

# Financial Review

## Basis of Preparation

The Group's financial statements on pages 76 to 129 have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The accounting policies followed are set out in Note 2 to the financial statements.

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

## 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 6 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 33 to 35. 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 38 to 57.

		2006	2005
Turnover	US\$m	3,870.0	2,445.3
EBITDA	US\$m	2,957.3	1,674.1
Earnings per share	US cents	137.4	73.6
Capital expenditure	US\$m	539.0	186.3
Net cash	US\$m	1,446.8	851.5
Copper production	'000 tonnes	465.5	467.3
Molybdenum production	'000 tonnes	9.8	8.7
Realised copper price (per pound)	US cents	329.5	185.2
Realised molybdenum price (per pound)	US\$	24.6	31.4
Cash costs (per pound, net of by-product credits)	US cents	40.2	13.9

Comparative amounts for earnings per share have been restated for the effects of the 4-for-1 bonus issue on 19 June 2006.

## Production and Sales Volumes

	Production		Sales	
	2006 '000 tonnes	2005 '000 tonnes	2006 '000 tonnes	2005 '000 tonnes
<b>Copper</b>				
Los Pelambres	324.2	322.8	324.8	319.1
El Tesoro	94.0	98.1	95.3	96.1
Michilla	47.3	46.4	47.7	45.3
<b>Group total</b>	<b>465.5</b>	<b>467.3</b>	<b>467.8</b>	<b>460.5</b>
<b>Molybdenum</b>				
Los Pelambres	9.8	8.7	9.9	8.5

## Production volumes

Group copper production in 2006 was 465,500 tonnes, 5.4% above the original forecast for the year of 441,500 tonnes but 0.4% below the amount produced in 2005.

Los Pelambres produced 324,200 tonnes of payable copper (2005 – 322,800 tonnes). This exceeded the original forecast for 2006 of 308,000 tonnes, with better than expected ore grades of 0.81% (compared with initial estimates for the year of 0.77%) and completion of the concentrator plant expansion ahead of schedule, which enabled the ore throughput to average 127,400 tonnes per day (despite lower throughput in the first half when harder rock was processed) and to reach nearly 140,000 tonnes per day in the final quarter of the year. This compared with ore grades of 0.80% and throughput of 128,100 tonnes per day in 2005.

Production at El Tesoro was 94,000 tonnes (2005 – 98,100 tonnes). As expected, lower ore grades of 1.16% (2005 – 1.23%) offset the increase in ore throughput following the plant expansion carried out in 2005. Production was nevertheless ahead of the original forecast for 2006 of 91,600 tonnes.

Michilla's production in 2006 was 47,300 tonnes, a 1.9% increase over the 2005 production level of 46,400 tonnes. This resulted from increased throughput and higher recoveries, partly offset by the lower ore grade. Production was also ahead of the original forecast for 2006 of 41,900 tonnes.

Molybdenum production at Los Pelambres reached 9,800 tonnes (2005 – 8,700 tonnes), an increase of 12.6% due to improved grades in the area mined during the year. Los Pelambres is also credited for the gold and silver content in the copper concentrate sold.

Further details of throughput, grade and recoveries at each mine are given in the Mining Production, Transport and Water Statistics on page 140.

## Sales volumes

The volume of copper sold increased by 1.6% from 460,500 tonnes in 2005 to 467,800 tonnes this year. The increase was mainly due to timing differences in shipment and loading schedules which resulted in minor reductions in inventory levels, offsetting the marginal decrease in production. Molybdenum shipments in the year, reflecting similar timing differences, totalled 9,900 tonnes.

## Transport and water volumes

Rail and road transport volumes at the transport division in 2006 were 4.5 million tons (2005 – 4.3 million tons) and 1.5 million tons (2005 – 1.5 million tons) respectively. Rail volumes were 3.5% above 2005 due to increases across various mines and the start-up of the Spence copper project.

At Aguas de Antofagasta the volume of water sold in 2006 increased by 14.3% from 33.1 million cubic metres to 37.8 million cubic metres this year, as a result of higher domestic consumption and increased sales to industrial customers; this included 2.3 million cubic metres to Spence which started operations during the second half of 2006.

## Financial Review continued

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

	Cash costs		Realised prices	
	2006 US cents	2005 US cents	2006 US cents	2005 US cents
<b>Copper</b>				
Los Pelambres	16.4	(17.1)	335.0	189.2
El Tesoro	78.6	66.1	316.4	175.7
Michilla	126.4	118.8	318.5	177.1
<b>Group weighted average (net of by-products)</b>	<b>40.2</b>	<b>13.9</b>	<b>329.5</b>	<b>185.2</b>
<b>Group weighted average (before deducting by-products)</b>	<b>95.6</b>	<b>77.3</b>		
<b>Cash costs at Los Pelambres</b>				
On-site and shipping costs	56.4	47.1		
Tolling charges for concentrates	39.7	27.6		
<b>Cash costs before deducting by-product credits</b>	<b>96.1</b>	<b>74.7</b>		
By-product credits (principally molybdenum)	(79.7)	(91.8)		
<b>Cash costs (net of by-product credits)</b>	<b>16.4</b>	<b>(17.1)</b>		
<b>LME average</b>			<b>305.3</b>	167.1
			<b>US\$</b>	<b>US\$</b>
<b>Molybdenum</b>				
Los Pelambres			24.6	31.4
<b>Market average price</b>			<b>24.8</b>	<b>32.0</b>

#### Realised prices

The Group's average realised copper price was 329.5 cents per pound (2005 – 185.2 cents), mainly reflecting the higher LME copper price which averaged 305.3 cents, 82.7% above the average price for 2005.

Realised copper prices in 2006 exceeded the LME average price of 305.3 cents because, in line with industry practice, concentrate and cathode sales generally provide for provisional pricing at the time of shipment with final pricing based on the average market price for future periods (normally 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). The strong improvement in copper prices in the first nine months of the year resulted in significant positive pricing adjustments, although this was partly offset by weakening copper prices in the final quarter.

In the case of Los Pelambres, pricing adjustments added US\$223.5 million in 2006 to initially invoiced sales (before adjusting for tolling charges), comprising US\$136.0 million in respect of sales invoiced in 2005 (net of the reversal of mark-to-market adjustments made at the end of 2005) which were finally priced in 2006 and US\$87.5 million in respect of sales invoiced in 2006 (net of a mark-to-market provision for open sales at the end of the year of US\$110.1 million when the copper price weakened). Pricing adjustments in 2006 at El Tesoro or Michilla (which relate almost entirely to sales invoiced in the year) added US\$11.7 million and US\$8.9 million respectively. El Tesoro and Michilla also continued to benefit from strong cathode premiums reflecting tight market conditions in the year.

The realised molybdenum price averaged US\$24.6 per pound (2005 – US\$31.4 per pound), the decrease reflecting the lower market average price in the year. Molybdenum prices are also subject to provisional pricing but as prices remained steady through the year, the realised price did not differ significantly from the average market price of US\$24.8 per pound (2006 – US\$32.0 per pound).

Further details of the pricing adjustments made to provisionally invoiced sales of copper and molybdenum concentrates at Los Pelambres are given in Note 21(b) to the financial statements.

### Cash costs

Group weighted average cash costs in 2006 were US 40.2 cents, compared with US 13.9 cents in 2005. 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 23.7% from US 77.3 cents per pound in 2005 to US 95.6 cents per pound in 2006. Cash costs at each of the Group's three mines were higher than the previous year.

Cash costs at Los Pelambres averaged US 16.4 cents per pound in 2006, compared with negative US 17.1 cents per pound in 2005. The increase was due to a combination of lower by-product credits, higher tolling charges and increased on-site and shipping costs. By-product credits decreased by US 12.1 cents mainly due to the lower molybdenum market prices. Tolling charges were US 12.1 cents higher mainly as a result of price participation with smelters as the average LME copper price increased significantly in 2006. On-site and shipping costs averaged US 56.4 cents per pound in 2006, in line with expectations but US 9.3 cents per pound above 2005 mainly as a result of cost pressures including oil, plant and machinery hire and freight costs.

At El Tesoro, cash costs rose in line with forecasts to US 78.6 cents per pound compared with US 66.1 cents per pound in 2005. The expected increase resulted from a combination of input cost pressures (including exchange rates and inflation) and operational factors, including higher acid consumption due to an increased level of carbonates and the effect of the lower ore grade on production.

Cash costs at Michilla for 2006 were US 126.4 cents per pound, marginally lower than forecast but US 7.6 cents per pound higher than 2005. The increase was mainly due to the higher cost of processing third party ore and, to a lesser extent, higher input costs.

## 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

	2006 US\$m	2005 US\$m
<b>Turnover</b>	<b>3,870.0</b>	2,445.3

Group turnover increased by 58.3% to US\$3,870.0 million, compared with US\$2,445.3 million in 2005. The increase was mainly due to higher realised copper prices at all three mines as explained above. The Group also benefited from improved molybdenum volumes and higher sales at the transport and water divisions. These factors were partly offset by increased tolling charges for copper concentrate and lower molybdenum prices. The reasons for the improved prices and changes in volumes are explained in this Financial Review on pages 23 and 24 as well as in the discussion contained in the Chairman's Review on pages 6 to 21.

### Turnover from copper concentrate and copper cathodes

Turnover from copper concentrate and copper cathode sales from the Group's three mines increased by 83.5% to US\$3,144.7 million, compared with US\$1,713.4 million in 2005. In 2006, sales of copper concentrate and copper cathodes represented 81.3% 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\$10.3 million and earnings per share by 0.5 cents, based on production volumes in 2006, and without taking into account the effects of provisional pricing and hedging activity.

## Financial Review continued

Tolling charges for copper concentrates at Los Pelambres increased from US\$166.9 million in 2005 to US\$254.0 million in 2006, mainly as a result of the effect of the higher copper price on price participation with smelters. Tolling charges are deducted from concentrate sales in reporting turnover and hence partly offset the effect of improved copper prices.

### Turnover from by-products

Turnover from by-products at Los Pelambres decreased by 5.0% to US\$556.3 million in 2006 compared with US\$585.7 million in 2005, mainly due to lower molybdenum market prices. A one dollar change in the average molybdenum price for the year would affect turnover and profit before tax by US\$21.6 million, and earnings per share by US 1.1 cents, based on production volumes in 2006, and without taking into account the effects of provisional pricing.

Lower molybdenum prices were partly offset by better sales volumes which increased by 16.5% to 9,900 tonnes as a result of higher production and, to a lesser extent, lower inventory levels due to shipment timings. Gold and silver by-product revenues increased significantly to US\$42.5 million (2005 – US\$22.9 million) due to higher metal prices and increased volumes.

### Turnover from the transport and water divisions

Turnover from the transport division increased by US\$12.8 million or 13.8% to US\$105.3 million, reflecting increased rail volumes and higher tariffs in 2006. Tariffs are indexed to cost factors including inflation, the peso-dollar exchange rate and fuel costs.

Turnover at Aguas de Antofagasta, which operates the Group's water business, increased by US\$10.0 million or 18.6% to US\$63.7 million in 2006, mainly due to increased volumes as a result of both higher domestic and industrial consumption.

## EBITDA and operating profit from subsidiaries and joint ventures

	2006 US\$m	2005 US\$m
<b>EBITDA</b>	<b>2,957.3</b>	1,674.1
Depreciation and amortisation	(145.0)	(128.0)
Loss on disposals	(8.2)	(9.7)
Impairment charge	–	(30.0)
<b>Operating profit from subsidiaries and joint ventures</b>	<b>2,804.1</b>	1,506.4

EBITDA (earnings before interest, depreciation, tax and amortisation) increased by 76.7% from US\$1,674.1 million in 2005 to US\$2,957.3 million in 2006.

EBITDA at the mining division increased by 79.3% from US\$1,602.0 million to US\$2,873.0 million, due to significantly improved turnover as explained above (resulting mainly from higher copper prices and improved molybdenum volumes), partly offset by increased operating costs as explained on pages 24 and 25. EBITDA was also affected by losses on commodity derivatives (including net mark-to-market adjustments) of US\$84.5 million at Michilla and El Tesoro, compared with a loss of US\$68.6 million in 2005. These mainly resulted from commodity derivatives entered into in 2005 which matured in 2006. Exploration and corporate costs did not change significantly in 2006 compared with 2005.

At Los Pelambres, EBITDA increased by US\$876.5 million to US\$2,297.0 million. EBITDA at El Tesoro increased from US\$203.2 million in 2005 to US\$456.0 million this year, and at Michilla EBITDA increased by US\$142.1 million to US\$158.4 million.

EBITDA at the transport division increased by US\$4.7 million to US\$42.9 million, reflecting the improved rail tariffs and higher rail volumes.

Aguas de Antofagasta (whose revenues and costs are mainly denominated in Chilean pesos) contributed US\$41.4 million compared to US\$33.9 million last year, benefiting from higher sales and the stronger exchange rate.

Depreciation and amortisation increased by US\$17.0 million to US\$145.0 million, mainly due to the depreciation of the additional mining property asset recognised at El Tesoro as a result of the acquisition of Equatorial Mining Limited, and increased depreciation at Los Pelambres, partly as a result of the commencement of depreciation of the 140,000 tonnes per day plant expansion. The loss on disposal of property, plant and equipment in 2006 was US\$8.2 million, compared with US\$9.7 million in the prior year. In 2005 an impairment charge of US\$30 million was recorded by Michilla.

As a result of the above factors, operating profit from subsidiaries and joint ventures in 2006 was US\$2,804.1 million, compared with US\$1,506.4 million in 2005, an increase of 86.1%.

#### Share of income from associate

	2006 US\$m	2005 US\$m
<b>Share of income from associate</b>	<b>1.1</b>	<b>0.9</b>

The Group's share of net profit from its 30% investment in Antofagasta Terminal Internacional S.A. ("ATI") was US\$1.1 million. This comprised share of profit before tax of US\$1.3 million less share of tax of US\$0.2 million. During 2006, a dividend of US\$0.4 million was received from ATI.

#### Net finance income

Net finance income in 2006 was US\$53.8 million, compared with US\$29.0 million in 2005 and is analysed as follows:

	2006 US\$m	2005 US\$m
Investment income	78.3	39.7
Interest expense	(26.4)	(26.0)
Mark-to-market effect of interest and exchange derivatives	0.3	2.0
Foreign exchange	1.6	13.3
<b>Net finance income</b>	<b>53.8</b>	<b>29.0</b>

Investment income comprises interest receivable, which increased from US\$39.7 million in 2005 to US\$78.3 million, due to the higher level of cash and deposit balances and higher market interest rates compared with 2005. Deposits are typically held on short-term maturities of less than three months. 93.2% (2005 – 98.1%) of the year-end cash and deposit balances were denominated in US dollars with the remainder mainly held in Chilean pesos.

Interest expense (excluding the mark-to-market effect of interest rate derivatives) increased slightly from US\$26.0 million in 2005 to US\$26.4 million, reflecting the increase in market interest rates, which offset the effect of the decrease in the level of borrowings through loan repayments during the year.

## Financial Review continued

Foreign exchange gains included in finance items were US\$1.6 million in 2006, compared with US\$13.3 million in the previous year. The 2005 results benefited from retranslation of peso-denominated inter-company receivables and cash balances due to stronger period end exchange rates. Mark-to-market gains on interest rate and exchange derivatives were US\$0.3 million in 2006 compared with US\$2.0 million in 2005.

The Group's borrowings relate mainly to Los Pelambres and El Tesoro, which represent US\$342.9 million out of total borrowings at the end of 2006 of US\$358.7 million. As at 31 December 2006 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 2006, a 1% increase in interest rates would increase interest payable by US\$3.6 million and increase interest receivable by US\$18.1 million, resulting in an overall increase in net finance income of US\$14.5 million. Details of the composition of borrowings and cash and deposits are given in Notes 20(a) and 19(d) to the financial statements.

### Taxation

The tax charge for the year comprised the following:

	2006 US\$m	2005 US\$m
<b>Current tax charge</b>		
Corporate tax (principally first category tax in Chile)	(474.2)	(296.6)
Mining tax (Royalty)	(58.5)	–
Withholding tax provision	(61.9)	(8.6)
Exchange gains on corporate tax balances	2.4	20.2
	<b>(592.2)</b>	<b>(285.0)</b>
<b>Deferred tax charge</b>		
Corporate tax (principally first category tax in Chile)	(2.4)	28.7
Mining tax (Royalty)	1.9	(0.5)
Withholding tax provision	(72.2)	(51.3)
	<b>(72.7)</b>	<b>(23.1)</b>
<b>Total tax charge (Income tax expense)</b>	<b>(664.9)</b>	<b>(308.1)</b>

The rate of first category (i.e. corporation) tax in Chile was 17% for both 2006 and 2005. New tax legislation on Chilean mining companies was passed into law with effect from 1 January 2006. This legislation established an additional tax of up to 5% of tax-adjusted operating profit, with the option for mining companies to elect for a lower rate of 4% by entering into a tax stability regime for a period of 12 years, after which the rate of 5% will apply. For 2006 and 2007, 50% of the new mining tax can 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 new mining tax will be tax deductible. Los Pelambres, El Tesoro and Michilla opted in 2005 to enter into this new tax stability agreement, and hence the effect of the legislation 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 new 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\$664.9 million (2005 – US\$308.1 million), mainly reflecting the increased profit for the year. Including both current and deferred taxes, this comprised corporate tax of US\$476.6 million (2005 – US\$267.9 million), the new Chilean mining tax of US\$56.6 million (2005 – US\$0.5 million relating to initial deferred tax charges) and withholding tax charges of US\$134.1 million (2005 – US\$59.9 million). This was partly offset by exchange gains on corporate tax balances of US\$2.4 million (2005 – US\$20.2 million).

As a result of these factors, the effective tax rate for the Group in 2006 was 23.3% (2005 – 20.1%), compared with the Chilean statutory tax rate of 17%.

### Earnings per share

	2006 US cents	2005 US cents
<b>Earnings per share</b>	<b>137.4</b>	73.6

Earnings per share calculations are based on 985,856,695 ordinary shares, being the number of shares in issue following the 4-for-1 bonus issue on 19 June 2006. Other than the bonus issue, there have been no changes to the number of shares in issue throughout 2006 or 2005.

Earnings per share increased 86.7% to US 137.4 cents, reflecting the higher profit after tax and minority interests for the year.

### Dividends

The Board's policy regarding dividends is set out in the Chairman's Review on pages 20 and 21.

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

	2006 US cents	2005 US cents
<b>Ordinary</b>		
Interim	3.2	3.2
Final	5.0	4.8
	<b>8.2</b>	8.0
<b>Special</b>		
Interim	2.0	–
Final	38.0	14.0
	<b>40.0</b>	14.0
<b>Total</b>	<b>48.2</b>	22.0

The total cost of dividends on ordinary shares proposed in relation to 2006 will be US\$475.2 million, compared with US\$216.9 million in 2005. This represents an increase of 119.1% compared with 2005. The total dividends proposed in relation to 2006 will be covered 2.9 times compared with 3.3 times in 2005.

Dividends per share actually paid in 2006 and recognised as a deduction from net equity under IFRS were US 24 cents (2005 – US 16 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 2006 was US\$236.6 million (2005 – US\$157.7 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 Report of the Directors on page 59 and in Note 11 to the financial statements.

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### Acquisitions and Disposals

The Group acquired a 100% interest in Tethyan Copper Company Limited ("Tethyan") on 20 April 2006 for a cash consideration (including transaction costs) of US\$170.4 million, following a recommended cash offer first made on 14 February 2006. On 14 February, the Group also separately entered into an agreement with BHP Billiton whereby BHP Billiton's right to claw-back a material interest in certain of Tethyan's mineral interests ("Claw-Back Right") would be extinguished for consideration of US\$60 million. 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 over Tethyan's mineral interests in Pakistan. This was achieved through the indirect sale of a 50% interest in Tethyan for a cash consideration of US\$86.8 million. The Group and Barrick Gold each contributed US\$30 million to Tethyan to allow it to extinguish BHP Billiton's Claw-Back Right on 22 November 2006.

The Group also acquired a 100% interest in Equatorial Mining Limited ("Equatorial") for a cash consideration (including transaction costs) of US\$406.1 million. Equatorial's principal asset was a 39% interest in El Tesoro, the remaining 61% of which was already owned by the Group. There is currently a claim going through the Australian Courts against Equatorial in relation to certain of Equatorial's assets. The claim is being defended and its effect is not expected to be material to the Group. An agreement to sell Equatorial's North American interests through the sale of Equatorial North America Inc. to Idaho General Mines Inc. was reached in December 2006 for cash consideration of US\$4.9 million (which was received in January 2007) and further contingent consideration of US\$6.0 million will be receivable should certain conditions be met (see Note 28(b) to the financial statements).

### Capital Expenditure

Capital expenditure amounted to US\$539.0 million (2005 – US\$186.3 million). 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.

The increase in capital expenditure compared with the prior year is mainly due to the expenditure on the Mauro tailings dam and the 140,000 tonnes per day plant expansion at Los Pelambres. During 2006 capital expenditure of US\$251.1 million was incurred in respect of Mauro (2005 – US\$50.3 million), and US\$134.3 million in respect of the plant expansion (2005 – US\$10.7 million).

### Cash Flows

The Group cash flow statement is presented on page 78. The key features are summarised as follows:

	2006 US\$m	2005 US\$m
Cash flow from operations	2,810.1	1,647.5
Income tax paid	(498.2)	(343.8)
Net interest received	53.0	14.6
Acquisitions	(487.5)	–
Disposal and part disposal of subsidiaries	84.3	–
Purchases of property, plant and equipment	(506.6)	(223.0)
Dividends paid to equity holders of the Company	(236.6)	(155.4)
Dividends paid to minority interests	(630.6)	(385.6)
Other items	8.9	12.6
<b>Changes in net cash relating to cash flows</b>	<b>596.8</b>	<b>566.9</b>
Exchange and other non-cash movements	(1.5)	6.0
Movement in net cash in the year	595.3	572.9
Net cash at the beginning of the year	851.5	278.6
<b>Net cash at the end of the year (analysed on page 32)</b>	<b>1,446.8</b>	<b>851.5</b>

Cash flows from operations were US\$2,810.1 million in 2006 compared with US\$1,647.5 million last year, reflecting the improved operating results adjusted for depreciation, amortisation and working capital movements.

Cash tax payments in the year were US\$498.2 million (2005 – US\$343.8 million), comprising corporation tax of US\$426.5 million, mining tax of US\$9.9 million and withholding tax of US\$61.8 million. These amounts differ from the current tax charge in the consolidated income statement of US\$592.2 million (2005 – US\$285.0 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 each successive year from 2004 (thereby increasing both monthly payments on account for the current year as well as settlement of the outstanding balance for the previous year), higher withholding tax payments and, to a lesser extent, monthly payments on account in 2006 for the new mining tax.

Net cash outflow from acquisitions amounted to US\$487.5 million; this amount is stated net of cash balances acquired of US\$119.0 million. The net cash outflow comprised US\$199.4 million in respect of Tethyan (net of cash balances acquired of US\$1.0 million) and US\$288.1 million in respect of Equatorial (net of cash balances acquired of US\$118.0 million).

Net cash inflow from disposals amounted to US\$84.3 million; this is stated net of cash balances disposed of US\$2.5 million. The net cash inflow comprised US\$85.7 million (net of cash balances disposed of US\$1.1 million) on the disposal of 50% of Tethyan to Barrick Gold less an outflow of cash balances of US\$1.4 million when Equatorial Mining North America Inc. was sold; the proceeds of US\$4.9 million for this latter disposal were received in January 2007.

Capital expenditure on a cash basis was US\$506.6 million in 2006 compared with US\$223.0 million in 2005. Capital expenditure on an accruals basis is explained in the Financial Review on page 30.

Dividends (including special dividends) paid to ordinary shareholders of the Company this year were US\$236.6 million (2005 – US\$155.4 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 2006 compared with 2005. Dividends paid by subsidiaries to minority shareholders were US\$630.6 million (2005 – US\$385.6 million), principally due to increased distributions by Los Pelambres and El Tesoro.

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\$8.9 million in 2006 compared with US\$12.6 million in 2005.

Foreign currency exchange differences and other non-cash movements are analysed in Note 30(b) to the financial statements.

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

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### Financial Position

	2006 US\$m	2005 US\$m
Cash and cash equivalents	1,805.5	1,316.8
Total borrowings	(358.7)	(465.3)
<b>Net cash at the end of the year</b>	<b>1,446.8</b>	<b>851.5</b>

The increase in net cash during the year was US\$595.3 million (2005 – US\$572.9 million). The principal reasons for the increase in net cash during 2006 are set out above under Cash Flows.

Repayments of borrowings and finance leasing obligations in 2006, mainly at Los Pelambres and El Tesoro, were US\$111.4 million, which included voluntary prepayments of US\$14.0 million at El Tesoro. In 2005, the repayment of borrowings amounted to US\$139.6 million, which included voluntary prepayments of US\$36.2 million at El Tesoro. New borrowings in the period amounted to US\$3.8 million (2005 – US\$0.2 million).

At 31 December 2006, the Group had cash and cash equivalents of US\$1,805.5 million (2005 – US\$1,316.8 million). Excluding the minority share in each partly-owned operation, the Group's attributable share of total cash and cash equivalents was US\$1,592.7 million (2005 – US\$1,085.8 million).

Total Group borrowings at 31 December 2006 were US\$358.7 million (2005 – US\$465.3 million). Of this, US\$230.0 million (2005 – US\$283.6 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 20(a) to the financial statements. US\$97.6 million of the total Group borrowings of US\$358.7 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 77. Net equity (i.e. equity attributable to ordinary shareholders of the Company) increased from US\$2,041.7 million at 1 January 2006 to US\$3,155.1 million at 31 December 2006, relating mainly to profit after tax and minority interests for the period less ordinary dividends declared and paid in the year. Further details are given in the Consolidated Statement of Changes in Equity on page 79.

Minority interests increased from US\$721.3 million at 1 January 2006 to US\$793.0 million at 31 December 2006, principally reflecting the minority's share of profit after tax, less the minority's share of the dividends paid by subsidiaries in the year and the elimination of the minority interest in El Tesoro through the acquisition of Equatorial Mining Limited.

### 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 21(a).

The Group occasionally uses derivative financial instruments to reduce exposure to commodity price, interest rate and foreign exchange movements. The Group does not use such derivative instruments for speculative trading purposes, and it did not apply the hedge accounting provisions of IAS 39 "Financial Instruments: Recognition and Measurement" in either 2005 or 2006. Accordingly, derivatives have been measured at fair value through the income statement in both financial years in either other operating income or expense (in the case of commodity derivatives) or financial income or financial cost (in the case of interest and exchange derivatives).

The hedge accounting provisions of IAS 39 will be applied from 1 January 2007 and changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows will be recognised directly in equity, with such amounts subsequently recognised in the income statement in the period when the hedged item affects profit or loss.

At 31 December 2006 Michilla, which is the Group's highest cost operation, had min/max instruments for 12,000 tonnes of copper production, with a weighted average floor of 281.2 cents per pound and a weighted average cap of 337.9 cents per pound. These instruments had an average duration of 6.5 months and a maximum duration of one year. Michilla also had futures for 9,600 tonnes of copper production with an average price of 306.9 cents, a weighted average duration of 6.5 months and a maximum duration of twelve months. These investments represent 50% of Michilla's forecast production for 2007. From a cash flow perspective the Group's exposure to the copper price during 2007 will be reduced by the extent of these instruments.

Details of the mark-to-market position of these instruments, together with details of interest and commodity derivatives held by the Group, are given in Note 21(c) 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 33 to the financial statements.

The currency translation adjustment charge to net equity of US\$4.3 million results mainly from the weakening in the Chilean peso during the year from Ch\$513 = US\$1 at the start of 2006 to Ch\$532 = US\$1 at the end of 2006. In 2005 the currency translation adjustment credit to net equity of US\$8.1 million resulted mainly from the strengthening of the Chilean peso in the year, from Ch\$557 = US\$1 at the beginning of 2005 to Ch\$513 = US\$1 at the end of 2005.

## 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 but does not include the effect of gains and losses on commodity derivatives, which are included as part of operating profit in 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 21(b) and 21(c) to the financial statements.

## Financial Review continued

### EBITDA

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

An explanation of EBITDA, including a reconciliation to operating profit from subsidiaries and joint ventures, is contained on pages 26 and 27 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 29 of the Financial Review and 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 30 of the Financial Review and analyses of capital expenditure by business segment and type of asset are given in Notes 5(a)(iv) 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 32 of the Financial Review and analyses of cash and cash equivalents and borrowings are given in Notes 19(d), 20(a) and 30(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, Transport and Water Statistics on page 140.

### Realised prices

Realised copper prices are determined by comparing revenues from copper sales (grossed up for tolling charges for concentrates) with sales volumes for each mine in the year, and reflect the effective prices achieved by each mine. Realised molybdenum prices are determined on a similar basis. Realised prices do not reflect the effects of commodity derivative losses which are included in other operating expenses as the Group did not apply the hedge accounting provisions of IAS 39 "Financial Instruments: Recognition and Measurement" during either 2005 or 2006.

An explanation of realised prices is given on page 24 of the Financial Review.

### Cash costs

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 concentrates at Los Pelambres. Cash costs exclude depreciation, financial income and expenses, 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.

An explanation of cash costs is given on page 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 37.

### Financial risks

The principal financial risks to which the Group is exposed include risks relating to interest rates, commodity prices, credit, cash flow and liquidity. Details of these risks are contained in the Treasury Management and Hedging section on pages 32 and 33 and in Note 21(a) 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 reserves through exploration. There is no guarantee, however, that exploration activities will identify viable mineral reserves. A failure to discover new reserves or enhance existing reserves could negatively affect the Group's results and prospects.

### Reserve estimation

The Group's resources and reserves 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.

## Financial Review continued

### 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.

### 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

Antofagasta 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 estimated reserves, 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", "believes", "expects", "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 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, and 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.