

# Directors' Report

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

## Principal Group Activities

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

The Company's principal activity is to act as a holding company. Group operations are carried out through subsidiaries, associates and joint ventures. The principal subsidiaries, associates and joint ventures that make up the Group are set out in Notes 15 to 17 to the financial statements. One subsidiary, the Antofagasta Railway Company plc, has a branch in Chile (known as the FCAB) which provides rail freight services.

## Business Review

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

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

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

The requirements of the business review are fulfilled in the disclosures contained within the Chairman's Review on pages 5 to 21, the Financial Review on pages 22 to 35, the Corporate Social Responsibility report on pages 36 to 59 and the Corporate Governance report on pages 64 to 71. A summary of

the key performance indicators considered most relevant to the Group is included within the Financial Review on page 22. A description of the principal risks and uncertainties facing the Group is included within the Financial Review on pages 33 and 35.

A description of the financial risk management objectives and policies of the Group, together with the principal risks to which the Group is exposed, is contained in the Financial Review on page 31 and in Note 24(c) to the financial statements.

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

## Value of Land

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

Land included in investment properties relates to forestry properties which the Group maintains but does not use in any of its existing operations. The land is held for long-term real estate development and recreational potential and is held in the financial statements at cost. The fair value of such land is disclosed in Note 14 to the financial statements.

## Results and Dividends

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

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

special dividend. The total cost of dividends to ordinary shareholders (including special dividends) proposed in relation to 2007 will be US\$489.0 million, compared with US\$475.2 million in 2006.

Preference shares carry the right to a fixed cumulative dividend of 5 per cent per annum. The preference shares are classified within borrowings, and preference dividends are included within finance costs. The total cost of dividends paid on preference shares and recognised as an expense in the income statement was US\$0.2 million (2006 – US\$0.2 million).

## Directors

The Directors who served during the year are set out on page 153. No Director has a service contract with the Company which cannot be terminated within 12 months.

Biographical details of those Directors seeking re-election are set out below. The reasons why the Board considers that these Directors should be re-elected are set out in the Corporate Governance statement on pages 65 to 68 and in particular in the sections headed "Performance Evaluation" and "Re-election".

*Mr. J-P Luksic* is Chairman. He was appointed a Director in 1990 and Deputy Chairman in 2000. He was also Chief Executive Officer of Antofagasta Minerals S.A. until his appointment as Chairman of the Group in 2004. He is a non-executive director of Quiñenco S.A. and Madeco S.A. Mr. J-P Luksic will be aged 44 at the date of the Annual General Meeting.

*Mr. G A Luksic* was appointed a Non-Executive Director in 2005. Mr. Luksic is a director of Banco de Chile and chairman of Quiñenco S.A., Compañía Cervecerías Unidas S.A. and Madeco S.A. Mr. G A Luksic is aged 52.

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

Society of Industrialists) and the Confederación de la Producción y del Comercio (Confederation of Chilean Business). Mr. Claro is aged 57.

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

*Mr. C H Bailey* was appointed a Director in 1987 and is the Senior Independent Non-Executive Director. Mr. Bailey is a Chartered Accountant, and a director of General Oriental Investment Limited, RIT Capital Partners plc and Atrium Underwriting plc. Mr. Bailey will be aged 74 at the date of the Annual General Meeting.

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

Biographical details of the other Directors are given below:

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

*Mr. D E Yarur* was appointed a Non-Executive Director in 2004. Mr. Yarur is a director of several Chilean companies including Banco de Crédito e Inversiones S.A., Sociedad Química y Minera S.A. and AES Gener S.A. He is also a qualified accountant. Mr. D E Yarur is aged 52.

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

## Directors' Interests

The interests of the persons (including the interests of their families) who were Directors at the end of the year, in the preference and ordinary share capital of the Company are shown on page 73.

## Directors' Report continued

### Directors' Indemnities

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

### Capital Structure

Details of the authorised and issued ordinary share capital, including details of any movements in the issued share capital during the year, are shown in Note 28. The Company has one class of ordinary shares, which carry no right to fixed income. Each ordinary share carries one vote at any general meeting of the Company. Details of the preference share capital are shown in Note 22. The preference shares are non-redeemable and are entitled to a fixed cumulative dividend of 5% per annum. Each preference share carries 100 votes on a poll at any general meeting of the Company. The nominal value of the issued ordinary share capital is 96.1% of the total sterling nominal value of all issued share capital.

There are no specific restrictions on the size of a shareholding nor on the transfer of shares, which are both governed by the general provisions of the Company's Articles of Association and prevailing legislation. Details of significant holdings in the Company's shares are set out in the Substantial Shareholdings section below.

The Company has the authority to purchase up to 98,585,669 of its own ordinary shares, representing

10 per cent of the issued ordinary share capital.

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the Combined Code, the Companies Act 1985 and related legislation. The Articles of Association may be amended by special resolution of the shareholders.

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

### Donations

The Group made charitable donations in the United Kingdom of US\$127,655 during the year ended 31 December 2007 (2006 – US\$92,479). These donations principally related to educational studies with a focus on Chile.

### Supplier Payment Policy and Creditor Days

The Company acts as a holding company and does not trade in the United Kingdom or elsewhere. Creditor days for the Group have been calculated at 33 days (2006 – 33 days). Each operating company is responsible for agreeing terms of payment with each of their suppliers. It is Group policy that payments to suppliers are made in accordance with terms agreed.

### Substantial Shareholdings

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

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

Metalinvest Establishment and Kupferberg Establishment are both controlled by the E. Abaroa Foundation, in which members of the Luksic family are interested. As explained on page 133, Metalinvest Establishment is the immediate parent company of the Group and the E. Abaroa Foundation is the ultimate parent company. Aureberg Establishment is controlled by Mr. J-P Luksic, the Chairman of the Company.

## Environment

The Group seeks to ensure that its operations and products cause minimal harm to the environment. Care is taken to limit discharges of environmentally harmful substances and to dispose of waste material in a safe manner. Contingency arrangements and plans exist to reduce the risk and limit the effect of any accidental spillage. The Group's policy is that all its operations should comply fully with or exceed applicable Chilean regulations. Further information regarding the Group's environmental performance and activities is given in the Corporate Social Responsibility report on pages 36 to 59.

## Auditors

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

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

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

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

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

## Annual General Meeting and Class Meetings

The Annual General Meeting and Class Meetings of the Company will be held from 10.30 a.m. on 11 June 2008 at Church House Conference Centre, Dean's Yard, Westminster, London SW1P 3NZ. The Notice of the Meeting, together with an explanation of the business to be dealt with at the Meeting, is included in a separate document sent to shareholders with this Annual Report.

By Order of the Board



For and on behalf of  
**Petershill Secretaries Limited**  
Company Secretary  
10 March 2008