

Financial Review

Basis of Preparation

The Group's financial statements on pages 78 to 133 have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The accounting policies followed are set out in Note 2 to the financial statements.

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

Key Performance Indicators

The Group uses a number of financial and non-financial key performance indicators in order to measure performance, which are set out below. The Group's performance in respect of these indicators is discussed within the Chairman's Review on pages 5 to 21, and within this Financial Review. Definitions of these key performance indicators, along with cross-references to where the individual measures are

reviewed and explained, are on pages 32 and 33.

Other non-financial performance indicators, including information relating to employees, health and safety and the environment, are contained within the Corporate Social Responsibility report on pages 36 to 59.

Production and Sales Volumes

Production volumes

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

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

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

Key performance indicators

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

Production and sales volumes

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

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

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

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

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

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

Sales volumes

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

Transport and water volumes

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

At Aguas de Antofagasta the volume of water sold in 2006 increased by 5.5% from 37.8 million cubic metres to 39.9 million cubic metres this year, as a

result of higher volumes to industrial customers, mainly due to the full-year impact of Spence which started its operations during the second half of 2006.

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

Realised prices

The Group's average realised copper price decreased by 0.9% to US 326.6 cents per pound (2006 – US 329.5 cents per pound), despite a 5.9% increase in the average LME copper price to US 323.3 cents per pound (2006 – US 305.3 cents per pound). Realised copper prices are determined by comparing turnover (gross of tolling charges for concentrate sales) with sales volumes in the period. Realised copper prices differ from market prices mainly because, in line with industry practice, concentrate and cathode sales agreements generally provide for provisional pricing at the time of shipment with final pricing based on the average market price for future periods (normally about 30 days after delivery to the customer in the case of cathode sales and up to 180 days after delivery to the customer in the case of concentrate sales). In 2007 the pricing adjustments on provisionally invoiced sales, while remaining positive, were lower than in 2006, as the level of increase in the LME copper price in the current year was less than in 2006.

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

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

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

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

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

Cash costs

Group weighted average cash costs in 2007 were US 31.6 cents per pound, compared with US 40.2 cents per pound in 2006. Excluding by-product credits (which are reported in the financial statements as part

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

Cash costs at Los Pelambres averaged negative US 10.8 cents per pound in 2007, a decrease of US 27.2 cents per pound compared with the costs of US 16.4 cents per pound in 2006. This was mainly due to higher by-product credits and lower tolling charges, partly offset by higher on-site costs. By-product credits increased by US 37.0 cents per pound, mainly due to the higher average molybdenum price compared with 2006, along with the increase in molybdenum production. Tolling charges were US 10.1 cents per pound lower, mainly due to reduced price participation as a result of the 2007 calendar year negotiations. On-site and shipping costs averaged US 76.3 cents per pound in 2007, US 19.9 cents

per pound above 2006 mainly as a result of increased machinery hire, maintenance, fuel, oil and labour costs. The higher labour costs were due to the one-off bonus payments on the conclusion of the mine-port union and plant union negotiations during the year.

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

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

Review of Performance

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

Turnover

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

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

Turnover from copper concentrate and copper cathodes

Turnover from copper concentrate and copper cathode sales from the Group's three mines decreased by 7.3% to US\$2,915.9 million, compared with US\$3,144.7 million in 2006. In 2007, sales of copper concentrate and copper cathodes represented 76.2% of Group turnover and therefore revenues depend significantly on LME and realised copper prices. A one cent change in the average copper price for the year would affect turnover and profit before tax by US\$9.4 million and earnings per share by US 0.5 cents, based on production volumes in 2007, and without taking into account the effects of provisional pricing and hedging activity.

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

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

Turnover from by-products

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

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

Turnover from the transport and water divisions

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

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

EBITDA and operating profit from subsidiaries and joint ventures

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

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

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

As noted above, during 2007 a loss of US\$14.0 million relating to commodity derivatives which matured in the period has been recorded within turnover (along with a gain of US\$0.7 million recognised within other finance items as explained below and a net mark-to-market loss of US\$0.2 million deferred in equity). During 2006

a loss of US\$84.5 million was recognised within other operating expense in respect of commodity derivatives, relating both to amounts realised on instruments maturing during the year and net mark-to-market adjustments prior to the adoption of the hedge accounting provisions of IAS 39.

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

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

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

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

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

Share of income from associate

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

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

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

Net finance income

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

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

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

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

Other finance items increased from a gain of US\$0.7 million in 2006 (restated for the inclusion of the discount charge relating to provisions from interest expense) to US\$2.4 million. Following the application of the hedge accounting provisions of IAS 39 "Financial Instruments: Recognition and Measurement" with effect from 1 January 2007, a gain of US\$0.7 million has been recognised in the year in respect of the time value element of changes in the fair value of commodity derivative options, which is excluded from the designated hedging relationship, and is therefore recognised directly in the income statement. No interest derivatives were held during the current year and so no mark-to-market gains or losses arose, compared to a mark-to-market gain of US\$0.3 million in 2006. Foreign exchange gains included in finance items were US\$2.9 million in 2007, compared with US\$1.6 million in the previous year.

The Group's borrowings relate mainly to Los Pelambres and El Tesoro, which represent US\$247.8 million out of

total borrowings at the end of 2007 of US\$266.0 million. As at 31 December 2007 there were no interest rate swaps in place, and the Group's borrowings are predominantly floating rate. Borrowings are almost entirely denominated in US dollars.

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

Taxation

The tax charge for the year comprised the following:

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

The rate of first category (i.e. corporation) tax in Chile was 17% for both 2006 and 2007. Los Pelambres, El Tesoro and Michilla are also subject to a mining tax (royalty) which imposes an additional tax of 4% of tax-adjusted operating profit. For 2006 and 2007, 50% of the mining tax could be offset against first category tax and the remaining 50% is tax deductible (i.e. an allowable expense in determining liability to first category tax). From 2008, when the ability to offset will no longer be available, 100% of the mining tax will be tax deductible. The effect is to increase the

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effective tax rate of these three operations (before taking into account deductibility against corporation tax) by approximately 2% in 2006 and 2007 and 4% thereafter. In addition to first category tax and the mining tax, the Group incurs withholding taxes on the remittance of profits from Chile. Withholding tax is levied on remittances of profits from Chile at 35% less first category tax already paid. Accordingly, the effective tax rate of withholding tax for the purpose of paying dividends to Group shareholders is approximately 18% of the amount remitted or expected to be remitted.

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

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

Minority interests

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

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

Earnings per share

	2007 US cents	2006 US cents
Earnings per share	140.2	137.4

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

Dividends

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

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

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

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

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

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

Capital Expenditure

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

Cash Flows

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

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

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

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

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

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

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

Dividends (including special dividends) paid to ordinary shareholders of the Company this year were US\$485.0 million (2006 – US\$236.6 million), which related to the final dividend declared in respect of the previous year and the interim dividend in respect of the current year, and reflected the increased dividend per share paid in 2007 compared with 2006. Dividends paid by subsidiaries to minority shareholders were US\$681.2 million (2006 – US\$630.6 million), principally due to increased distributions by Los Pelambres.

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

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

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

Financial Position

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

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

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

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

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

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

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

Balance Sheet

The Group's balance sheet is set out on page 79. Net equity (i.e. equity attributable to ordinary shareholders of the Company) increased from US\$3,155.1 million at 1 January 2007 to US\$4,065.0 million at 31 December 2007, relating mainly to profit after tax and minority interests for the period less ordinary dividends declared and paid in the year. Other changes relate mainly to movements in the fair value of hedges and available for sale investments and the currency translation adjustment; these are set out in the Consolidated Statement of Changes in Equity.

Minority interests increased from US\$793.0 million at 1 January 2007 to US\$841.5 million at 31 December 2007, principally reflecting the minority's share of profit after tax, less the minority's share of the dividends paid by subsidiaries in the year. Other movements affecting minority interest are also set out in the Consolidated Statement of Changes in Equity.

Treasury Management and Hedging

A detailed description of the key financial risks facing the Group, and the processes in place to manage those risks, is included in Note 24(c).

The Group periodically uses derivative financial instruments to reduce exposure to commodity price movements. The Group does not use such derivative instruments for speculative trading purposes. The Group has applied the hedge accounting provisions of IAS 39 "Financial Instruments: Recognition and Measurement" with effect from 1 January 2007. From that date, changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows have been recognised directly in equity, with such amounts subsequently recognised in the income statement in the period when the hedged item affects profit or loss. Any ineffective portion is recognised immediately in the income statement. Realised gains and losses on commodity derivatives recognised in the income statement have been recorded within turnover. The time value element of changes in the fair value of derivative options is excluded from the designated hedging relationship, and is therefore recognised directly in the income statement within other finance items. Prior to 1 January 2007 derivatives were measured at fair value through the income statement, with both realised and unrealised gains or losses on commodity derivatives being recorded within other operating income or expense.

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

At 31 December 2007, the Group had min/max instruments for 70,200 tonnes of copper production (of which 60,000 tonnes relate to El Tesoro and 10,200 tonnes relate to Michilla), covering a total period up to 31 December 2009. The weighted average remaining period covered by these hedges calculated with effect from 1 January 2008 is 11 months. The instruments have a weighted average floor of US 248.9 cents per pound and a weighted average

cap of US 389.2 cents per pound. The Group also had futures for 6,500 tonnes, to both buy and sell copper production at El Tesoro, with the effect of swapping COMEX prices for LME prices without eliminating underlying market price exposure, covering a period to 31 January 2009. The remaining weighted average period covered by these instruments was 7 months.

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

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

Foreign Currency Exchange Differences

The principal subsidiaries with a functional currency other than the US dollar are Chilean peso-denominated, of which the most significant is Aguas de Antofagasta S.A. Exchange rates used to translate the results of such subsidiaries are given in Note 36 to the financial statements.

The currency translation adjustment credit to net equity of US\$13.5 million results mainly from the strengthening in the Chilean peso during the year from Ch\$532 = US\$1 at the start of 2007 to Ch\$497 = US\$1 at the end of 2007. In 2006 the currency translation adjustment charge to net equity of US\$4.3 million resulted mainly from the weakening of the Chilean peso in the year, from Ch\$513 = US\$1 at the beginning of 2006 to Ch\$532 = US\$1 at the end of 2006.

Financial Review *continued*

Going Concern

After making appropriate enquiries, the Directors consider that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and that it is appropriate to adopt the going concern basis in preparing the financial statements. In forming this opinion, the Directors have taken into account the financial position of the Group including cash balances, borrowing facilities in place, the current copper price and market expectations in the medium-term.

Additional Information Relating to the Financial Review

Key performance indicators – definitions and cross-references to reviews and explanations

Turnover

Turnover represents the value of goods and services supplied to third parties during the year. This principally comprises sales of copper concentrate, copper cathodes and by-products (principally molybdenum concentrate) from the mining division, transport of cargo by road and rail by the transport division, and supply of water to domestic and industrial users by the water division.

Turnover at the mining division includes the effect of final pricing and mark-to-market adjustments to provisionally priced concentrate and cathode sales. Following the application of the hedge accounting provisions of IAS 39 “Financial Instruments: Recognition and Measurement” with effect from 1 January 2007, realised gains and losses on commodity derivatives recognised in the income statement have been recorded within turnover. Prior to 1 January 2007, gain and losses on commodity derivatives were recognised within other operating income or expense. Turnover is stated net of tolling charges for concentrate sales.

An explanation of turnover is contained on pages 25 and 26 of the Financial Review and analyses of turnover by business segment and geographical segment are contained in Notes 5(a)(i) and 5(b)(i) respectively to the financial statements. Details of pricing adjustments and gains and losses on commodity derivatives are given in Notes 24(d) and 24(e) to the financial statements.

EBITDA

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

An explanation of EBITDA, including a reconciliation to operating profit from subsidiaries and joint ventures, is contained on page 26 of the Financial Review. An analysis of EBITDA by business segment is contained in Note 5(a)(i) to the financial statements.

Earnings per share (EPS)

Earnings per share is calculated as the net profit attributable to equity holders of the Company, divided by the number of ordinary shares in issue.

Details of earnings per share are given on page 28 of the Financial Review and in Note 10 to the financial statements.

Capital expenditure

Capital expenditure refers to amounts capitalised in respect of the purchase of property, plant and equipment, including the asset purchase price, directly attributable costs and related interest. The capital expenditure figures are stated on an accruals rather than a cash basis.

An explanation of capital expenditure is given on page 29 of the Financial Review and analyses of capital expenditure by business segment and type of asset are given in Notes 5(a)(ii) and 13 respectively to the financial statements.

Net cash

Net cash represents cash and cash equivalents less borrowings. Cash and cash equivalents comprise cash on hand, deposits held on call with banks and highly liquid investments that are readily convertible into known amount of cash and which are subject to insignificant risk of changes in value, net of bank overdrafts which are repayable on demand. Borrowings include loans, finance leases and preference shares.

An explanation of the net cash position is given on page 30 of the Financial Review and analyses of cash

and cash equivalents and borrowings are given in Notes 21, 22 and 33(b) to the financial statements.

Copper and molybdenum production

Copper and molybdenum production comprises the concentrate and cathode output of the Group's three operating mines, Los Pelambres, El Tesoro and Michilla. Los Pelambres produces copper and molybdenum concentrates, and the figures for Los Pelambres are expressed in terms of payable metal contained in concentrate. The copper concentrate also contains gold and silver, for which Los Pelambres is credited when the concentrate is sold. El Tesoro and Michilla produce copper cathodes with no by-products.

An explanation of Group production is given on pages 22 and 23 of the Financial Review and further details of throughput, grades and recoveries at each mine are given in the Mining Production and Sales, Transport and Water Statistics on page 143.

Realised prices

Realised copper prices are determined by comparing revenues from copper sales (grossed up for tolling charges for concentrates) with sales volumes for each mine in the year, and reflect the effective prices achieved by each mine. Realised molybdenum prices are determined on a similar basis. Following the application of the hedge accounting provisions of IAS 39 "Financial Instruments: Recognition and Measurement" with effect from 1 January 2007, realised prices reflect the effect of realised gains and losses on commodity derivatives, which are recorded within turnover. Prior to 1 January 2007 realised prices did not reflect the effects of gain and losses on commodity derivatives, which were recognised within other operating income or expense.

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

Cash costs

Cash costs are a measure of the cost of operational production expressed in terms of US cents per pound of payable copper produced. Cash costs are stated net of by-product credits and include tolling charges for concentrates at Los Pelambres. Cash costs exclude depreciation, financial income and expenses, hedging

gains and losses, exchange gains and losses and corporation tax for all three mines. By-product calculations do not take into account unrealised mark-to-market gains for molybdenum at the beginning or end of each year.

An explanation of cash costs is given on pages 24 and 25 of the Financial Review.

Risk factors

Introduction

The Group is exposed to a range of risks and uncertainties which may affect it. These risks include strategic, commercial, operational, regulatory and financial risks. A summary of the key risks facing the Group is set out below. There may be additional risks unknown to the Group and other risks, currently believed to be insignificant, could turn out to be significant. These risks, whether they materialise individually or simultaneously, could significantly affect the Group's business and financial results. They should also be considered in connection with any forward looking statements in this document and the cautionary statement on page 35.

Financial risks

The principal financial risks to which the Group is exposed include risks relating to interest rates, commodity prices, credit, cash flow and liquidity. Details of these risks are contained in the Treasury Management and Hedging section on page 31 and in Note 24(c) to the financial statements.

Economic environment

Commodity prices, and demand for the Group's products, are influenced strongly by world economic growth. Commodity prices can fluctuate widely and could have a material and adverse impact on the Group's revenues, earnings, cash flows and financial position.

Exploration

The Group seeks to identify new mineral resources through exploration. There is no guarantee, however, that exploration activities will identify viable mineral resources. A failure to discover new resources or enhance existing resources could negatively affect the Group's results and prospects.

Financial Review *continued*

Ore reserve and mineral resource estimation

The Group's ore reserve and mineral resource estimates are subject to a number of assumptions, including the price of commodities, production costs and recovery rates. Fluctuations in these variables may result in lower grade reserves being deemed uneconomic, and may ultimately lead to a reduction in reserves. A significant reduction could have a negative impact on the Group's results, financial position and prospects.

Mining operations and new projects

The strong commodity cycle and large numbers of projects being developed in the resources industry has led to increased demand for supplies, equipment, skilled personnel and contractors. This has resulted in, and could continue to result in, increased capital and operating costs, which may impact the development of new projects, the expansion of existing operations, the results of those operations and the Group's financial condition and prospects.

Mining operations and project developments are also subject to a number of circumstances not wholly within the Group's control, including damage to or breakdown of equipment or infrastructure, natural disasters, unexpected geological variations and industrial actions. Appropriate insurance can provide protection from some, but not all, of the costs that may arise from unforeseen events.

Failure to meet production targets may also result in increased unit costs, particularly where operations have a high level of fixed costs.

Increasing regulatory and environmental approvals and litigation could result in significant delays in construction and/or increases in construction costs. These events could materially and adversely affect a project's economics or its successful completion and the Group's earnings and cash flows. Similarly, withdrawal or variation of permits already granted and litigation could affect production or costs at existing operations, the results of these operations and the Group's financial condition and prospects.

Decommissioning and restoration

Costs associated with the decommissioning and restoration of mine sites are estimated on the basis of a formal closure plan and are subject to regular formal review. Estimates may, however, be insufficient, further issues may be identified or changes in regulatory standards may occur. Any underestimated or unidentified costs will affect earnings and cash flows.

Acquisitions

Difficulties may be experienced in successfully integrating acquired businesses, and the full benefits, cost savings or synergies identified at the time of acquisition may not be achieved.

Political environment

The Group could be affected by any political or regulatory developments in any of the countries and jurisdictions in which it operates, including controls on imports, exports and prices, expropriation of assets, or new forms or rates of taxation and royalties.

Health, safety and environment

The Group operates in an industry that is subject to numerous health, safety and environmental laws and regulations as well as community expectations. Developments in regulatory standards and expectations could result in increased costs and/or litigation, which could impact on earnings and cash flows.

Critical accounting judgements and key sources of estimation uncertainty

Determining many of the amounts included in the financial statements involves the use of judgement and/or estimation based on management's best knowledge of the relevant facts and circumstances, having regard to prior experience, but actual results may differ from the amounts included in the financial statements. Changes in judgements or the assumptions underlying estimates could result in a significant impact on the financial statements. Details of principal accounting policies are set out in Note 2 to the

financial statements and details of critical accounting judgements and key sources of estimation uncertainty are set out in Note 3 to the financial statements.

Cautionary statement about forward looking statements

The Annual Report and Financial Statements contain certain forward looking statements with respect to the financial position, results of operations and business of the Group. Examples of forward looking statements include those regarding ore reserve and mineral resource estimates, anticipated production or construction commencement dates, costs, outputs, demand, trends in commodity prices, growth opportunities and productive lives of assets or similar factors. The words "intend", "aim", "project", "anticipate", "estimate", "plan", "believe", "expect", "may", "should", "will", "continue", or similar expressions, commonly identify such forward looking statements.

Forward looking statements involve known and unknown risks, uncertainties, assumptions and other factors that are beyond the Group's control. For example, future ore reserves will be based in part on long term price assumptions that may vary significantly from current levels. These may materially affect the timing and feasibility of particular developments. Other factors include the ability to produce and transport products profitably, demand for products, the effect of foreign currency exchange rates on market prices and operating costs, activities by governmental authorities, such as changes in taxation or regulation, and political uncertainty.

Given these risks, uncertainties and assumptions, actual results could be materially different from any future results expressed or implied by these forward looking statements which speak only as at the date of this report. Except as required by applicable regulations or by law, the Group does not undertake any obligation to publicly update or revise any forward looking statements, whether as a result of new information or future events. The Group cannot guarantee that its forward looking statements will not differ materially from actual results.