

Report of the Directors

The Directors present their Annual Report, together with the audited financial statements for the year ended 31 December 2006.

Principal Group Activities

The principal activities of the Group are copper mining, 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 and associates. The principal subsidiaries and associates that make up the Group are set out in Notes 15 and 16 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 an enhanced 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 enhanced 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 enhanced business review are fulfilled in the disclosures contained within the Chairman's Review on pages 6 to 21, the Financial Review on pages 22 to 37, the Corporate Social Responsibility report on pages 38 to 57 and the Corporate Governance report on pages 62 to 69. 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 35 and 36.

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 35 and in Note 21(a) to the financial statements.

Details of significant events since the balance sheet date, which comprise the agreement to sell the Group's interest in Cordillera de Las Minas S.A., are given in Note 36 to the financial statements.

Value of Land

Land included within property, plant and equipment is mainly held in the financial statements 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 increased from US\$1,536.3 million in 2005 to US\$2,859.0 million in 2006.

The Board has recommended a final dividend of US 43.0 cents (2005 – US 18.8 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 5.0 cents (2005 – US 4.8 cents) and a special dividend of US 38.0 cents (2005 – US 14.0 cents). An interim dividend of US 5.2 cents was paid on 12 October 2006, which comprised an ordinary dividend of US 3.2 cents (2005 – US 3.2 cents) and a special dividend of US 2.0 cents (2005 – nil). This gives total dividends per share proposed in relation to 2006 of US 48.2 cents (2005 – US 22.0 cents), including the special dividend. The total cost of dividends to ordinary shareholders (including special dividends) proposed in relation to 2006 will be US\$475.2 million, compared with US\$216.9 million in 2005. For the purpose of this paragraph, comparative dividend per share figures have been adjusted for the effect of the 4-for-1 bonus issue by the Company on 19 June 2006.

Ordinary dividends are declared in US dollars but may be paid in either US 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 US 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. If a shareholder wishes to change the currency in which it currently receives its dividends (i.e to US dollars or sterling), the Company's registrar must receive any such currency election before the record date of 11 May 2007. The exchange rate to be applied to dividends to be paid in sterling will be set on 15 May 2007. The exchange rate applied to the conversion of the interim dividend was £1 = US\$1.8993, giving those shareholders who were paid in sterling an interim dividend of 2.7379 pence per ordinary share.

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 (2005 – US\$0.2 million).

Directors

The Directors who served during the year are set out on page 2. 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 63 to 65 and in particular in the sections headed "Performance Evaluation" and "Re-election".

Mr. W M Hayes was appointed a Non-Executive Director on 29 September 2006. He was previously a senior executive with Placer Dome Inc. from 1988 to 2006. He was Executive Vice President of Project Development and Corporate Relations from 2004 to 2006, where he had responsibility for a range of capital projects in North America, Latin America and Africa. Previously, he was Executive Vice President of Placer Dome Inc. for United States and Latin America from 2000. 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 62.

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 51.

Mr. G S Menendez was appointed a Non-Executive Director in 1985. He is a director of Quiñenco S.A., Banco de Chile and Banco Latinoamericano de Exportaciones (BLADEX). Mr. Menendez is aged 58.

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 73 at the date of the Annual General Meeting.

Report of the Directors continued

Biographical details of the other Directors are given below:

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 43 at the date of the Annual General Meeting.

Mr. R F Jara was appointed a Non-Executive Director in 2003. He is a lawyer and a director of several industrial companies. Mr. Jara will be aged 54 at the date of the Annual General Meeting.

Mr. G A Luksic was appointed a Non-Executive Director in 2005. Mr. Luksic is a director of Banco de Chile and chairman of Quiñenco S.A., Compañía Cervecerías Unidas S.A. and Madeco S.A. Mr. G A Luksic is aged 51.

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 63.

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 Producción y del Comercio (Confederation of Chilean Business). Mr. Claro is aged 56.

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 71.

Substantial Shareholdings

Until 19 January 2007, persons with substantial interests in the issued share capital of the Company were required to notify the Company of such interests under sections 198 to 208 of the Companies Act 1985. As at 19 January 2007, the Company had been made aware of the following substantial interests in the issued share capital of the Company:

	Ordinary share capital %	Preference share capital %
Metalinvest Establishment	50.72	94.12
Kupferberg Establishment	9.93	–
Aureberg Establishment	4.26	–
Barclays PLC	3.99	–

On 20 January 2007 the Companies Act 1985 provisions in respect of substantial interests were repealed and the Disclosure and Transparency Rules of the Financial Services Authority came into force. As at the date of this report, the Company has been made aware under Disclosure and Transparency Rule 5 of the following holdings of voting rights exceeding the 3% notification threshold:

	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

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

Donations

The Group made charitable donations in the United Kingdom of US\$92,479 during the year ended 31 December 2006 (2005 – US\$51,863). 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 (2005 – 23 days). Each operating company is responsible for agreeing terms of payment with each of their suppliers. It is Group policy that payments to suppliers are made in accordance with terms agreed.

Environment

The Group seeks to ensure that its operations and products cause minimal harm to the environment. Care is taken to limit discharges of environmentally harmful substances and to dispose of waste material in a safe manner. Contingency arrangements and plans exist to reduce the risk of 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 38 to 57.

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 s234ZA 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

The Annual General Meeting of the Company will be held at 10.30 a.m. on 13 June 2007 at Canning House, 2 Belgrave Square, London SW1. 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
 5 April 2007