San Cristobal, owned by Apex Silver Mines, which estimates its production at 550,000 tonnes of lead, silver and zinc annually starting in October 2007.

In preparation for this incremental tonnage the FCAB has already conditioned locomotives and rolling stock, including 216 modified flatcars and twelve General Motors GR.12 locomotives. At the same time the mainline on the Andino railway in Bolivia has been upgraded with heavier rail in order to withstand the increased axle loads in the future. The new business from San Cristobal will boost FCAB's tonnage by more than 10 per cent from 2008 and will establish an important new rail connection from the interior of Bolivia to the Pacific port of Mejillones.

Railway Operations – Bolivia

Andino network (50 per cent owned)

The Andino railway (FCA) managed by FCAB and connecting with the Chilean network at Ollague, maintained its tonnage at the 2005 level.

During 2006 the Andino upgraded its track and completed the conditioning of locomotives and modifying flat cars in preparation for the transportation of the products of the San Cristobal mine in South West Bolivia mentioned above.



FCAB and Andino rail networks

Road Transport

Train Ltda. (100 per cent owned)

Train Ltda maintained the levels of its expanded road transport operation and increased its overall freight business.

Deliveries of sulphuric acid from transfer terminals operated by FCAB increased during 2006 and are expected to increase substantially in 2007, as mine expansions and new mines enter into production.

The business of transporting quicklime to the Collahuasi and Chuquicamata mines utilising the 16 newly acquired silo trucks has been successful.

Train Ltda. continues to form an important part of FCAB's road and rail transportation business.

Port Operations – Chile

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

The port of Antofagasta, which is currently being expanded, is operated by ATI under a 30 year concession. Antofagasta, which is the principal port in northern Chile, has been designated as a dry cargo port as opposed to the port of Mejillones which will in the future handle concentrates and other bulk cargo.

ATI, which is a strategic investment for FCAB, has contributed positively to the results of the transport division since its acquisition in December 2004.



Chairman's Review continued



Water distribution system of Aguas de Antofagasta



Water and Forestry

Water

Aguas de Antofagasta S.A. (100 per cent owned) Aguas de Antofagasta (ADASA) had a successful third year of operations under its 30 year concession and continued implementing a long term programme aimed at reducing water losses, cutting costs and improving services to its domestic consumers. All three targets were achieved during 2006.

Water sales to domestic users increased by 11 per cent to 30.1 million cubic metres while sales to mines and industrial users increased by 56 per cent to 7.7 million cubic metres reflecting renewed demand from the mining sector. After expanding its pipeline network ADASA has started supplying water to BHP Billiton's Spence mine under a fifteen year contract.

The quantity of available water, which traditionally has been obtained from the Rio Loa and the Loa basin, is increasingly inadequate due to increased demand from industrial users, towns and agriculture throughout the II Region. In the future, in addition to an existing desalination plant already providing ADASA with water and located to the north of Antofagasta, supplies in the region will be supplemented from other desalination plants due to be built along the Pacific coast.

Environmental and water authorities are now restricting the quantity of water that can be taken from both the Rio Loa and the aquifers in the Loa Basin, and will be monitoring the water flows by satellite.

The treatment plant in Calama is now being repaired and upgraded which from July 2007 will enable ADASA to begin the supply of treated water to industrial users and mines as well as continue to provide drinking water to the city of Calama.

ADASA remains committed to four main objectives:

- to continue to reduce water losses;
- to improve services to its domestic customers;
- to reduce costs while maintaining quality and reliability of supply; and
- to meet the demands from mining and industrial customers.

A collective wages and conditions agreement with the workers' representative union was signed in January 2006 and is binding on all parties for a period of four years.

Forestry

Forestal S.A. (100 per cent owned)

During 2006, Forestal planted 402 hectares on its Releco Puñir and Huilo-Huilo properties as part of its five year re-forestation programme. Oregon pine was the predominant species but Eucalyptus Nitens, Sequoia and Rauli were also selected in order to maintain a balance of native trees.

Sales of timber from thinning and clearing forests again contributed to reduce the cost of maintaining the properties and an office and lodge with accommodation was built at Releco Puñir during the year, to reduce travel time and improve management's supervision over these large properties.

The two forests, with a total of 32,000 hectares and located around Lake Panguipulli in Chile's X Region, are believed to have considerable long term potential for development as communications and infrastructure improve.

Chairman's Review continued

Outlook

Copper prices are expected to range from US 265 cents to US 330 cents per pound in 2007, as overall fundamentals remain positive. Demand is expected to be supported by strong growth in China, India, Russia and the larger European countries and inventories of both refined copper and concentrates are at historically low levels. LME prices have averaged US 269.5 cents per pound in the first quarter of 2007.

Molybdenum prices have averaged US\$26.2 per pound in the first quarter of 2007, and given the demand for its usage in steel and alloy fabrication in the steel industry and for catalysts in the oil and gas industries, prices should continue to remain well above historical levels in the near future.

The production outlook for 2007 at the Group's mines is for 456,000 tonnes of payable copper and 11,000 tonnes of molybdenum, the latter coming exclusively from the Los Pelambres mine.

Group mining costs remain competitive and although industry costs have risen appreciably, Antofagasta will benefit from expected strong demand and high metal prices.

Both FCAB and ADASA will benefit from an expected upsurge in mining activity in 2007. FCAB expects to transport freight from BHP Billiton's Spence mine at Sierra Gorda, Escondida's sulphide leach project at Coloso and San Cristobal's polymetallic project near Uyuni in South West Bolivia.

ADASA expects to supply 4.7 million cubic metres of water to Spence and start supplying treated water from Calama to industrial users and mining operations in the region.

Finally, the Group's financial position remains strong enabling it to develop its existing assets and acquire world class mining assets as opportunities occur.

Other Corporate Matters

Corporate Governance (see also page 62)

The Group pays attention to all aspects of Corporate Governance. However, the structure of this Controlled Company having most of its assets in Chile, is unable to comply wholly with the UK corporate governance regulatory regime.

Corporate Social Responsibility (see also page 38)

The Group places great importance in safety, environmental matters, community relations, employees' health and training, and sustainable development.

It strives to equal and, if possible, exceed the best practitioners in the mining industry in these areas.

Dividends

The Board recommends a final dividend of US 43 cents per ordinary share payable on 14 June 2007 to shareholders on the Register at the close of business on 11 May 2007. The final dividend comprises an ordinary dividend of US 5 cents and a special dividend of US 38 cents. Including the interim dividend, this represents a distribution of 35 per cent 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 below, the Board has increased its recommended dividends in line with profits by means of special dividends in these years of high copper prices.

Dividends⁽¹⁾

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

(1) Further details relating to dividends are given in Note 11 of the financial statements.

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

The cost of the final dividend, including related withholding taxes, is approximately US\$541 million. This compares with a net cash position (on an attributable basis) of US\$1,363 million. The Board 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 of the Group which could amount to approximately US\$3 billion over a number of years should it proceed with its existing portfolio of projects and opportunities; 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.

Board Changes

Philip Adeane

Philip Adeane was Managing Director from 1982 to 2005 and a Non-Executive Director from 2005 to September 2006.

During this period he made valuable contributions to Antofagasta's success which are greatly appreciated by the Board and Executives of the Company.

Philip Adeane continues his involvement with the Group as a Senior Advisor.

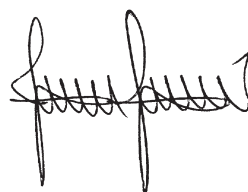
William Hayes

William Hayes, 62 years of age, joined the Board as a Non-Executive Director in September 2006. Mr. Hayes brings a wealth of experience in the mining industry, especially internationally, having been a senior executive with Placer Dome Inc. for 18 years. He is also a former President of the Consejo Minero, an industry body representing the seventeen largest international mining companies operating in Chile.

Antofagasta's Team

The excellent work and effort made by the Group's executives, staff and employees has contributed to another record year of results and achievements.

I would like to express here my very sincere appreciation for this effort and am joined in this by my fellow Directors.



J-P Luksic

Chairman

5 April 2007