

# Notes to the Financial Statements

## 1 Basis of Preparation

### a) Accounting standards applied

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. For these purposes, IFRS comprise the Standards issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") that have been endorsed by the European Union ("EU").

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

- IFRS 8 "Operating Segments".
- IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions".
- IFRIC 12 "Service Concession Arrangements".
- IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction".

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group except as follows:

- IFRS 8 "Operating Segments". This standard will require different disclosures relating to the Group's operating segments and how these are identified when it comes into effect for periods commencing on or after 1 January 2009.
- IFRIC 12 "Service Concession Arrangements". This interpretation requires the present classification of certain assets (acquired through the Group's water concession) within property, plant and equipment, to be reassessed when it comes into effect for periods commencing on or after 1 January 2008.

### b) Change in accounting policy and adoption of new accounting standards

(i) 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 any ineffective portion recognised immediately in the income statement. Realised gains and losses on commodity derivatives recognised in the income statement have been recorded within turnover. Prior to 1 January 2007 derivatives were measured at fair value through the income statement, with gains or losses on commodity derivatives being recorded within other operating income or expense.

This change in accounting policy must be applied prospectively and accordingly no restatement of prior period information is required.

(ii) The Group has adopted IFRS 7 "Financial Instruments: Disclosures" (and the related amendment to IAS 1 "Presentation of Financial Statements") which is effective from annual reporting periods beginning on or after 1 January 2007. The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital.

## 2 Principal Accounting Policies

### a) Accounting convention

These financial statements have been prepared under the historical cost convention as modified by the use of fair values to measure certain financial instruments, principally provisionally priced sales as explained in Note 2(d) and financial derivative contracts as explained in Note 2(s).

### b) Basis of consolidation

The financial statements comprise the consolidated financial statements of Antofagasta plc ("the Company") and its subsidiaries (collectively "the Group").

(i) *Subsidiaries* – A subsidiary is an entity over which the Group has power to govern the operating and financial policies in order to obtain benefits from its activities. The consolidated financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating inter-company balances and transactions. For partly-owned subsidiaries, the net assets and net earnings attributable to minority shareholders are presented as "Minority Interests" in the consolidated balance sheet and consolidated income statement.

(ii) *Associates* – An associate is an entity over which the Group is in a position to exercise significant influence, but not control or jointly control, through the power to participate in the financial and operating policy decisions of that entity. The Group's share of the net assets, the results post tax and post acquisition reserves of associates are included in the financial statements. This requires recording the investment initially at cost to the Group and then, in subsequent periods, adjusting the carrying amount of the investment to reflect the Group's share of the associate's results less any impairment of goodwill and any other changes to the associate's net assets such as dividends.

(iii) *Jointly controlled entities* – A jointly controlled entity is an entity in which the Group holds a long-term interest and shares joint control over the operating and financial decisions with one or more other venturers under a contractual arrangement.

Jointly controlled entities are accounted for using proportionate consolidation, which combines the Group's share of the results of the jointly controlled entity on a line by line basis with similar items in the Group's financial statements.

(iv) *Other investments* – The accounting treatment of investments which are not subsidiaries, associates or jointly controlled entities is set out in Note 2(s) relating to other financial instruments.

(v) *Acquisitions and disposals* – Acquisitions and disposals are treated as explained in Note 2(e) relating to business combinations and goodwill.

### c) Currency translation

The functional currency for each entity in the Group is determined as the currency of the primary economic environment in which it operates. Transactions other than those in the functional currency of the entity are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in currencies other than the functional currency are retranslated at year end exchange rates. Gains and losses on retranslation are included in net profit or loss for the period within other finance items.

## Notes to the Financial Statements *continued*

### 2 Principal Accounting Policies *continued*

#### c) Currency translation *continued*

The presentational currency of the Group and the functional currency of the Company is the US dollar.

On consolidation, income statement items for entities with a functional currency other than the US dollar are translated into US dollars at average rates of exchange. Balance sheet items are translated at period end exchange rates. Exchange differences on translation of the net assets of such entities are taken to equity and recorded in a separate currency translation reserve. Cumulative translation differences arising after the transition date to IFRS are recognised as income or as expenses in the income statement in the period in which an operation is disposed of.

On consolidation, exchange gains and losses which arise on balances between Group entities are taken to reserves where that balance is, in substance, part of a parent's net investment in its subsidiary, i.e. where settlement is neither planned nor likely to occur in the foreseeable future. All other exchange gains and losses on Group balances are dealt with in the income statement.

Fair value adjustments and any goodwill arising on the acquisition of a foreign entity are treated as assets of the foreign entity and translated at the period end rate.

#### d) Revenue recognition

Turnover represents the value of goods and services supplied to third parties during the year. Turnover is measured at the fair value of consideration received or receivable, and excludes any applicable sales tax.

A sale is recognised when the significant risks and rewards of ownership have passed. This is generally when title and any insurance risk has passed to the customer, and the goods have been delivered to a contractually agreed location or when any services have been provided.

Turnover from mining activities is recorded at the invoiced amounts with an adjustment for provisional pricing at each reporting date, as explained below. For copper and molybdenum concentrates, which are sold to smelters and roasting plants for further processing, the invoiced amount is the market value of the metal payable by the customer, net of deductions for tolling charges. Turnover includes revenues from the sale of by-products.

Copper and molybdenum concentrate sale agreements and copper cathode sale agreements generally provide for provisional pricing of sales at the time of shipment, with final pricing based on the monthly average London Metal Exchange ("LME") copper price or the monthly average market molybdenum price for specified future periods. This normally ranges from 30 to 180 days after delivery to the customer. Such a provisional sale contains an embedded derivative which is required to be separated from the host contract. The host contract is the sale of metals contained in the concentrate or cathode at the provisional invoice price less tolling charges deducted, and the embedded derivative is the forward contract for which the provisional sale is subsequently adjusted. At each reporting date, the provisionally priced metal sales together with any related tolling charges are marked-to-market, with adjustments (both gains and losses) being recorded in turnover in the consolidated income statement and in trade debtors in the balance sheet. Forward prices at the period end are used for copper concentrate and cathode sales, while period-end average prices are used for molybdenum concentrate sales due to the absence of a futures market.

Interest income is accrued on a time basis, by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' right to receive payment have been established.

## 2 Principal Accounting Policies continued

### e) Business combinations and goodwill

(i) *Acquisitions* – The results of businesses acquired during the year are brought into the consolidated financial statements from the effective date of acquisition. The identifiable assets, liabilities and contingent liabilities of a subsidiary, joint venture entity or an associate which can be measured reliably are recorded at their provisional fair values at the date of acquisition. Provisional fair values are finalised within 12 months of the acquisition date.

(ii) *Goodwill* – Goodwill represents the difference between the cost of acquisition and the fair value of the identifiable net assets acquired. Any goodwill on the acquisition of subsidiaries is separately disclosed, while any goodwill on the acquisition of associates is included within investments in equity accounted entities. Internally generated goodwill is not recognised.

Where the fair values of the identifiable net assets acquired exceed the cost of the acquisition, the surplus (which represents the discount on the acquisition) is credited to the income statement in the period of acquisition.

(iii) *Disposals* – The results of businesses sold during the year are included in the consolidated financial statements for the period up to the effective date of disposal. Gains or losses on disposal are calculated as the difference between the sales proceeds (net of expenses) and the net assets attributable to the interest which has been sold. Where a disposal represents a separate major line of business or geographical area of operations, the net results attributable to the disposed entity are shown separately in the income statement.

### f) Intangible assets

(i) *Concession right* – In 2003, the Group's wholly owned subsidiary, Aguas de Antofagasta S.A., was awarded a 30 year concession to operate the water rights and facilities in the Antofagasta Region of Chile previously controlled by Empresa de Servicios Sanitarios de Antofagasta S.A. ("ESSAN").

The Group has recognised on its balance sheet the tangible assets transferred to it by way of concession where the economic benefits are primarily to be consumed over the life of the concession arrangement. An intangible asset (a "concession right") has been recognised in respect of the right to use those assets not recognised as their lives extend substantially beyond the period of the concession. The concession right was measured as the difference between the cost of the concession and the fair values of the assets and liabilities recognised on acquisition.

(ii) *Exploration licences* – In 2006, the Group acquired Tethyan Copper Company Limited ("Tethyan"), a company with copper-gold interests in Pakistan, and entered into a joint venture over Tethyan's mineral interests with Barrick Gold Corporation through the disposal of a 50% interest in Tethyan. An intangible asset has been recognised for the Group's proportionate share of the full unencumbered value attributed to the interest in the exploration licences held by Tethyan in Pakistan.

### g) Exploration expenditure

Exploration is expensed in the year in which it is incurred. When a decision is taken that a mining project is commercially viable (normally when the project has reached the pre-feasibility stage) all further directly attributable pre-production expenditure is capitalised. Capitalisation of pre-production expenditure ceases when commercial levels of production are achieved.

## Notes to the Financial Statements *continued*

### 2 Principal Accounting Policies *continued*

#### h) Property, plant and equipment

The costs of mining properties and leases, which include the costs of acquiring and developing mining properties and mineral rights, are capitalised as property, plant and equipment in the year in which they are incurred.

The cost of plant, property and equipment comprises the purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended. Once a project has been established as commercially viable, related development expenditure is capitalised. This includes costs incurred in preparing the site for mining operations, including pre-stripping costs. Capitalisation ceases when the mine is capable of commercial production, with the exception of development costs which give rise to a future benefit.

Interest on borrowings directly related to construction or development of projects is capitalised, until such time as the assets are substantially ready for their intended use or sale which, in the case of mining properties, is when they are capable of commercial production.

#### i) Depreciation of property, plant and equipment and amortisation of intangible assets

Property, plant and equipment is depreciated over its useful life, or over the remaining life of the operation if shorter, to residual value. The major categories of property, plant and equipment are depreciated as follows:

- (i) *Land* – Freehold land is not depreciated. Any leasehold land is depreciated on a straight-line basis over the life of the lease.
- (ii) *Mining properties* – mining properties, including capitalised financing costs, are depreciated on a unit of production basis, in proportion to the volume of ore extracted in the year compared with total proven and probable reserves at the beginning of the year.
- (iii) *Buildings and infrastructure* – straight-line basis over 10 to 25 years.
- (iv) *Railway track (including trackside equipment)* – straight-line basis over 20 to 25 years.
- (v) *Wagons and rolling stock* – straight-line basis over 10 to 20 years.
- (vi) *Machinery, equipment and other assets* – straight-line basis over 5 to 10 years.
- (vii) *Assets under construction* – no depreciation until asset is available for use.
- (viii) *Assets held under finance lease* – are depreciated over the shorter of the lease term and their useful life.

Residual values and useful lives are reviewed, and adjusted if appropriate, at least annually, and changes to residual values and useful lives are accounted for prospectively.

The concession right is amortised on a straight-line basis over the life of the concession.

#### j) Impairment of property, plant and equipment and intangible assets (excluding goodwill)

Property, plant and equipment and finite life intangible assets are reviewed for impairment if there is any indication that the carrying amount may not be recoverable. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Any intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted.

## 2 Principal Accounting Policies continued

### j) Impairment of property, plant and equipment and intangible assets (excluding goodwill) continued

For mining properties, estimates of future cash flows are based on estimates of the quantities of proven and probable reserves, and assumptions as to future production levels, commodity prices, cash costs of production and capital expenditure. IAS 36 "Impairment of Assets" includes a number of restrictions on the future cash flows that can be recognised in respect of future restructurings and improvement related expenditure. When calculating value in use, it also requires that calculations should be based on exchange rates current at the time of assessment. For operations with a functional currency other than the US dollar, the impairment review is conducted in the relevant functional currency.

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount is reduced to the recoverable amount. An impairment charge is recognised in the income statement immediately. Where an impairment subsequently reverses, the carrying amount is increased to the revised estimate of recoverable amount, but so that the increase carrying amount does not exceed the carrying value that would have been determined if no impairment had previously been recognised. A reversal is recognised in the income statement immediately.

### k) Investment property

Investment property is property held to earn rentals and/or for capital appreciation and includes land held for a currently undetermined future use. The Group has elected to adopt the cost model in IAS 40 "Investment Property". Accordingly, investment property is measured initially at cost, which includes transaction costs for the acquisition of the property and, as detailed in Note 2(i) relating to property, plant and equipment, is not depreciated.

### l) Inventory

Inventory and work-in-progress are valued at the lower of cost and net realisable value. The production cost of inventory includes an appropriate proportion of depreciation and production overheads. Raw materials and consumables are valued at cost on a weighted average basis. Finished products are valued at raw material cost, plus labour cost and a proportion of manufacturing overhead expenses including depreciation.

### m) Taxation

Tax expense comprises the charges or credits for the period relating to both current and deferred tax.

Current tax is based on taxable profit for the year. Taxable profit may differ from net profit as reported in the income statement because it excludes items of income or expense that are taxable and deductible in different years and also excludes items that are not taxable or deductible. The liability for current tax is calculated using tax rates for each entity in the consolidated financial statements which have been enacted or substantively enacted at the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on temporary differences (i.e. differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit). Deferred tax is accounted for using the balance sheet liability method and is provided on all temporary differences with certain limited exceptions as follows:

- (i) tax payable on undistributed earnings of subsidiaries, associates and joint ventures is provided except where the Group is able to control the remittance of profits and it is probable that there will be no remittance of past profits earned in the foreseeable future;
- (ii) deferred tax is not provided on the initial recognition of an asset or liability in a transaction that does not affect accounting profit or taxable profit and is not a business combination; nor is deferred tax provided on subsequent changes in the carrying value of such assets and liabilities, for example where they are depreciated; and

## Notes to the Financial Statements *continued*

### 2 Principal Accounting Policies *continued*

#### m) Taxation *continued*

(iii) the initial recognition of any goodwill.

Deferred tax assets are recognised only to the extent that it is probable that they will be recovered through sufficient future taxable profit. The carrying amount of deferred tax assets is reviewed at each balance sheet date.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also taken directly to equity.

#### n) Provisions for decommissioning and site restoration costs

An obligation to incur decommissioning and site rehabilitation costs occurs when environmental disturbance is caused by the development or ongoing production of a mining property. Costs are estimated on the basis of a formal closure plan and are subject to regular formal review.

Such costs arising from the installation of plant and other site preparation work, discounted to their net present value, are provided and capitalised at the start of each project, as soon as the obligation to incur such costs arises. These decommissioning costs are charged against profits over the life of the mine, through depreciation of the asset and unwinding or amortisation of the discount on the provision. Depreciation is included in operating costs while the unwinding of the discount is included as financing costs. Changes in the measurement of a liability relating to the decommissioning of plant or other site preparation work are added to, or deducted from, the cost of the related asset in the current period.

The costs for restoration of site damage, which is created on an ongoing basis during production, are provided for at their net present values and charged against operating profits as extraction progresses. Changes in the measurement of a liability relating to site damage created during production is charged against operating profit.

#### o) Provision for termination of water concession

Under the terms of the water concession from ESSAN, certain items of working capital recognised by Aguas de Antofagasta (as described in Note 2(f) above) are to be transferred to the state-owned operator ESSAN at the end of the concession period for nil consideration. Provision is made for the estimated net present value of these assets and liabilities which are expected to be in existence when the concession comes to an end. The unwinding of the discount is charged within financing costs.

#### p) Post-employment benefits

The Group operates defined contribution schemes for a limited number of employees. For such schemes, the amount charged to the income statement is the contributions paid or payable in the year.

Employment terms may also provide for payment of a severance indemnity when an employment contract comes to an end. This is typically at the rate of one month for each year of service (subject in most cases to a cap as to the number of qualifying years of service) and based on final salary level. The severance indemnity obligation is treated as an unfunded defined benefit plan, and the calculation is based on valuations performed by an independent actuary using the projected unit credit method which are regularly updated. The obligation recognised in the balance sheet represents the present value of the severance indemnity obligation. Actuarial gains and losses are immediately recognised in the income statement within operating cost.

#### q) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held on call with banks, highly liquid investments that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value, net of bank overdrafts which are repayable on demand. Cash and cash equivalents normally have a maturity period of three months or less.

## 2 Principal Accounting Policies continued

### r) Leases

Rental costs under operating leases are charged to the income statement account in equal annual amounts over the term of the lease.

Assets under finance leases are recognised as assets of the Group at inception of the lease at the lower of fair value or the present value of the minimum lease payments derived by discounting at the interest rate implicit in the lease. The interest element is charged within financing costs so as to produce a constant periodic rate of interest on the remaining balance of the liability.

### s) Other financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

(i) *Investments* – Investments which are not subsidiaries, associates or joint ventures are initially measured at cost, including transaction costs.

Investments are classified as either held for trading or available for sale, and are normally measured at subsequent reporting dates at fair value. Fair value is determined in the manner described in Note 24(b). Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

Securities are classified as "held-for-trading" when they are acquired principally for the purpose of sale in the short-term, and gains and losses arising from changes in fair value are included in the income statement for the period. Other investments are classified as "available-for-sale", and gains and losses arising from changes in fair value are recognised directly in equity, within the "Fair value reserve", until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the income statement for the period.

Dividends on available for sale equity investments are recognised in the income statement when the right to receive payment is established.

(ii) *Trade and other receivables* – Trade and other receivables do not generally carry any interest and are normally stated at their nominal value less any impairment. Impairment losses on trade receivables are recognised within an allowance account unless the Group considers that no recovery of the amount is possible, in which case the carrying value of the asset is reduced directly.

(iii) *Trade and other payables* – Trade and other payables are generally not interest bearing and are normally stated at their nominal value.

(iv) *Borrowings (loans and preference shares)* – Interest-bearing loans and bank overdrafts are initially recorded at the proceeds received, net of direct issue costs. They are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis using the effective interest rate method. Amounts are either recorded as financing costs in the income statement or capitalised in accordance with the accounting policy set out in Note 2(h). Finance charges are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

## Notes to the Financial Statements *continued*

### 2 Principal Accounting Policies *continued*

#### s) Other financial instruments *continued*

The sterling-denominated preference shares issued by the Company carry a fixed rate of return without the right to participate in any surplus. They are accordingly classified within borrowings and translated into US dollars at period end rates of exchange. Preference share dividends are included within finance costs.

(v) *Equity instruments* – Equity instruments issued are recorded at the proceeds received, net of direct issue costs. Equity instruments of the Company comprise its sterling-denominated issued ordinary share capital and related share premium.

As explained in Note 2(c), the presentational currency of the Group and the functional currency of the Company is US dollars, and ordinary share capital and share premium are translated into US dollars at historical rates of exchange based on dates of issue.

(vi) *Derivative financial instruments* – As explained in Note 24, the Group uses derivative financial instruments to reduce exposure to foreign exchange, interest rate and commodity price movements. The Group does not use such derivative instruments for 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 are 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 are 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 gains or losses on commodity derivatives being recorded within other operating income or expense, and gains or losses on interest and exchange derivatives being recorded within net finance costs.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value. Changes in fair value are reported in the income statement for the period. The treatment of embedded derivatives arising from provisionally-priced commodity sales contracts is set out in further detail in Note 2(d) relating to turnover.

(vii) *Impairment of financial assets* – Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For loans and receivables the amount of the impairment is the difference between the asset’s carrying value and the present value of estimated future cash flows, discounted at the original effective interest rate. Any impairment loss is recognised in profit or loss.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the

## 2 Principal Accounting Policies continued

### s) Other financial instruments continued

extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised. In respect of available-for-sale equity instruments, any increase in fair value subsequent to an impairment loss is recognised directly in equity.

## 3 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. These judgements and estimates are 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. Information about such judgements and estimates is included in the principal accounting policies in Note 2 or the other notes to the financial statements, and the key areas are set out below.

### a) Useful economic lives of property, plant and equipment and ore reserve estimates

As explained in Note 2(i), mining properties, including capitalised financing costs, are depreciated in proportion to the volume of ore extracted in the year compared with total proven and probable reserves at the beginning of the year.

There are numerous uncertainties inherent in estimating ore reserves, and assumptions that were valid at the time of estimation may change when new information becomes available. These include assumptions as to grade estimates and cut-off grades, recovery rates, commodity prices, exchange rates, production costs, capital costs, processing and reclamation costs and discount rates. The actual volume of ore extracted and any changes in these assumptions could affect prospective depreciation rates and carrying values.

The majority of other items of property, plant and equipment are depreciated on a straight line basis over their useful economic lives. Management reviews the appropriateness of useful economic lives at least annually and, again, any changes could affect prospective depreciation rates and asset carrying values.

### b) Impairment of assets

As explained in Note 2(j), the Group reviews the carrying value of its intangible assets and property, plant and equipment to determine whether there is any indication that those assets are impaired. In making assessments for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash generating unit ("CGU"). The recoverable amount of those assets, or CGU, is measured at the higher of their fair value less costs to sell and value in use.

Management necessarily applies its judgement in allocating assets to CGUs, in estimating the probability, timing and value of underlying cash flows and in selecting appropriate discount rates to be applied within the value in use calculation. Subsequent changes to CGU allocation or estimates and assumptions in the value in use calculation could impact the carrying value of the respective assets.

### c) Provisions for decommissioning and site restoration costs

As explained in Note 2(n), provision is made, based on net present values, for decommissioning and site rehabilitation costs as soon as the obligation arises following the development or ongoing production of a mining property. The provision is based on a closure plan prepared with the assistance of external consultants.

Management uses its judgement and experience to provide for and (in the case of capitalised decommissioning costs) amortise these estimated costs over the life of the mine. The ultimate cost of decommissioning and site rehabilitation cost is uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other mine sites. The expected timing and extent of expenditure can also change, for example in response to changes in ore

## Notes to the Financial Statements *continued*

### 3 Critical Accounting Judgements and Key Sources of Estimation Uncertainty *continued*

#### c) Provisions for decommissioning and site restoration costs *continued*

reserves or processing levels. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

#### d) Post-employment benefits

As explained in Note 2(p), the expected costs of severance indemnities relating to employee service during the period are charged to the income statement. Any actuarial gains or losses, which can arise from differences between expected and actual outcomes or changes in actuarial assumptions, are recognised immediately within operating costs in the income statement.

Assumptions in respect of the expected costs are set in consultation with an independent actuary. These include the selection of the discount rate used, service lives and expected rates of salary increases. While management believes the assumptions used are appropriate, a change in the assumptions used would impact the earnings of the Group.

#### e) Deferred taxation

As explained in Note 2(m), deferred tax is not provided for future tax payable on undistributed earnings where the Group is able to control the remittance of profits and it is probable that there will be no remittance of past profits earned in the foreseeable future.

Management uses its judgement in estimating the probability of such remittances. These are based on Group forecasts and include assumptions as to future profits and cash flows (which depend on several factors including commodity prices, operating costs, production levels, capital expenditures, interest costs, debt repayment and tax rates) and cash requirements (which may also depend on several factors including future dividend levels). A change in the assumptions used or in the estimate as to the probability that past profits will be remitted would impact the deferred tax charge and balance sheet provision.

### 4 Revenue and Total Profit from Operations and Associates

An analysis of the Group's total revenue is as follows:

	2007 US\$m	2006 US\$m
Sales of goods	3,716.0	3,770.7
Rendering of services	110.7	99.3
<b>Group turnover</b>	<b>3,826.7</b>	<b>3,870.0</b>
Other operating income	31.2	10.3
Investment income	113.4	78.3
<b>Total revenue</b>	<b>3,971.3</b>	<b>3,958.6</b>

#### 4 Revenue and Total Profit from Operations and Associates continued

Operating profit from subsidiaries and joint ventures and total profit from operations and associates is derived from Group turnover by deducting operating cost as follows:

	2007 US\$m	2006 US\$m
<b>Group turnover</b>	<b>3,826.7</b>	3,870.0
Cost of sales	(966.5)	(805.1)
<b>Gross profit</b>	<b>2,860.2</b>	3,064.9
Administrative expenses	(183.1)	(152.6)
Closure provision	(0.5)	(0.6)
Severance charges	(5.3)	(7.7)
Exploration costs	(38.1)	(21.5)
Other operating income	31.2	10.3
Other operating expenses	(11.0)	(88.7)
<b>Operating profit from subsidiaries and joint ventures</b>	<b>2,653.4</b>	2,804.1
Share of income from associate	1.4	1.1
<b>Total profit from operations and associates</b>	<b>2,654.8</b>	2,805.2

#### Notes to total profit from operations and associates

- (i) In 2007, cost of sales includes an inventory write-off of US\$18.8 million relating to high carbonate ore inventories at El Tesoro (see Note 19).
- (ii) In 2007, other operating income includes a gain of US\$10.5 million relating to the disposal of shares held in Mercator Minerals Ltd (see Note 18), a gain of US\$9.7 million relating to the disposal of the Cordillera de las Minas joint venture to Panoro Minerals Ltd (see Note 17(a)), and a gain of US\$1.6 million from a settlement in respect of the remaining consideration receivable for the disposal of Minera Tamaya S.A. in 2002. These items totalled US\$21.8 million.
- (iii) In 2006, other operating expenses included losses on commodity derivatives prior to the application of the hedge accounting provisions of IAS 39 "Financial Instruments: Recognition and Measurement" with effect from 1 January 2007 (see Note 5(a)(i)(iii) and Note 24(e)).

#### 5 Segment Information

Based on risks and returns, the Directors consider the primary reporting format is by business segment and the secondary reporting format is by geographical segment. The Group considers its business segments to be Los Pelambres, El Tesoro, Michilla, Esperanza, Exploration, Railway and other transport services and the Water concession.

Corporate and other items principally relate to costs incurred by the Company and Antofagasta Minerals S.A., the Group's mining corporate centre, but which are not allocated to any individual business segment. The classification reflects the Group's management structure. The amounts presented for each business segment exclude any amounts relating to the investment in Antofagasta Terminal Internacional S.A., an associate which is held through the Railway and other transport services segment.

## Notes to the Financial Statements continued

### 5 Segment Information continued

#### a) Primary reporting format – by business segment

- (i) Turnover, EBITDA and operating profit/(loss) from subsidiaries and joint ventures analysed by business segment

	Turnover		EBITDA		Operating profit/(loss) from subsidiaries and joint ventures	
	2007	2006	2007	2006	2007	2006
	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
Los Pelambres	2,651.9	2,701.3	2,178.0	2,297.0	2,098.6	2,223.7
El Tesoro	673.9	664.8	430.9	456.0	380.3	409.9
Michilla	316.8	334.9	169.2	158.4	154.0	145.5
Exploration	–	–	(38.1)	(21.5)	(38.1)	(21.5)
Corporate and other items	–	–	(5.6)	(16.9)	(6.8)	(17.6)
<b>Mining</b>	<b>3,642.6</b>	<b>3,701.0</b>	<b>2,734.4</b>	<b>2,873.0</b>	<b>2,588.0</b>	<b>2,740.0</b>
<b>Railway and other transport services</b>	<b>117.0</b>	<b>105.3</b>	<b>48.9</b>	<b>42.9</b>	<b>35.0</b>	<b>32.6</b>
<b>Water concession</b>	<b>67.1</b>	<b>63.7</b>	<b>40.7</b>	<b>41.4</b>	<b>30.4</b>	<b>31.5</b>
<b>Group turnover (segment revenue), EBITDA and operating profit from subsidiaries and joint ventures (segment result)</b>	<b>3,826.7</b>	<b>3,870.0</b>	<b>2,824.0</b>	<b>2,957.3</b>	<b>2,653.4</b>	<b>2,804.1</b>

Segment result is reconciled to profit for the financial year as follows:

	2007 US\$m	2006 US\$m
<b>Segment result</b>	<b>2,653.4</b>	<b>2,804.1</b>
Share of income from associate	1.4	1.1
<b>Total profit from operations and associates</b>	<b>2,654.8</b>	<b>2,805.2</b>
Net finance income	95.4	53.8
Profit before tax	2,750.2	2,859.0
Income tax expense	(638.4)	(664.9)
<b>Profit for the financial year (including amounts attributable to minority interests)</b>	<b>2,111.8</b>	<b>2,194.1</b>

#### Notes to turnover by business segment (segment revenue)

- i) Turnover by business segment equates to segment revenue as defined by IAS 14. Turnover from Railway and other transport services and Water concession are stated after eliminating inter-segmental sales to the mining division of US\$10.5 million (2006 – US\$9.6 million) and US\$0.4 million (2006 – nil) respectively. Inter-segmental sales provided by Railway and other transport services and Water concession are charged at amounts equal to competitive market prices for external sales of similar services.
- ii) Turnover includes the effect of both final pricing and mark-to-market adjustments to provisionally priced sales of copper and molybdenum concentrates and copper cathodes. Further details of such adjustments are given in Note 24(d).
- iii) In the current year turnover includes realised net losses on commodity derivatives of US\$14.0 million, comprising a gain of US\$0.2 million at El Tesoro and a loss of US\$14.2 million at Michilla. The classification of these amounts within turnover is due to the application of the hedge accounting provisions of IAS 39

## 5 Segment Information continued

### a) Primary reporting format – by business segment continued

“Financial Instruments: Recognition and Measurement” with effect from 1 January 2007. Prior to this point, gains and losses on commodity derivatives (including both gain and losses realised in the year and year-end mark-to-market adjustments), were included in other operating income or expense. Further details of such gains or losses are given in Note 24(e).

- iv) Los Pelambres produces and sells copper and molybdenum concentrates. It is also credited for the gold and silver content in the copper concentrate it sells. Turnover by type of metal is analysed in the table below to show separately the amounts prior to deduction of tolling charges, the tolling charges incurred and the net amounts included in turnover. El Tesoro and Michilla do not generate by-products from their copper cathode operations.
- v) On a Group basis, total copper revenues amounted to US\$2,915.9 million (2006 – US\$3,144.7 million) comprising copper concentrate sales at Los Pelambres of US\$1,925.2 million (2006 – US\$2,145.0 million) and copper cathode sales at El Tesoro and Michilla of US\$990.7 million (2006 – US\$999.7 million).

### Notes to EBITDA and operating profit/(loss) from subsidiaries and joint ventures (segment result)

- vi) Operating profit for the separate businesses equates to segment result as defined by IAS 14. This excludes the share of income from associate of US\$1.4 million (2006 – US\$1.1 million).
- vii) EBITDA is calculated by adding back depreciation, amortisation and disposals of property, plant and equipment and impairment charges to operating profit from subsidiaries and joint ventures.
- viii) As explained in Note 5(a)(i)(iii) above, in the current year EBITDA and operating profit include realised gains on commodity derivatives at El Tesoro of US\$0.2 million and realised losses at Michilla of US\$14.2 million (recorded within turnover). In 2006 EBITDA and operating profit included losses on commodity derivatives (including both losses realised in the year and year-end mark-to-market adjustments) at El Tesoro of US\$44.8 million and Michilla of US\$39.7 million. Further details are given in Note 24(e).
- ix) Exploration cost relating to Tethyan Copper Company Limited (“Tethyan”) (see Note 17(b)) have been included within the Exploration category. All other income and expenditure relating to Tethyan has been included within corporate and other items.
- x) As explained in Note 4(i) and Note 19, in the current period EBITDA and operating profit at El Tesoro include an inventory write-off of US\$18.8 million.
- xi) As explained in Note 4(ii), EBITDA and operating profit in the Corporate and other items category includes gains of US\$21.8 million relating various items.

### Turnover at Los Pelambres by mineral:

	Before deducting tolling charges		Tolling charges		Net of tolling charges	
	2007 US\$m	2006 US\$m	2007 US\$m	2006 US\$m	2007 US\$m	2006 US\$m
Copper	2,094.6	2,399.0	(169.4)	(254.0)	1,925.2	2,145.0
Molybdenum	699.8	536.4	(23.4)	(22.6)	676.4	513.8
Gold and silver	51.0	43.1	(0.7)	(0.6)	50.3	42.5
Los Pelambres	2,845.4	2,978.5	(193.5)	(277.2)	2,651.9	2,701.3

## Notes to the Financial Statements continued

### 5 Segment Information continued

#### a) Primary reporting format – by business segment continued

#### (ii) Capital expenditure, depreciation and amortisation and loss on disposals of property, plant and equipment by business segment

	Capital expenditure		Depreciation and amortisation		Loss on disposals	
	2007 US\$m	2006 US\$m	2007 US\$m	2006 US\$m	2007 US\$m	2006 US\$m
Los Pelambres	323.4	463.5	(79.3)	(72.8)	(0.1)	(0.5)
El Tesoro	28.0	16.3	(49.3)	(43.4)	(1.3)	(2.7)
Michilla	11.4	7.7	(11.2)	(10.4)	(4.0)	(2.5)
Esperanza	43.7	6.6	–	–	–	–
Corporate and other items	15.2	13.9	(0.9)	(0.3)	(0.3)	(0.4)
<b>Mining</b>	<b>421.7</b>	<b>508.0</b>	<b>(140.7)</b>	<b>(126.9)</b>	<b>(5.7)</b>	<b>(6.1)</b>
<b>Railway and other transport services</b>	<b>38.9</b>	<b>25.2</b>	<b>(11.3)</b>	<b>(8.4)</b>	<b>(2.6)</b>	<b>(1.9)</b>
<b>Water concession</b>	<b>5.4</b>	<b>5.8</b>	<b>(10.2)</b>	<b>(9.7)</b>	<b>(0.1)</b>	<b>(0.2)</b>
	<b>466.0</b>	<b>539.0</b>	<b>(162.2)</b>	<b>(145.0)</b>	<b>(8.4)</b>	<b>(8.2)</b>

#### (iii) Other non-cash expenses by business segment

	Severance		Closure		Total other non-cash expenses	
	2007 US\$m	2006 US\$m	2007 US\$m	2006 US\$m	2007 US\$m	2006 US\$m
Los Pelambres	(2.2)	(1.0)	(0.1)	(0.1)	(2.3)	(1.1)
El Tesoro	0.1	(2.3)	(0.2)	(0.3)	(0.1)	(2.6)
Michilla	(0.2)	(0.9)	(0.1)	(0.1)	(0.3)	(1.0)
Corporate and other items	(1.3)	(1.0)	–	–	(1.3)	(1.0)
<b>Mining</b>	<b>(3.6)</b>	<b>(5.2)</b>	<b>(0.4)</b>	<b>(0.5)</b>	<b>(4.0)</b>	<b>(5.7)</b>
<b>Railway and other transport services</b>	<b>(1.3)</b>	<b>(2.5)</b>	<b>–</b>	<b>–</b>	<b>(1.3)</b>	<b>(2.5)</b>
<b>Water concession</b>	<b>(0.4)</b>	<b>–</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>(0.5)</b>	<b>(0.1)</b>
	<b>(5.3)</b>	<b>(7.7)</b>	<b>(0.5)</b>	<b>(0.6)</b>	<b>(5.8)</b>	<b>(8.3)</b>

#### (iv) Assets and liabilities by business segment

	Segment assets		Segment liabilities		Segment net assets	
	2007 US\$m	2006 US\$m	2007 US\$m	2006 US\$m	2007 US\$m	2006 US\$m
Los Pelambres	2,338.4	2,103.4	(137.9)	(125.5)	2,200.5	1,977.9
El Tesoro	563.5	591.8	(61.1)	(53.3)	502.4	538.5
Michilla	77.2	74.5	(28.8)	(24.8)	48.4	49.7
Esperanza	92.8	–	(2.2)	–	90.6	–
Corporate and other items	155.1	145.8	(21.4)	(12.3)	133.7	133.5
<b>Mining</b>	<b>3,227.0</b>	<b>2,915.5</b>	<b>(251.4)</b>	<b>(215.9)</b>	<b>2,975.6</b>	<b>2,699.6</b>
<b>Railway and other transport services</b>	<b>184.0</b>	<b>158.8</b>	<b>(27.7)</b>	<b>(25.2)</b>	<b>156.3</b>	<b>133.6</b>
<b>Water concession</b>	<b>181.1</b>	<b>181.7</b>	<b>(11.4)</b>	<b>(9.1)</b>	<b>169.7</b>	<b>172.6</b>
	<b>3,592.1</b>	<b>3,256.0</b>	<b>(290.5)</b>	<b>(250.2)</b>	<b>3,301.6</b>	<b>3,005.8</b>

## 5 Segment Information continued

### a) Primary reporting format – by business segment continued

Segment assets and liabilities are reconciled to entity assets and liabilities through unallocated items as follows:

	Segment assets		Segment liabilities		Segment net assets	
	2007 US\$m	2006 US\$m	2007 US\$m	2006 US\$m	2007 US\$m	2006 US\$m
<b>Segment assets/(liabilities)</b>	<b>3,592.1</b>	3,256.0	<b>(290.5)</b>	(250.2)	<b>3,301.6</b>	3,005.8
Investment property	3.5	3.2	–	–	3.5	3.2
Investment in associate	2.5	3.5	–	–	2.5	3.5
Available for sale investments	3.3	6.2	–	–	3.3	6.2
Deferred tax assets/(liabilities)	14.7	3.1	(375.6)	(323.2)	(360.9)	(320.1)
Current tax assets/(liabilities)	26.9	7.5	(16.9)	(204.8)	10.0	(197.3)
Cash and cash equivalents/(borrowings)	2,212.5	1,805.5	(266.0)	(358.7)	1,946.5	1,446.8
<b>Entity assets/(liabilities)</b>	<b>5,855.5</b>	5,085.0	<b>(949.0)</b>	(1,136.9)	<b>4,906.5</b>	3,948.1

#### Notes to segment assets, liabilities and capital expenditure

- i) Segment assets are operating assets and at 31 December 2007 comprise the intangible assets of US\$207.7 million (2006 – US\$205.3 million); property, plant and equipment of US\$2,679.8 million (2006 – US\$2,373.7 million); inventories of US\$130.3 million (2006 – US\$120.3 million); current and non-current trade and other receivables of US\$572.4 million (2006 – US\$549.4 million); and current and non-current derivative financial instruments relating to commodities of US\$1.9 million (2006 – US\$7.3 million).
- ii) Segment liabilities are operating liabilities and at 31 December 2007 comprise derivative financial instruments principally relating to commodities of US\$1.4 million (2006 – nil); current and non-current trade and other payables of US\$249.1 million (2006 – US\$216.3 million); post-employment benefits of US\$29.1 million (2006 – US\$24.1 million) and other long-term provisions of US\$10.9 million (2006 – US\$9.8 million).
- iii) Capital expenditure represents purchase of property, plant and equipment and is stated on an accruals basis and may therefore differ from the amount included in the cash flow. Capital expenditure is analysed by category of asset in Note 13.
- iv) Assets and liabilities of Tethyan Copper Company Limited (see Note 30) have been included within Corporate and other items.
- v) Esperanza has been identified as a separate business segment within the mining division with effect from 1 January 2007 and any segment assets, segment liabilities and capital expenditure attributable to Esperanza has been reclassified from Corporate and other items with effect from this date.

## Notes to the Financial Statements continued

### 5 Segment Information continued

#### b) Secondary reporting format – by geographical segment

##### (i) Geographical analysis of turnover by location of customer

	2007 US\$m	2006 US\$m
<b>Europe</b>		
– United Kingdom	0.1	8.1
– Switzerland	321.9	396.5
– Rest of Europe	742.1	877.1
<b>Latin America</b>		
– Chile	377.8	407.5
– Rest of Latin America	190.3	165.2
<b>North America</b>	511.4	472.7
<b>Asia</b>		
– Japan	1,000.6	1,008.2
– China	416.8	317.5
– Rest of Asia	265.7	213.5
<b>Australia</b>	–	3.7
	<b>3,826.7</b>	<b>3,870.0</b>

##### (ii) Geographical analysis of segment assets, segment liabilities and capital expenditure by location of assets and liabilities

	Segment assets		Segment liabilities		Segment net assets		Capital expenditure	
	2007 US\$m	2006 US\$m	2007 US\$m	2006 US\$m	2007 US\$m	2006 US\$m	2007 US\$m	2006 US\$m
Chile	3,436.6	3,105.2	(282.6)	(243.8)	3,154.0	2,861.4	457.2	529.9
Bolivia	35.5	30.2	(3.3)	(4.6)	32.2	25.6	6.7	8.3
Other	120.0	120.6	(4.6)	(1.8)	115.4	118.8	2.1	0.8
	<b>3,592.1</b>	<b>3,256.0</b>	<b>(290.5)</b>	<b>(250.2)</b>	<b>3,301.6</b>	<b>3,005.8</b>	<b>466.0</b>	<b>539.0</b>

Segment assets and segment liabilities are reconciled to entity assets and liabilities in Note 5(a)(iv). Certain segment assets relating to 2006 have been reclassified from other to Chile. The adjustment has no effect on total segment assets.

## 6 Profit for the Year

Profit for the year is stated after crediting/(charging):

	2007 US\$m	2006 US\$m
Net foreign exchange gains		
– included in net finance costs	2.9	1.6
– included in income tax expense	28.5	2.4
Amortisation of intangible asset included in cost of sales	(3.8)	(4.0)
Depreciation of property, plant and equipment		
– owned assets	(152.7)	(135.7)
– assets held under finance leases	(0.4)	(0.4)
– assets held under concession	(5.3)	(4.9)
Property, plant and equipment written-off	(8.4)	(8.2)
Cost of inventories recognised as expense	(700.1)	(573.1)
Change in fair value of financial instruments classified as held for trading (derivatives not in designated hedging relationships)	–	51.8
Employee benefit expense	(145.8)	(108.1)
Auditors' remuneration		
– audit services	(0.7)	(0.6)
– non-audit services	(0.1)	(0.1)

Impairment charges (and the unwinding of these amounts) are included in other operating profits.

The amounts disclosed above in relation to auditors' remuneration include fees payable to Deloitte & Touche LLP and its associates by the Group including UK and overseas subsidiaries. Fees paid for audit services to Deloitte & Touche LLP by the Company and its UK subsidiaries in 2007 were US\$0.2 million (2006 – US\$0.2 million). Fees paid for non-audit services to Deloitte & Touche LLP by the Company in 2007 were less than US\$0.1 million (2006 – US\$0.1 million). There were no fees paid for non-audit services by the Group's other UK subsidiaries to Deloitte & Touche LLP in either 2006 or 2007.

A more detailed analysis of auditors' remuneration on worldwide basis is provided below:

	2007 US\$000	2006 US\$000
<b>Statutory audit</b>		
– Antofagasta plc Annual Report	(377)	(351)
– Subsidiary entities	(315)	(263)
	(692)	(614)
<b>Non-audit services</b>		
– Tax services	(27)	(17)
– IAS 32/39 implementation advice	(12)	(11)
– Other consultancy services	(56)	(24)
	(787)	(666)

## Notes to the Financial Statements *continued*

### 7 Employee Benefit Expense

#### a) Average number of employees

The average number of employees, including the Executive Director but excluding associates' employees, was as follows:

	2007 Number	2006 Number
Los Pelambres	645	590
El Tesoro	458	442
Michilla	444	396
Exploration	25	24
Corporate and other employees		
– Chile	136	85
– United Kingdom	8	6
– Other	20	18
<b>Mining</b>	<b>1,736</b>	1,561
<b>Railway and other transport services</b>	<b>1,338</b>	1,341
<b>Water concession</b>	<b>249</b>	237
	<b>3,323</b>	3,139

The average number of employees for the year includes all the employees of subsidiaries and the Group's share of employees of jointly controlled entities. The average number of employees does not include contractors who are not directly employed by the Group.

Corporate and other employees (Chile) includes 43 employees related to the Esperanza project, who were employed by Antofagasta Minerals S.A.

#### b) Aggregated remuneration

The aggregated remuneration of the employees included in the table above was as follows:

	2007 US\$m	2006 US\$m
Wages and salaries	(138.1)	(97.8)
Social security costs	(2.4)	(2.6)
Post-employment benefits – severance charge in the year	(5.3)	(7.7)
	<b>(145.8)</b>	(108.1)

#### c) Key management personnel

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any Directors (Executive and Non-Executive) of the Company.

Compensation for key management personnel (including Directors) was as follows:

	2007 US\$m	2006 US\$m
Salaries and short-term employee benefits	6.6	4.9
Post-employment benefits – severance charge in the year	–	0.1
	<b>6.6</b>	5.0

Disclosures on Directors' remuneration required by Schedule 7A of the Companies Act 1985 including those specified for audit by that Schedule are included in the Remuneration Report on pages 72 to 75.

## 8 Net Finance Income

Net finance income was as follows:

	2007 US\$m	2006 US\$m
<b>Investment income</b>		
Interest receivable	113.4	78.3
<b>Interest expense</b>		
Interest payable	(19.8)	(24.6)
Amortisation of deferred finance costs	(0.4)	(0.4)
Preference dividends	(0.2)	(0.2)
	(20.4)	(25.2)
<b>Other finance items</b>		
Mark-to-market effect of derivatives	–	0.3
Time value effect of derivatives	0.7	–
Discount charge relating to provisions	(1.2)	(1.2)
Foreign exchange	2.9	1.6
	2.4	0.7
<b>Net finance income</b>	<b>95.4</b>	<b>53.8</b>

The discount charge relating to provisions has been reclassified from interest expense to other finance items, and the prior year comparatives have been restated accordingly. The reclassification has no effect on net finance income in either year.

There was no interest capitalised in either year.

## 9 Taxation

	2007 US\$m	2006 US\$m
<b>Current tax charge</b>		
– 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)
<b>Deferred tax charge</b>		
– 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)
<b>Total tax charge (Income tax expense)</b>	<b>(638.4)</b>	<b>(664.9)</b>

The current tax charge of US\$598.7 million (2006 – US\$592.2 million) comprises Chilean taxes of US\$598.1 million (2006 – US\$592.1 million) and other overseas taxes of US\$0.6 million (2006 – US\$0.1 million).

Current tax is based on taxable profit for the year. Deferred tax is the tax expected to be payable or recoverable on temporary differences (i.e. differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit). Deferred tax is accounted for using the balance sheet liability method and is provided on all temporary differences with certain limited exceptions. The Group incurs withholding taxes on the remittance of profits from Chile and the other countries in which it operates and deferred tax is provided on undistributed earnings to the extent that remittance is probable in the foreseeable future.

## Notes to the Financial Statements *continued*

### 9 Taxation *continued*

The rate of first category (i.e. corporation) tax in Chile was 17% for both 2007 and 2006. 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% was 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 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.

The effective tax rate for the year was 23.2% in 2007 and 23.3% in 2006, compared with the Chilean statutory tax rate of 17.0%. The differences are explained below:

	2007		2006	
	US\$m	%	US\$m	%
<b>Profit before tax</b>	<b>2,750.2</b>		<b>2,859.0</b>	
<b>Tax at the Chilean corporation tax rate of 17%</b>	<b>(467.5)</b>	<b>17.0</b>	<b>(486.0)</b>	<b>17.0</b>
Tax effect of share of results of associate	(0.3)	–	(0.2)	–
Deferred tax assets not recognised in the year	(2.7)	0.1	(3.0)	0.1
Tax effect of items not deductible in generating taxable profit (principally exploration costs and certain corporate costs)	21.1	(0.8)	12.6	(0.4)
Royalty	(51.4)	1.9	(56.6)	2.0
Withholding taxes provided in the year	(166.1)	6.0	(134.1)	4.7
Exchange differences	28.5	(1.0)	2.4	(0.1)
<b>Tax expense and effective tax rate for the year</b>	<b>(638.4)</b>	<b>23.2</b>	<b>(664.9)</b>	<b>23.3</b>

### 10 Earnings Per Share

	2007	2006
	US\$m	US\$m
Profit for the year attributable to equity holders of the Company (Net earnings)	<b>1,382.1</b>	1,354.3

	2007	2006
	Number	Number
Ordinary shares in issue throughout each year	<b>985,856,695</b>	985,856,695

	2007	2006
	US cents	US cents
Basic earnings per share	<b>140.2</b>	137.4

Basic earnings per share is calculated as profit after tax and minority interest, based on 985,856,695 ordinary shares.

There was no potential dilution of earnings per share in either year set out above, and therefore diluted earnings per share did not differ from basic earnings per share as disclosed above.

## 11 Dividends

Amounts recognised as distributions to equity holders in the period:

	2007 US\$m	2006 US\$m	2007 US cents per share	2006 US cents per share
Final dividend paid in June (proposed in relation to the previous year)				
– ordinary	49.3	47.3	5.0	4.8
– special	374.6	138.0	38.0	14.0
	<b>423.9</b>	185.3	<b>43.0</b>	18.8
Interim dividend paid in October				
– ordinary	31.5	31.6	3.2	3.2
– special	29.6	19.7	3.0	2.0
	<b>61.1</b>	51.3	<b>6.2</b>	5.2
	<b>485.0</b>	236.6	<b>49.2</b>	24.0

The proposed final dividend for each year, which is subject to approval by shareholders at the Annual General Meeting and has therefore not been included as a liability in these financial statements, is as follows:

	2007 US\$m	2006 US\$m	2007 US cents per share	2006 US cents per share
Final dividend proposed in relation to the year				
– ordinary	53.3	49.3	5.4	5.0
– special	374.6	374.6	38.0	38.0
	<b>427.9</b>	423.9	<b>43.4</b>	43.0

This gives total ordinary dividends proposed in relation to 2007 (including the interim dividend) of 49.6 cents per share or US\$489.0 million (2006 – 48.2 cents per share or US\$475.2 million).

In accordance with IAS 32, preference dividends have been included within interest expense (see Note 8) and amounted to US\$0.2 million (2006 – US\$0.2 million).

Further details relating to dividends for each year are given in the Directors' Report on pages 60 and 61.

## Notes to the Financial Statements continued

### 12 Intangible assets

	Concession right 2007 US\$m	Exploration licences 2007 US\$m	Total intangible assets 2007 US\$m	Total intangible assets 2006 US\$m
<b>Cost</b>				
Balance at the beginning of the year	101.3	115.0	216.3	105.1
Acquisition (see Note 30)	–	–	–	230.0
Disposal (see Note 31)	–	–	–	(115.0)
Foreign currency exchange difference	6.9	–	6.9	(3.8)
Balance at the end of the year	<b>108.2</b>	<b>115.0</b>	<b>223.2</b>	216.3
<b>Amortisation</b>				
Balance at the beginning of the year	(11.0)	–	(11.0)	(7.4)
Charge for the year	(3.8)	–	(3.8)	(4.0)
Foreign currency exchange difference	(0.7)	–	(0.7)	0.4
Balance at the end of the year	<b>(15.5)</b>	–	<b>(15.5)</b>	(11.0)
<b>Carrying amount</b>				
Balance at the end of the year	<b>92.7</b>	<b>115.0</b>	<b>207.7</b>	205.3

The concession right relates to the 30-year concession to operate the water rights and facilities in the Antofagasta Region of Chile which the Group's wholly-owned subsidiary, Aguas de Antofagasta S.A., acquired in December 2003. This intangible asset is being amortised on a straight-line basis over the life of the concession (see Note 35).

The exploration licences relate to the Group's proportionate share of the full unencumbered value attributed to the interest in exploration licences in the Reko Diq prospect in the Chagai Hills region of south-west Pakistan acquired on the purchase of Tethyan Copper Company Limited in 2006 (see Note 30(a)). This intangible asset will be amortised in accordance with the Group's policy for mining properties as set out in Note 2(i)(ii) when the related mining properties enter into production.

### 13 Property, Plant and Equipment

	Land and mining properties US\$m	Buildings and infra-structure US\$m	Railway track US\$m	Wagons and rolling stock US\$m	Machinery, equipment and others US\$m	Assets under construction US\$m	Total US\$m
<b>Cost</b>							
At 1 January 2006	454.7	1,076.4	38.0	70.9	838.8	189.7	2,668.5
Acquisitions (see Note 30)	170.9	–	–	–	0.7	–	171.6
Additions	8.0	4.5	–	2.5	13.0	511.0	539.0
Reclassifications	2.5	56.9	1.6	3.3	152.4	(216.7)	–
Asset disposals	(0.1)	(2.8)	–	(2.4)	(7.1)	(2.0)	(14.4)
Disposal (see Note 31)	(4.3)	–	–	–	(0.4)	–	(4.7)
Foreign currency exchange difference	0.1	(3.0)	–	(0.4)	(0.2)	(0.1)	(3.6)
At 31 December 2006 and 1 January 2007	631.8	1,132.0	39.6	73.9	997.2	481.9	3,356.4
Additions	0.3	1.1	–	17.4	34.8	412.4	466.0
Reclassifications	0.9	19.5	6.0	5.6	130.4	(162.4)	–
Asset disposals	(0.1)	(3.2)	(0.5)	(1.7)	(35.7)	(1.0)	(42.2)
Foreign currency exchange difference	(0.1)	5.8	–	2.0	1.4	0.3	9.4
<b>At 31 December 2007</b>	<b>632.8</b>	<b>1,155.2</b>	<b>45.1</b>	<b>97.2</b>	<b>1,128.1</b>	<b>731.2</b>	<b>3,789.6</b>
<b>Accumulated depreciation and impairment</b>							
At 1 January 2006	(103.9)	(275.5)	(6.4)	(33.8)	(424.9)	(4.0)	(848.5)
Charge for the year	(28.6)	(43.8)	0.1	(6.0)	(62.7)	–	(141.0)
Reclassifications	–	(0.5)	–	–	0.5	–	–
Asset disposals	–	0.1	–	1.5	4.6	–	6.2
Foreign currency exchange difference	–	0.4	–	0.1	0.1	–	0.6
At 31 December 2006 and 1 January 2007	(132.5)	(319.3)	(6.3)	(38.2)	(482.4)	(4.0)	(982.7)
Charge for the year	(38.4)	(47.1)	(1.4)	(7.2)	(64.3)	–	(158.4)
Asset disposals	–	0.1	0.1	1.4	32.2	–	33.8
Foreign currency exchange difference	–	(1.3)	–	(0.9)	(0.3)	–	(2.5)
<b>At 31 December 2007</b>	<b>(170.9)</b>	<b>(367.6)</b>	<b>(7.6)</b>	<b>(44.9)</b>	<b>(514.8)</b>	<b>(4.0)</b>	<b>(1,109.8)</b>
<b>Net book value</b>							
<b>At 31 December 2007</b>	<b>461.9</b>	<b>787.6</b>	<b>37.5</b>	<b>52.3</b>	<b>613.3</b>	<b>727.2</b>	<b>2,679.8</b>
At 31 December 2006	499.3	812.7	33.3	35.7	514.8	477.9	2,373.7
<b>Assets under finance leases included in the totals above</b>							
<b>Net book value</b>							
<b>At 31 December 2007</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1.1</b>	<b>–</b>	<b>1.1</b>
At 31 December 2006	–	–	–	–	1.9	–	1.9

The net book value of assets under concession at 31 December 2007 was US\$67.0 million (2006 – US\$63.0 million).

The Group has pledged assets with a carrying value of US\$32.0 million (2006 – US\$27.0 million) as security against bank loans provided to the Group.

At 31 December 2007 the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to US\$432.6 million (2006 – US\$385.7 million). Commitments at 31 December 2007 included US\$261.4 million relating to the Esperanza project; US\$65.7 million relating to the Mauro tailings dam project and US\$78.9 million relating to the plant expansion project at Los Pelambres.

Compensation from insurance companies related to property, plant and equipment included in the consolidated income statement was US\$2.3 million in 2007 (2006 – US\$0.1 million).

## Notes to the Financial Statements continued

### 14 Investment Property

Cost	2007 US\$m	2006 US\$m
Balance at the beginning of the year	3.2	3.4
Foreign currency exchange difference	0.3	(0.2)
<b>Balance at the end of the year</b>	<b>3.5</b>	<b>3.2</b>

Investment property represents the Group's forestry properties, which are held for long-term potential and accordingly classified as investment property and held at cost as permitted by IAS 40.

The fair value of the Group's investment property at 31 December 2007 was US\$11.0 million (2006 – US\$11.0 million), based on an independent valuation carried out during 2005 by Forestal TerraSur Ltda., who are not connected with the Group. The valuation was based on market evidence of transaction prices for similar properties.

Direct operating expenses (principally on-going maintenance costs) arising on these properties amounted to US\$0.1 million (2006 – US\$0.2 million).

### 15 Investments in Subsidiaries

The principal subsidiaries of the Group and the percentage of equity owned are set out below. These interests are consolidated within these financial statements. The Group has restricted the information to its principal subsidiaries as full compliance with section 231(5) of the Companies Act 1985 would result in a statement of excessive length.

	Country of incorporation	Country of operations	Nature of business	Economic interest
<b>Direct subsidiaries of the Parent Company</b>				
Antofagasta Railway Company plc	Great Britain	Chile	Railway	100%
Minera Anaconda Perú S.A.	Peru	Peru	Mining	100%
Chilean Northern Mines Limited	Great Britain	Chile	Investment	100%
<b>Indirect subsidiaries of the Parent Company</b>				
Antofagasta Minerals S.A.	Chile	Chile	Mining	100%
Minera Los Pelambres	Chile	Chile	Mining	60%
Minera El Tesoro	Chile	Chile	Mining	100%
Minera Michilla S.A.	Chile	Chile	Mining	74.2%
Minera Esperanza	Chile	Chile	Mining	100%
Equatorial Mining Limited	Australia	Chile	Mining	100%
Aguas de Antofagasta S.A.	Chile	Chile	Water distribution	100%
Servicios de Transportes Integrados Limitada	Chile	Chile	Road transport	100%
Empresa Ferroviaria Andina S.A.	Bolivia	Bolivia	Railway	50%
Forestal S.A.	Chile	Chile	Forestry	100%

The Group exercises management control over and has the right to appoint the majority of the board of Empresa Ferroviaria Andina S.A. Accordingly, this investment is treated as a subsidiary and is consolidated in these Group financial statements.

## 16 Investment in Associate

	2007 US\$m	2006 US\$m
Balance at the beginning of the year	3.5	2.8
Share of profit before tax	1.7	1.3
Share of tax	(0.3)	(0.2)
Share of income from associate	1.4	1.1
Dividends received	(2.4)	(0.4)
<b>Balance at the end of the year</b>	<b>2.5</b>	<b>3.5</b>

The investment in associate refers to the Group's 30% interest in Antofagasta Terminal Internacional S.A. ("ATI"), which operates a concession to manage installations in the port of Antofagasta.

The Group's share of the summarised financial information of ATI, which is unlisted, is as follows:

	2007 US\$m	2006 US\$m
Total assets (net of fair value adjustments)	3.8	4.8
Total liabilities	(1.3)	(1.3)
Turnover	7.2	5.7
Profit after tax and minorities	1.4	1.1

## 17 Joint Venture Agreements

### a) Cordillera de las Minas S.A.

The Group had a joint venture agreement, entered into during 2002, with Companhia Vale do Rio Doce ("Vale") of Brazil, with the objective of developing mineral exploration activities in a defined area of interest in southern Peru. In March 2007 the Group agreed to sell its 50% interest in the joint venture vehicle Cordillera de Las Minas S.A. ("CMSA") to Panoro Minerals Limited ("Panoro"), a company listed on the TSX Venture Exchange.

The agreement was subject to a number of conditions including financing by Panoro and regulatory approvals. These conditions were fulfilled in June 2007 and the disposal was completed at that point. The fair value of the consideration received, being US\$6.0 million in cash plus six million common shares in Panoro, was US\$9.7 million. The joint venture had a nil carrying value in the Group's balance sheet, and accordingly the disposal has resulted in a gain of US\$9.7 million being recognised during the year, recorded within other operating income.

### b) Tethyan Copper Company Limited

As explained in Note 30(a), in 2006 the Group acquired 100% of the issued share capital of Tethyan Copper Company Limited ("Tethyan") for cash consideration (including transaction costs) of US\$170.4 million. In the same year, the Group subsequently entered into a joint venture agreement with Barrick Gold Corporation ("Barrick Gold"), to establish a 50:50 joint venture in relation to Tethyan's mineral interests in Pakistan. Further details of the part-disposal of Tethyan to Barrick Gold to give effect to the joint venture are set out in Note 31(a).

During 2007 and 2006 Tethyan was wholly engaged in mineral exploration activities and did not generate any revenue in the period before or after acquisition by the Group. The Group's operating loss resulting from Tethyan for the year was US\$34.0 million (2006 – US\$5.3 million), which relates mainly to exploration costs expensed in accordance with the Group's accounting policy.

## Notes to the Financial Statements *continued*

### 17 Joint Venture Agreements *continued*

The following amounts represent the Group's 50% share of the assets and liabilities, and results of the jointly controlled entity, and are included in the consolidated balance sheet and in the consolidated income statement of the Group under the proportionate consolidation method:

	2007 US\$m	2006 US\$m
Total non-current assets	117.5	115.7
Total current assets	2.1	2.6
Total current liabilities	(4.4)	(0.9)
Total non-current liabilities	(0.1)	(0.1)
<b>Group's share of jointly controlled entity's net assets</b>	<b>115.1</b>	<b>117.3</b>
Operating loss	(17.0)	(2.0)
Net finance income	0.1	2.0
Tax	(0.6)	–
<b>Group's share of jointly controlled entity's results</b>	<b>(17.5)</b>	<b>–</b>

In addition to these amounts, the Group incurred US\$0.7 million (2006 – nil) relating to Tethyan which is included in Corporate and other items.

### 18 Available for Sale Investments

Available for sale investments represent those investments which are not subsidiaries, associates or joint ventures and are not held for trading purposes.

The movement in available for sale assets during the year was as follows:

	2007 US\$m	2006 US\$m
Balance at the beginning of the year	6.2	0.1
Additions	3.7	–
Acquisition (see Note 17(a))	–	5.6
Movements in fair value	10.0	0.5
Disposal	(16.6)	–
<b>Balance at the end of the year</b>	<b>3.3</b>	<b>6.2</b>

The additions during the period represents the shares in Panoro Minerals Limited acquired as part consideration for the disposal of the Group's share of the joint venture entity Cordillera de las Minas S.A.. The fair value of these shares at 31 December 2007 was US\$3.2 million. The mark-to-market loss in respect of these shares in the balance sheet at the end of the year was US\$0.5 million.

The balance at 31 December 2006 includes US\$6.1 million related to the investment in Mercator Minerals Ltd. shares, acquired at a cost of US\$5.6 million. These shares were sold during the year for US\$16.6 million, and the gain of US\$10.5 million was recognised in other operating income.

The fair value of the remaining available for sale investments of less than US\$0.1 million (2006 – US\$0.1 million) held by the Group are mainly Chilean-peso denominated and did not differ materially from cost at either year end.

## 19 Inventories

	2007 US\$m	2006 US\$m
Raw materials and consumables	41.1	36.6
Work in progress	71.1	68.6
Finished goods	18.1	15.1
	<b>130.3</b>	120.3

Work in progress includes US\$9.6 million (2006 – US\$25.3 million) related to high carbonate ore inventories at El Tesoro of which US\$5.3 million are expected to be processed more than twelve months after the balance sheet date. During the year a write-off of US\$18.8 million was recorded in respect of these inventories.

## 20 Trade and Other Receivables

	Due in one year		Due after one year		Total	
	2007 US\$m	2006 US\$m	2007 US\$m	2006 US\$m	2007 US\$m	2006 US\$m
Trade debtors	403.5	425.5	0.6	0.5	404.1	426.0
Other debtors	136.9	84.6	31.4	38.8	168.3	123.4
	<b>540.4</b>	510.1	<b>32.0</b>	39.3	<b>572.4</b>	549.4

There is no significant concentration of credit risk with respect to trade receivables as the exposure is spread over a large number of customers. The average credit period given on sale of goods and rendering of service is 54 days (2006 – 52 days). There is no material element which is interest-bearing. Trade debtors include mark-to-market adjustments in respect of provisionally priced sales of copper and molybdenum concentrates which remain open as to final pricing. Further details of these adjustments are given in Note 24(d).

Movements in the provision for doubtful debts were as follows:

	2007 US\$m	2006 US\$m
Balance at the beginning of the year	(2.7)	(2.3)
Charge for the year	(0.5)	(0.4)
Unused amounts reversed	0.1	–
<b>Balance at the end of the year</b>	<b>(3.1)</b>	(2.7)

The ageing analysis of the trade receivables balance is as follows:

	Neither past due nor impaired US\$m	Past due but not impaired			Total US\$m
		Up to 3 months past due US\$m	3-6 months past due US\$m	More than 6 months past due US\$m	
<b>At 31 December 2007</b>	<b>561.6</b>	<b>9.1</b>	<b>0.7</b>	<b>1.0</b>	<b>572.4</b>
At 31 December 2006	536.7	11.8	0.4	0.5	549.4

With respect to the trade receivables that are neither past due nor impaired, there are no indications that the debtors will not meet their payment obligations. The carrying value of the trade receivables recorded in the financial statements represents the maximum exposure to credit risk. The Group does not hold any collateral as security.

Other debtors include US\$40.2 million (2006 – US\$28.9 million) relating to prepayments for the purchase of property, plant and equipment and US\$4.7 million (2006 – US\$12.9 million) of Chilean VAT relating to the acquisition of the water concession in 2003.

## Notes to the Financial Statements *continued*

### 21 Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand, deposits held on call with banks and highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents had a maturity period of three months or less from the date of acquisition at both 31 December 2007 and 31 December 2006, and carried floating rates of interest. The fair value of cash and cash equivalents is not materially different from the carrying values presented. The credit risk on cash and cash equivalents is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The currency exposure of cash and cash equivalents was as follows:

	2007	2006
	US\$m	US\$m
US dollars	2,148.0	1,683.3
Chilean pesos	40.2	99.8
Australian dollars	23.5	19.4
Euros	0.3	0.1
Sterling	–	0.6
Other	0.5	2.3
	<b>2,212.5</b>	<b>1,805.5</b>

### 22 Borrowings

#### a) Analysis by type of borrowing

Borrowings may be analysed by business segment and type as follows:

	Notes	2007	2006
		US\$m	US\$m
<b>Los Pelambres</b>			
Corporate loans	(i)	(229.0)	(305.3)
Other loans	(ii)	(4.7)	(9.5)
<b>El Tesoro</b>			
Corporate loans	(iii)	(14.0)	(27.9)
Finance leases	(iv)	(0.1)	(0.2)
<b>Michilla</b>			
Finance leases	(iv)	(0.1)	(0.9)
<b>Railway and other transport services</b>			
Loans	(v)	(14.1)	(10.8)
<b>Other</b>			
Preference shares	(vi)	(4.0)	(4.1)
		<b>(266.0)</b>	<b>(358.7)</b>

- (i) Corporate loans at Los Pelambres are unsecured and US dollar denominated. The balance of US\$229.0 million represents syndicated loans of US\$230.0 million less deferred financing costs of US\$1.0 million. These loans are repayable in semi-annual instalments with 3 years remaining and carry interest at approximately LIBOR six-month rate plus 0.24%.

## 22 Borrowings continued

- (ii) Other loans at Los Pelambres represent a US dollar denominated bank loan taken out in 2002 to refinance the purchase of a power line. The loan is unsecured and the balance is repayable in semi-annual instalments over 1 remaining year and carries interest at LIBOR six-month rate plus 0.875%.
- (iii) Corporate loans at El Tesoro are unsecured and US dollar denominated. These loans are repayable in semi-annual instalments with 1 year remaining and carry interest at LIBOR six-month rate plus 0.42%.
- (iv) Finance leases at El Tesoro and Michilla relate to equipment purchases and are US dollar denominated. These are generally fixed rate with interest rates ranging from 4.51% to 9.37%. These loans are repayable within 1 year.
- (v) Railway loans include US dollar customer advances of US\$5.9 million. An interest rate of LIBOR plus 1.5% is payable on these loans. Euro-denominated loans of US\$0.7 million have a fixed rate of interest of 2% and are repayable over 1 year. Dollar denominated loans of US\$5.0 million have a weighted floating interest rate (Bolivian Reference Interest Rate Index) plus 6.4% and are repayable over 1.87 years and the remaining loans are interest free. The balance at 31 December 2007 also includes a bank overdraft of US\$2.2 million which was repaid on 2 January 2008. There were also interest free loans of US\$0.3 million.
- (vi) The preference shares are sterling-denominated and issued by the Company. There were 2,000,000 shares of £1 each authorised, issued and fully paid at both 31 December 2007 and 31 December 2006. The preference shares are non-redeemable and are entitled to a fixed cumulative dividend of 5% per annum. On winding up they are entitled to repayment and any arrears of dividend in priority to ordinary shareholders, but are not entitled to participate further in any surplus. Each preference share carries 100 votes (see Note 28) in any general meeting of the Company.

### b) Analysis of borrowings by currency

The exposure of the Group's borrowings to currency risk is as follows:

	Euros US\$m	Sterling US\$m	US dollars US\$m	2007 Total US\$m
<b>At 31 December 2007</b>				
Corporate loans	–	–	(243.0)	(243.0)
Other loans	(0.7)	–	(18.1)	(18.8)
Finance leases	–	–	(0.2)	(0.2)
Preference shares	–	(4.0)	–	(4.0)
	(0.7)	(4.0)	(261.3)	(266.0)
<b>At 31 December 2006</b>				2006 Total US\$m
Corporate loans	–	–	(333.2)	(333.2)
Other loans	(1.2)	–	(19.1)	(20.3)
Finance leases	–	–	(1.1)	(1.1)
Preference shares	–	(4.1)	–	(4.1)
	(1.2)	(4.1)	(353.4)	(358.7)

## Notes to the Financial Statements *continued*

### 22 Borrowings *continued*

#### c) Analysis of borrowings by type of interest rate

The exposure of the Group's borrowings to interest rate risk is as follows:

	Fixed US\$m	Floating US\$m	Interest free US\$m	2007 Total US\$m
<b>At 31 December 2007</b>				
Corporate loans	–	(243.0)	–	(243.0)
Other loans	(0.7)	(17.8)	(0.3)	(18.8)
Finance leases	(0.2)	–	–	(0.2)
Preference shares	(4.0)	–	–	(4.0)
	<b>(4.9)</b>	<b>(260.8)</b>	<b>(0.3)</b>	<b>(266.0)</b>
<b>At 31 December 2006</b>				
Corporate loans	–	(333.2)	–	(333.2)
Other loans	(1.2)	(18.8)	(0.3)	(20.3)
Finance leases	(1.1)	–	–	(1.1)
Preference shares	(4.1)	–	–	(4.1)
	<b>(6.4)</b>	<b>(352.0)</b>	<b>(0.3)</b>	<b>(358.7)</b>

#### d) Maturity profile

The maturity profile of the Group's borrowings is as follows:

	Within 1 year US\$m	Between 1-2 years US\$m	Between 2-5 years US\$m	After 5 years US\$m	2007 Total US\$m
<b>At 31 December 2007</b>					
Corporate loans	(90.5)	(76.3)	(76.2)	–	(243.0)
Other loans	(11.1)	(7.2)	(0.5)	–	(18.8)
Finance leases	(0.2)	–	–	–	(0.2)
Preference shares	–	–	–	(4.0)	(4.0)
	<b>(101.8)</b>	<b>(83.5)</b>	<b>(76.7)</b>	<b>(4.0)</b>	<b>(266.0)</b>
<b>At 31 December 2006</b>					
Corporate loans	(90.3)	(90.4)	(152.5)	–	(333.2)
Other loans	(6.4)	(7.1)	(6.8)	–	(20.3)
Finance leases	(0.9)	(0.2)	–	–	(1.1)
Preference shares	–	–	–	(4.1)	(4.1)
	<b>(97.6)</b>	<b>(97.7)</b>	<b>(159.3)</b>	<b>(4.1)</b>	<b>(358.7)</b>

The amounts included above for finance leases are based on the present value of minimum lease payments.

## 22 Borrowings continued

### d) Maturity profile continued

The total minimum lease payments for these finance leases may be analysed as follows:

	Within 1 year US\$m	Between 1-2 years US\$m	Between 2-5 years US\$m	After 5 years US\$m	Total US\$m
<b>At 31 December 2007</b>					
Finance leases	(0.2)	–	–	–	(0.2)
<b>At 31 December 2006</b>					
Finance leases	(1.0)	(0.2)	–	–	(1.2)

### e) Borrowings facilities

The undrawn committed borrowing facilities available at the end for each year, in respect of which all conditions precedent had been met at those dates, were as follows:

	2007 US\$m	2006 US\$m
Expiring in one year or less	355.3	278.3
Expiring in more than one but not more than two years	20.0	–
Expiring in more than two years	25.0	60.0
	<b>400.3</b>	<b>338.3</b>

The available facilities comprise general working capital facilities at the Group's operating subsidiaries all of which were undrawn at the end of each year. Of these facilities, US\$357.6 million (2006 – US\$296.5 million) are denominated in US dollars, US\$39.5 million (2006 – US\$38.6 million) in Unidades de Fomento (i.e. inflation-linked Chilean pesos) and US\$3.2 million (2006 – US\$3.2 million) in Chilean pesos.

## 23 Trade and Other Payables

	Due in one year		Due after one year		Total	
	2007 US\$m	2006 US\$m	2007 US\$m	2006 US\$m	2007 US\$m	2006 US\$m
Trade creditors	(85.2)	(72.1)	(2.6)	(4.1)	(87.8)	(76.2)
Other creditors and accruals	(161.3)	(139.4)	–	(0.7)	(161.3)	(140.1)
	<b>(246.5)</b>	<b>(211.5)</b>	<b>(2.6)</b>	<b>(4.8)</b>	<b>(249.1)</b>	<b>(216.3)</b>

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 33 days (2006 – 33 days).

## Notes to the Financial Statements *continued*

### 24 Financial Instruments and Financial Risk Management

#### a) Categories of financial instruments

The Group's financial instruments, grouped according to the categories defined in IAS 39 "Financial instruments: Recognition and Measurement", were as follows:

	2007 US\$m	2006 US\$m
<b>Financial assets</b>		
Financial assets held for trading – derivatives not in designated hedge accounting relationships	–	7.3
Derivatives in designated hedge accounting relationships	1.9	–
Available for sale investments	3.3	6.2
Loans and receivables (including cash and cash equivalents)	2,784.9	2,354.9
<b>Financial liabilities</b>		
Derivatives in designated hedge accounting relationships	(1.4)	–
Financial liabilities measured at amortised cost	(515.1)	(575.0)
	<b>2,273.6</b>	<b>1,793.4</b>

#### b) Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- the fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- the fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and
- the fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis based on the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

The fair value of each category of financial asset and liability is not materially different from the carrying values presented for either 2007 or 2006.

#### c) Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including commodity price risk, currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The Group uses derivative financial instruments to reduce exposure to commodity price, foreign exchange and interest rate movements. The Group does not use such derivative instruments for speculative trading purposes.

The Board of Directors is responsible for overseeing the Group's risk management framework. The Board has established the Quality and Risk Management Committee, which is responsible for developing and monitoring the Group's risk management policies. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Quality and Risk Management Committee.

##### (i) Commodity price risk

The Group generally sells its copper and molybdenum concentrate and copper cathodes output at prevailing market prices, subject to final pricing adjustments which may be 30 to 180 days after delivery to the customer, and it is therefore exposed to changes in market prices for copper and molybdenum both in respect of future

## 24 Financial Instruments and Financial Risk Management continued

### c) Financial risk management continued

sales and previous sales which remain open as to final pricing. In 2007, sales of copper and molybdenum concentrate and copper cathodes represented 95.2% of Group turnover and therefore revenues and earnings depend significantly on LME and realised copper prices.

The Group uses futures, min-max instruments and options to manage its exposure to copper prices. These instruments may give rise to accounting volatility due to fluctuations in their fair value prior to the maturity of the instruments. Details of those copper and molybdenum concentrate sales and copper cathode sales which remain open as to final pricing are given in Note 24(d). Details of commodity rate derivatives entered into by the Group are given in Note 24(e).

#### *Commodity price sensitivity*

The sensitivity analysis below shows the impact of a movement in the copper price on the financial instruments held as at the reporting date. A movement in the copper forward price as at the reporting date will affect the final pricing adjustment to sales which remain open at that date, impacting the trade receivables balance and consequently the income statement. A movement in the copper forward price will also affect the valuation of commodity derivatives, impacting the hedging reserve in equity if the fair value movement relates to an effective designated cash flow hedge, and impacting the income statement if it does not. The calculation assumes that all other variables, such as currency rates, remain constant.

If the copper forward price as at the reporting date had increased by 10 cents, net earnings would have increased by US\$6.5 million (2006 – US\$11.6 million) and there would have been no additional impact on equity.

If the copper forward price as at the reporting date had decreased by 10 cents, net earnings would have decreased by US\$6.5 million (2006 – US\$10.9 million) and there would have been no additional impact on equity.

In addition to the above analysis of the impact of a movement in the forward copper price on the financial instruments held at the reporting date, a movement in the average copper price during the year would impact revenue and earnings. A one cent change in the average copper price during the year would affect net earnings by US\$5.3 million (2006 – US\$5.9 million) and earnings per share by 0.5 cents (2006 – 0.5 cents), based on production volumes in 2007, without taking into account the effects of provisional pricing and hedging activity. A one dollar change in the average molybdenum price for the year would affect net earnings by US\$10.7 million (2006 – US\$10.5 million), and earnings per share by 1.1 cents (2006 – 1.1 cents), based on production volumes in 2007, and without taking into account the effects of provisional pricing.

#### (ii) Currency risk

The Group is exposed to a variety of currencies. The US dollar, however, is the currency in which the majority of the Group's sales are denominated. Operating costs are influenced by the countries in which the Group's operations are based (principally in Chile) as well as those currencies in which the costs of imported equipment and services are determined. After the US dollar, the Chilean peso is the most important currency influencing costs and to a lesser extent sales.

Given the significance of the US dollar to the Group's operations, this is the presentational currency of the Group for internal and external reporting. The US dollar is also the currency for borrowing and holding surplus cash, although a portion of this may be held in other currencies, notably Chilean pesos and sterling, to meet short term operational and capital commitments and dividend payments.

## Notes to the Financial Statements *continued*

### 24 Financial Instruments and Financial Risk Management *continued*

#### c) Financial risk management *continued*

When considered appropriate, the Group uses forward exchange contracts and currency swaps to limit the effects of movements in exchange rates in foreign currency denominated assets and liabilities. The Group may also use these instruments to reduce currency exposure on future transactions and cash flows. Details of any exchange rate derivatives entered by the Group in the year are given in Note 24(e).

The currency exposure of the Group's cash and cash equivalents is given in Note 21, and the currency exposure of the Group's borrowings is given in Note 22. The effect of exchange gains and losses included in the income statement is given in Note 6. Exchange differences on translation of the net assets of entities with a functional currency other than the US dollar (the most material of which is Aguas de Antofagasta S.A.) are taken to the currency translation reserve and are disclosed in the Consolidated Statement of Changes in Equity on page 81.

#### *Currency sensitivity*

The sensitivity analysis below shows the impact of a movement in the US dollar / Chilean peso exchange rate on the financial instruments held as at the reporting date.

The impact on profit or loss is as a result of the retranslation of monetary financial instruments (including cash, trade receivables, trade payables and borrowings). The impact on equity is as a result of changes in the fair value of derivative instruments which are effective designated cash flow hedges, and changes in the fair value of available for sale equity investments. The calculation assumes that all other variables, such as interest rates, remain constant.

If the US dollar had strengthened by 10% against the Chilean peso as at the reporting date, net earnings would have decreased by US\$3.2 million (2006 – US\$6.0 million); there would have been no additional impact on equity. If the US dollar had weakened by 10% against the Chilean Peso as at the reporting date, net earnings would have increased by US\$3.9 million (2006 – US\$7.4 million); there would have been no additional impact on equity.

#### (iii) Interest rate risk

The Group's policy is generally to borrow and invest cash at floating rates. Fluctuations in interest rates may impact the Group's net finance income or cost, and to a lesser extent on the value of financial assets and liabilities. The Group occasionally uses interest rate swaps and collars to manage interest rate exposures on a portion of its existing borrowings. Details of any interest rate derivatives entered into by the Group are given in Note 24(e).

The interest rate exposure of the Group's cash and cash equivalents is given in Note 21, and the interest rate exposure of the Group's borrowings is given in Note 22.

#### *Interest rate sensitivity*

The sensitivity analysis below shows the impact of a movement in interest rates in relation to the financial instruments held as at the reporting date. The impact on profit or loss is as a result of the effect on interest expense in respect of floating rate borrowings, and interest income in respect of cash and cash equivalents. The impact on equity is as a result of changes in the fair value of derivative instruments which are effective designated cash flow hedges. The calculation assumes that all other variables, such as currency rates, remain constant.

If the interest rate increased by 1%, based on the financial instruments held as at the reporting date, net earnings would have increased by US\$15.1 million (2006 – US\$11.2 million). There would have been no additional impact on equity.

## 24 Financial Instruments and Financial Risk Management continued

### c) Financial risk management continued

#### (iv) Other price risk

The Group is exposed to equity price risk on its available for sale equity investments.

#### *Equity price sensitivity*

The sensitivity analysis below shows the impact of a movement in the equity values of the available for sale financial assets held as at the reporting date.

If the value of the available for sale investments had increased by 10% as at the reporting date, equity would have increased by US\$0.3 million (2006 – US\$0.6 million). There would have been no impact on the income statement.

#### (v) Cash flow risk

The Group's future cash flows depend on a number of factors, including commodity prices, production and sales levels, operating costs, capital expenditure levels and financial income and costs. Its cash flows are therefore subject to the exchange, interest rate and commodity price risks described above as well as operational factors and input costs. Further information on production and sales levels and operating costs are given in the Financial Review on pages 22 to 25.

#### (vi) Credit risk

Credit risk arises from trade and other receivables, cash and cash equivalents and derivative financial instruments. The Group's credit risk is primarily to trade receivables. The credit risk on cash and cash equivalents and on derivative financial instruments is limited as the counterparties are banks with high credit ratings assigned by international credit agencies.

All customers are subject to credit review procedures, including the use of external credit ratings where available. Credit is provided only within set limits, which are regularly reviewed. Outstanding receivable balances are monitored on an ongoing basis.

The carrying value of financial assets recorded in the financial statements represents the maximum exposure to credit risk. The amounts presented in the balance sheet are net of allowances for any doubtful receivables.

#### (vii) Liquidity risk

The Group manages liquidity risk by maintaining adequate cash reserves and financing facilities, through the review of forecast and actual cash flows.

The Group typically holds surplus cash balances in either demand deposits or short-term deposits, while the majority of borrowings comprise corporate loans at Los Pelambres and El Tesoro which are repayable in semi-annual instalments over three years and one year remaining respectively.

At the end of both 2007 and 2006, the Group was in a net cash position, as disclosed in Note 33(c). Details of cash and cash equivalents are given in Note 21, while details of borrowings including the maturity profile are given in Note 22. Details of undrawn committed borrowing facilities are also given in Note 22.

## Notes to the Financial Statements *continued*

### 24 Financial Instruments and Financial Risk Management *continued*

#### c) Financial risk management *continued*

The following table analyses the maturity of the Group's contractual commitments in respect of its financial liabilities and derivative financial instruments. The table has been drawn up based on the undiscounted cash flows on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Less than 6 months US\$m	Between 6 months to 1 year US\$m	Between 1-2 years US\$m	After 2 years US\$m	2007 Total US\$m
<b>At 31 December 2007</b>					
Corporate loans	(54.2)	(52.9)	(83.6)	(79.6)	(270.3)
Other loans	(5.3)	(7.0)	(1.2)	(0.7)	(14.2)
Finance leases	(0.2)	–	–	–	(0.2)
Preference shares	(0.1)	(0.1)	(0.2)	(*)	(0.4)
Trade and other payables	(246.1)	(0.3)	(0.3)	(2.3)	(249.0)
Derivative financial instruments	(0.1)	(0.1)	–	–	(0.2)
	<b>(306.0)</b>	<b>(60.4)</b>	<b>(85.3)</b>	<b>(82.6)</b>	<b>(534.3)</b>
	Less than 6 months US\$m	Between 6 months to 1 year US\$m	Between 1-2 years US\$m	After 2 years US\$m	2006 Total US\$m
<b>At 31 December 2006</b>					
Corporate loans	(56.8)	(55.6)	(107.2)	(163.3)	(382.9)
Other loans	(1.7)	(1.6)	(6.9)	(1.4)	(11.6)
Finance leases	(0.5)	(0.4)	(0.2)	–	(1.1)
Preference shares	(0.1)	(0.1)	(0.2)	(*)	(0.4)
Trade and other payables	(212.0)	(0.2)	(1.6)	(2.6)	(216.4)
Derivative financial instruments	–	–	–	–	–
	<b>(271.1)</b>	<b>(57.9)</b>	<b>(116.1)</b>	<b>(167.3)</b>	<b>(612.4)</b>

\* The preference shares pay an annual dividend of £100,000 (US\$200,000) in perpetuity, and accordingly it is not possible to determine total amounts payable for periods without a fixed end date.

#### (viii) Capital risk management

The Group's objective when managing its capital is to safeguard the Group's ability to continue as a going concern while maximising the return to stakeholders through the optimal capital structure.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 22, cash and cash equivalents as disclosed in Note 21 and equity attributable to equity holders of the Company, comprising issued capital, reserves and retained earnings as disclosed in Note 28.

The Group reviews its capital structure on a regular basis. Based on this, the Group will balance its overall capital structure through the payment of ordinary and special dividends, the issue of new shares or repurchase of existing shares, the raising of additional debt or the redemption of existing debt. The Group's overall strategy remains unchanged from the prior year.

## 24 Financial Instruments and Financial Risk Management continued

### d) Embedded derivatives – provisionally priced sales

Copper and molybdenum concentrate sale agreements and copper cathode sale agreements generally provide for provisional pricing of sales at the time of shipment, with final pricing being based on the monthly average London Metal Exchange copper price or monthly average molybdenum price for specified future periods. This normally ranges from 30 to 180 days after delivery to the customer.

Under IFRS, both gains and losses from the marking-to-market of open sales are recognised through adjustments to turnover in the income statement and to trade debtors in the balance sheet. The Group determines mark-to-market prices using forward prices at each period end for copper concentrate and cathode sales, and period-end month average prices for molybdenum concentrate sales due to the absence of a futures market for that commodity.

The mark-to-market adjustments at the end of each period and the effect on turnover in the income statement for each period are as follows:

	Balance sheet net mark to market effect on debtors	
	2007 US\$m	2006 US\$m
Los Pelambres – copper concentrate	(72.8)	(110.1)
Los Pelambres – tolling charges for copper concentrate	(5.1)	7.6
Los Pelambres – molybdenum concentrate	0.1	(2.4)
El Tesoro – copper cathodes	(1.0)	1.3
Michilla – copper cathodes	0.1	(0.6)
	(78.7)	(104.2)

## Notes to the Financial Statements continued

### 24 Financial Instruments and Financial Risk Management continued

#### d) Embedded derivatives – provisionally priced sales continued

##### (i) Copper sales

	Los Pelambres Copper concentrate 2007 US\$m	El Tesoro Copper cathodes 2007 US\$m	Michilla Copper cathodes 2007 US\$m	Los Pelambres Copper concentrate 2006 US\$m	El Tesoro Copper cathodes 2006 US\$m	Michilla Copper cathodes 2006 US\$m
<b>Provisionally invoiced gross sales</b>	2,041.8	678.8	332.2	2,175.5	653.1	326.0
<b>Effects of pricing adjustments to previous year invoices</b>						
Reversal of mark-to-market adjustments at the end of the previous year	110.1	(1.3)	0.6	(33.2)	(0.2)	0.1
Settlement of copper sales invoiced in the previous year	(88.1)	(6.5)	(3.3)	169.2	2.0	0.6
<b>Total effect of adjustments to previous year invoices in the current year</b>	22.0	(7.8)	(2.7)	136.0	1.8	0.7
<b>Effects of pricing adjustments to current year invoices</b>						
Settlement of copper sales invoiced in the current year	103.6	3.7	1.4	197.6	8.6	8.8
Mark-to-market adjustments at the end of the current year	(72.8)	(1.0)	0.1	(110.1)	1.3	(0.6)
<b>Total effects of adjustments to current year invoices</b>	30.8	2.7	1.5	87.5	9.9	8.2
<b>Realised gains/(losses) on commodity derivatives</b>	–	0.2	(14.2)	–	–	–
<b>Turnover before deducting tolling charges</b>	2,094.6	673.9	316.8	2,399.0	664.8	334.9
<b>Tolling charges</b>	(169.4)	–	–	(254.0)	–	–
<b>Turnover net of tolling charges</b>	1,925.2	673.9	316.8	2,145.0	664.8	334.9

##### i) Copper concentrate

Copper concentrate sales at Los Pelambres have an average settlement period of approximately four months from shipment date. At 31 December 2007, sales totalling 99,400 tonnes remained open as to price, with an average mark-to-market price of 302.4 cents per pound compared with an average provisional invoice price of 335.7 cents per pound. At 31 December 2006, copper concentrate sales totalling 127,100 tonnes remained open as to price, with an average mark-to-market price of 287.0 cents per pound compared with an average provisional invoice price of 326.3 cents per pound.

Tolling charges include a mark-to-market loss for copper concentrate sales open as to price at 31 December 2007 of US\$5.1 million (31 December 2006 – mark-to-market gain of US\$7.6 million).

##### ii) Copper cathodes

Copper cathode sales at El Tesoro and Michilla have an average settlement period of approximately one month from shipment date. At 31 December 2007, sales totalling 11,000 tonnes remained open as to price, with an average mark-to-market price of 301.7 cents per pound compared with an average provisional invoice price of 305.4 cents per pound. At 31 December 2006, sales totalling 11,600 tonnes remained open as to price with an average mark-to-market price of 286.6 cents per pound compared with an average provisional invoice price of 294.0 cents per pound.

## 24 Financial Instruments and Financial Risk Management continued

### d) Embedded derivatives – provisionally priced sales continued

#### (ii) Molybdenum sales

	Los Pelambres Molybdenum concentrate 2007 US\$m	Los Pelambres Molybdenum concentrate 2006 US\$m
<b>Provisionally invoiced gross sales</b>	<b>670.9</b>	<b>547.8</b>
<b>Effects of pricing adjustments to previous year invoices</b>		
Reversal of mark-to-market adjustments at the end of the previous year	2.4	12.6
Settlement of molybdenum sales invoiced in the previous year	(1.0)	(27.5)
<b>Total effect of adjustments to previous year invoices in the current year</b>	<b>1.4</b>	<b>(14.9)</b>
<b>Effects of pricing adjustments to current year invoices</b>		
Settlement of molybdenum sales invoiced in the current year	27.4	5.9
Mark-to-market adjustments at the end of the current year	0.1	(2.4)
<b>Total effects of adjustments to current year invoices</b>	<b>27.5</b>	<b>3.5</b>
<b>Turnover before deducting tolling charges</b>	<b>699.8</b>	<b>536.4</b>
<b>Tolling charges</b>	<b>(23.4)</b>	<b>(22.6)</b>
<b>Turnover net of tolling charges</b>	<b>676.4</b>	<b>513.8</b>

Molybdenum sales at Los Pelambres have an average settlement period of approximately three months after shipment date. At 31 December 2007, sales totalling 2,100 tonnes remained open as to price, with an average mark-to-market price of US\$32.5 per pound compared with an average provisional invoice price of US\$32.4 per pound. At 31 December 2006 sales totalling 2,100 tonnes remained open as to price, with an average mark-to-market price of US\$25.0 per pound compared with an average provisional invoice price of US\$25.5 per pound.

#### e) Derivative financial instruments

The Group uses derivative financial instruments to reduce exposure to commodity price, foreign exchange and interest rate 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. Prior to 1 January 2007 derivatives were measured at fair value through the income statement, with gains or losses on commodity derivatives being recorded within other operating income or expense.

## Notes to the Financial Statements *continued*

### 24 Financial Instruments and Financial Risk Management *continued*

#### e) Derivative financial instruments *continued*

##### (i) Commodity derivatives

The Group periodically uses commodity derivatives to reduce its exposure to the copper price. The balance sheet mark-to-market adjustments in respect of commodity derivatives at the end of each period, and the total effect on turnover and finance income in the income statement for each period, are as follows:

	Balance sheet		Income statement	
	Net financial asset		Total effect	
	2007	2006	2007	2006
	US\$m	US\$m	US\$m	US\$m
El Tesoro	–	–	0.4	(44.8)
Michilla	0.5	7.3	(13.7)	(39.7)
	<b>0.5</b>	<b>7.3</b>	<b>(13.3)</b>	<b>(84.5)</b>
Analysed between:				
Non-current assets	1.4	–		
Current assets	0.5	7.3		
Current liabilities	(1.4)	–		
	<b>0.5</b>	<b>7.3</b>		

During the year ended 31 December 2007 a net loss of US\$14.0 million was recognised within turnover, comprising a gain of US\$0.2 million at El Tesoro and a loss of US\$14.2 million at Michilla, in respect of derivative instruments which matured during the year. A gain of US\$0.7 million was recognised within other finance items, comprising a gain of US\$0.2 million at El Tesoro and a gain of US\$0.5 million at Michilla, in respect of the time value element of the mark-to-market adjustments, which is excluded from the designated hedging relationship. A loss of US\$0.2 million was recognised within reserves, relating to El Tesoro, in respect of the intrinsic value element of the mark-to-market adjustments, which forms part of the designated effective hedging relationship.

During the year ended 31 December 2006 a loss of US\$84.5 million was recognised within other operating expenses, comprising US\$44.8 million at El Tesoro and US\$39.7 million at Michilla. This comprised losses on derivatives which matured in the year of US\$136.3 million partly offset by mark-to-market gains of US\$7.3 million at 31 December 2006 in respect of derivatives maturing after the year end, and the reversal of opening mark-to-market losses of US\$44.5 million.

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 248.9 cents per pound and a weighted average cap of 389.2 cents per pound.

At 31 December 2007, 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 292.1 cents per pound and a weighted average cap of 342.1 cents per pound.

## 24 Financial Instruments and Financial Risk Management continued

### e) Derivative financial instruments continued

The following table indicates the periods in which the cash flows from the above hedging instruments are expected to occur. These estimates are calculated based on the commodity forward prices as at the reporting date. These hedges are expected to impact profit or loss in the same period that the cash flow occurs.

	Carrying amount US\$m	Expected cash flows US\$m	Less than 6 months US\$m	Between 6 months to 1 year US\$m	Between 1-2 years US\$m	After 2 years US\$m
At 31 December 2007	0.5	(0.2)	(0.1)	(0.1)	–	–
At 31 December 2006	7.3	4.2	2.1	2.1	–	–

### (ii) Interest and exchange derivatives

There were no outstanding interest derivative instruments at 31 December 2006 or 2007. During the year ended 31 December 2006 a gain of US\$0.3 million was recognised within other finance items in respect of interest rate collars which matured during the year.

There were no outstanding exchange derivative instruments at 31 December 2006 or 2007.

## 25 Post-Employment Benefit Obligations

### a) Defined contribution schemes

The Group operates defined contribution schemes for a limited number of employees. The amount charged to the income statement in both 2006 and 2007 was less than US\$0.1 million, representing the amount paid in the year. There were no outstanding amounts which remain payable at the end of either year.

### b) Severance provisions

Employment terms at some of the Group's operations provide for payment of a severance indemnity when an employment contract comes to an end. This is typically at the rate of one month for each year of service (subject in most cases to a cap as to the number of qualifying years of service) and based on final salary level. The severance indemnity obligation is treated as an unfunded defined benefit plan, and the obligation recognised is based on valuations performed by an independent actuary using the projected unit credit method, which are regularly updated. The obligation recognised in the balance sheet represents the present value of the severance indemnity obligation. Actuarial gains and losses are immediately recognised in the income statement within operating cost.

The most recent valuation was carried out in 2007 by Raúl Benavente, a qualified actuary in Santiago-Chile who is not connected with the Group. The main assumptions used to determine the actuarial present value of benefit obligations were as follows:

	2007	2006
Average nominal discount rate	5.5%	5.5%
Average rate of increase in salaries	2.0%	1.5%
Average staff turnover	4.5%	3.9%

## Notes to the Financial Statements *continued*

### 25 Post-Employment Benefit Obligations *continued*

#### b) Severance provisions *continued*

Amounts included in the income statement in respect of severance provisions are as follows:

	2007 US\$m	2006 US\$m
Current service cost (charge to operating profit)	(1.8)	(5.1)
Actuarial gains and losses (charge to operating profit)	(3.5)	(2.6)
Interest cost (charge to interest expenses)	(0.7)	(0.8)
Foreign exchange ((charge)/credit to other finance items)	(2.1)	0.8
<b>Total charge to income statement</b>	<b>(8.1)</b>	<b>(7.7)</b>

Movement in the present value of severance provisions were as follows:

	2007 US\$m	2006 US\$m
Balance at the beginning of the year	(24.1)	(20.6)
Current service cost	(1.8)	(5.1)
Actuarial gains and losses	(3.5)	(2.6)
Interest cost	(0.7)	(0.8)
Paid in the year	3.1	4.2
Foreign currency exchange difference	(2.1)	0.8
<b>Balance at the end of the year</b>	<b>(29.1)</b>	<b>(24.1)</b>

### 26 Deferred Tax

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during 2006 and 2007.

	Accelerated capital allowances US\$m	Timing differences on provisions US\$m	Withholding tax US\$m	Short-term differences US\$m	Mining tax (Royalty) US\$m	Tax losses US\$m	Total US\$m
At 1 January 2006	(181.8)	0.8	(52.4)	9.8	(0.5)	5.2	(218.9)
(Charge)/credit to income	(17.1)	32.0	(72.2)	(11.6)	1.2	(4.5)	(72.2)
Acquisition (see Note 30)	–	(29.0)	–	–	–	–	(29.0)
At 1 January 2007	(198.9)	3.8	(124.6)	(1.8)	0.7	0.7	(320.1)
(Charge)/credit to income	(36.0)	17.3	(30.8)	0.7	(0.8)	8.8	(40.8)
<b>At 31 December 2007</b>	<b>(234.9)</b>	<b>21.1</b>	<b>(155.4)</b>	<b>(1.1)</b>	<b>(0.1)</b>	<b>9.5</b>	<b>(360.9)</b>

The charge to the income statement of US\$40.8 million (2006 – US\$72.2 million) includes a charge for foreign exchange differences of US\$1.1 million (2006 – net of a credit of US\$0.5 million).

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset):

	2007 US\$m	2006 US\$m
Deferred tax assets	14.7	3.1
Deferred tax liabilities	(375.6)	(323.2)
<b>Net deferred tax balances</b>	<b>(360.9)</b>	<b>(320.1)</b>

## 26 Deferred Tax continued

At 31 December 2007, the Group had unused tax losses of US\$72.1 million (2006 – US\$21.7 million) available for offset against future profits. A deferred tax asset has been recognised in respect of US\$55.8 million (2006 – US\$4.3 million) of such losses. No deferred tax asset has been recognised in respect of the remaining US\$16.3 million (2006 – US\$17.4 million) due to the unpredictability of future profit streams. These losses may be carried forward indefinitely.

At 31 December 2007, other deductible temporary differences for which no deferred tax assets were recognised in the balance sheet amounted to US\$5.7 million (2006 – US\$13.9 million).

At 31 December 2006, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was US\$2,882.4 million (2006 – US\$2,184.5 million). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

Temporary differences arising in connection with the interest in associate are insignificant.

## 27 Long-term Provisions

	2007 US\$m	2006 US\$m
Balance at the beginning of the year	(9.8)	(9.8)
Charge to operating profit in the year	(0.5)	(0.6)
Release of discount to net interest in the year	(0.5)	(0.4)
Acquisition (see Note 30)	–	(0.8)
Disposal (see Note 31)	–	0.8
Utilised in year	–	0.8
Foreign currency exchange difference	(0.1)	0.2
<b>Balance at the end of the year</b>	<b>(10.9)</b>	<b>(9.8)</b>
<b>Analysed as follows:</b>		
Decommissioning and restoration	(10.4)	(9.4)
Termination of water concession	(0.5)	(0.4)
<b>Balance at the end of the year</b>	<b>(10.9)</b>	<b>(9.8)</b>

### a) Decommissioning and site rehabilitation

Decommissioning and restoration costs relate to the Group's mining operations. Costs are estimated on the basis of a formal closure plan and are subject to regular independent formal review. The most recent formal review was conducted during 2005.

It is estimated that the provision will be utilised over a period of up to 40 years based on current mine plans.

### b) Termination of water concession

A provision for the termination of the water concession has been created for the property, plant and equipment and working capital items under Aguas de Antofagasta's ownership to be transferred to the previous state-owned operator ESSAN at the end of the concession period. The provision is based on the net present value of the estimated value of these assets and liabilities expected to be in existence at the end of the concession.

The release of the discount applied in establishing the net present value of future costs is charged to the income statement in each accounting period and is disclosed within other finance items.

## Notes to the Financial Statements *continued*

### 28 Share Capital and Other Reserves

#### a) Share capital

The ordinary share capital of the Company is as follows:

	2007 Number	2006 Number	2007 US\$m	2006 US\$m
<b>Authorised</b>				
Ordinary shares of 5p each	1,300,000,000	1,300,000,000	118.9	118.9
<b>Issued and fully paid</b>				
Ordinary shares of 5p each	985,856,695	985,856,695	89.8	89.8

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.

At the Company's Annual General Meeting and the separate class meetings of the ordinary and preference shareholders of the Company held on 14 June 2006, resolutions were passed to:

- increase the authorised share capital from £12,727,000 to £67,000,000 by the creation of 1,085,460,000 ordinary shares of 5p each;
- issue, by way of bonus issue, four new ordinary shares of 5p each (credited as fully paid) for every one ordinary share held by the shareholders of the Company at the close of business on 16 June 2006, by applying £39.4 million from the Company's share premium account in paying up and allotting the new ordinary shares; and
- increase the voting rights of each preference share from 20 votes to 100 votes, to prevent dilution of the voting rights of each preference share as a proportion of the total votes to be exercised at a general meeting.

The ordinary shares were issued at the opening of business on 19 June 2006, and the effect of the bonus issue of ordinary shares is disclosed in the Consolidated Statement of Changes in Equity. The increase in ordinary share capital of US\$73.2 million and corresponding reduction in the share premium account was recorded at the closing exchange rate on 16 June 2006.

There were no other changes in the authorised or issued share capital of the Company in either 2006 or 2007. Details of the Company's preference share capital, which is included within borrowings in accordance with IAS 32, are given in Note 22(a)(vi).

#### b) Other reserves

Details of the share premium account, hedging, fair value and translation reserves and retained earnings for both 2006 and 2007 are included within the Consolidated Statement of Changes in Equity on page 81.

## 29 Minority Interests

The minority interests of the Group are as follows:

	At 01.01.07 US\$m	Share of profit for the financial year US\$m	Share of dividends US\$m	At 31.12.07 US\$m
Los Pelambres	754.1	695.4	(642.5)	807.0
Michilla	26.5	33.5	(38.7)	21.3
Railway and other transport services	12.4	0.8	–	13.2
<b>Total</b>	<b>793.0</b>	<b>729.7</b>	<b>(681.2)</b>	<b>841.5</b>

The minority share of movements in reserves was less than US\$0.1 million.

## 30 Acquisition of Subsidiaries

No acquisitions of subsidiaries or associates have been made during 2007. Details of acquisitions undertaken during 2006 are set out below.

### Prior year acquisitions

#### a) Tethyan Copper Company Limited

On 20 April 2006 the Group acquired 100% of the issued share capital of Tethyan Copper Company Limited ("Tethyan") for cash consideration (including transaction costs) of US\$170.4 million, following a recommended cash offer first made on 14 February 2006. The fair value of the net assets acquired, including the recognition of the fair value of the exploration licences held by Tethyan, was US\$170.4 million. No further fair value adjustments to the acquisition net assets have been made during the current year.

On 14 February 2006, the Group separately entered into an agreement with BHP Billiton whereby BHP Billiton's rights to claw-back a material interest in certain of Tethyan's mineral interests ("Claw-Back Right") would be extinguished for a consideration of US\$60 million. Following the disposal of 50% of Tethyan to Barrick Gold Corporation ("Barrick Gold") (see Note 31(a) below), the Group contributed US\$30 million to Tethyan for its share of the cost of extinguishing the Claw-Back Right on 23 November 2006. This amount was included in the net cash outflow on acquisition for 2006.

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 in relation to Tethyan's mineral interests in Pakistan. Further details of the part-disposal of Tethyan to Barrick Corporation to give effect to the joint venture are set out in Note 31(a).

#### b) Equatorial Mining Limited

On 24 August 2006 the Group acquired 100% of the issued share capital of Equatorial Mining Limited ("Equatorial") for a cash consideration (including transaction costs) of US\$406.1 million, following a recommended cash offer first made on 15 August 2006. Equatorial's principal asset was a 39% interest in El Tesoro, in which the Group held the remaining 61% and which it had accounted for as a subsidiary.

The fair value of the net assets acquired, including a fair value adjustment to mining properties (including those mining properties held by El Tesoro), was US\$268.6 million. No further fair value adjustments to the acquisition net assets have been made during the current year. The acquisition also resulted in the elimination of a minority interest of US\$137.5 million recognised in the Group's balance sheet immediately prior to acquisition.

## Notes to the Financial Statements continued

### 31 Disposal and Part-Disposal of Subsidiaries

No disposals or part-disposals of subsidiaries or associates have been made during 2007. Details of disposals made during 2006 are set out below.

#### Prior year disposals and part disposals

##### a) Atacama Copper Pty Limited and joint venture with Barrick Gold Corporation

On 22 September 2006, the Group entered into a 50:50 joint venture agreement with Barrick Gold Corporation ("Barrick Gold") in relation to Tethyan's mineral interests in Pakistan. The Group disposed of 50% of the issued share capital of Atacama Copper Pty Limited ("Atacama"), the immediate parent company of Tethyan Copper Company Limited, to Barrick Gold for US\$86.8 million.

The book value of net assets sold of US\$85.6 million represented 50% of the consolidated carrying value of Atacama and its subsidiaries including Tethyan at the date of disposal. Following the disposal, the Group has treated its remaining 50% interest in Atacama as a jointly controlled entity under the proportionate consolidation method.

The US\$1.2 million profit on disposal principally represented the recovery of 50% of the exploration costs incurred and expensed by Tethyan between 20 April 2006, the date of its acquisition by the Group, and 22 September 2006, the date of the part-disposal to Barrick Gold. This amount was recorded within other operating expenses.

##### b) Equatorial Mining North America Inc.

On 11 December 2006, the Group entered into an agreement to dispose of Equatorial Mining North America Inc. ("EMNA"), a wholly-owned subsidiary of Equatorial Mining Limited, to Idaho General Mines Inc ("IGM"). EMNA and its subsidiaries formerly owned and operated the Tonopah copper mine in Nevada, over which they retained royalties. The consideration of US\$4.9 million was received in January 2007, and has been accounted for in the current year cash flow statement. No amount has been recognised in respect of further contingent consideration of US\$6.0 million which is payable should production at the Tonopah mine commence.

### 32 Other Transactions

During 2007, the Group decided not to continue with the exploration agreements with Ascendent Copper Corporation in respect of the Chaucha deposit in Ecuador and with AngloGold Ashanti in the area of interest in southern Colombia, following a review of drilling results achieved to date. This decision does not have any material impact on any of the amounts included within these financial statements.

### 33 Notes to the Consolidated Cash Flow Statement

#### a) Reconciliation of profit before tax to net cash inflow from operating activities

	2007 US\$m	2006 US\$m
<b>Profit before tax</b>	<b>2,750.2</b>	<b>2,859.0</b>
Depreciation and amortisation	162.2	145.0
Loss on disposal of property, plant and equipment	8.4	8.2
Profit on disposal of joint venture interest	(9.6)	–
Profit on disposal of available for sale investments	(10.5)	–
Net finance income	(95.4)	(53.8)
Share of profit of associate	(1.4)	(1.1)
Increase in inventories	(9.9)	(21.5)
Increase in debtors	(11.7)	(135.5)
Increase in creditors and provisions	35.4	9.8
<b>Cash flows from operations</b>	<b>2,817.7</b>	<b>2,810.1</b>

### 33 Notes to the Consolidated Cash Flow Statement continued

#### b) Analysis of changes in net cash

	At 1.1.07 US\$m	Cash flows US\$m	Other US\$m	Exchange US\$m	At 31.12.07 US\$m
<b>Cash and cash equivalents</b>	1,805.5	400.2	–	6.8	<b>2,212.5</b>
Bank borrowings due within one year	(96.7)	92.3	(97.0)	(0.2)	<b>(101.6)</b>
Bank borrowings due after one year	(256.8)	–	96.6	–	<b>(160.2)</b>
Finance leases due within one year	(0.9)	0.9	(0.2)	–	<b>(0.2)</b>
Finance leases due after one year	(0.2)	–	0.2	–	–
Preference shares	(4.1)	–	–	0.1	<b>(4.0)</b>
<b>Total borrowings</b>	<b>(358.7)</b>	<b>93.2</b>	<b>(0.4)</b>	<b>(0.1)</b>	<b>(266.0)</b>
<b>Net cash</b>	<b>1,446.8</b>	<b>493.4</b>	<b>(0.4)</b>	<b>6.7</b>	<b>1,946.5</b>

  

	At 1.1.06 US\$m	Cash flows US\$m	Other US\$m	Exchange US\$m	At 31.12.06 US\$m
Cash and cash equivalents	1,316.8	489.2	–	(0.5)	1,805.5
Bank borrowings due within one year	(95.8)	95.4	(96.2)	(0.1)	(96.7)
Bank borrowings due after one year	(363.0)	10.4	95.8	–	(256.8)
Finance leases due within one year	(1.4)	1.7	(1.2)	–	(0.9)
Finance leases due after one year	(1.5)	0.1	1.2	–	(0.2)
Preference shares	(3.6)	–	–	(0.5)	(4.1)
Total borrowings	(465.3)	107.6	(0.4)	(0.6)	(358.7)
Movement in net cash	851.5	596.8	(0.4)	(1.1)	1,446.8

#### c) Net cash

	2007 US\$m	2006 US\$m
Cash and cash equivalents	2,212.5	1,805.5
Total borrowings	(266.0)	(358.7)
	<b>1,946.5</b>	<b>1,446.8</b>

### 34 Operating Lease Arrangements

	2007 US\$m	2006 US\$m
Minimum lease payments under operating leases recognised in income for the year	10.9	13.6

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2007 US\$m	2006 US\$m
Within one year	6.1	9.1
In the second to fifth years inclusive	4.6	4.8
	<b>10.7</b>	<b>13.9</b>

Operating lease payments relate mainly to rental of plant and equipment by operating subsidiaries of the Group.

## Notes to the Financial Statements *continued*

### 35 Concession Arrangements

In 2003, the Group was awarded a 30 year concession to operate the water rights and facilities in the Antofagasta Region of Chile previously controlled by Empresa de Servicios Sanitarios de Antofagasta S.A. ("ESSAN"). The concession consists of two businesses, one an unregulated business supplying mines and other industrial users and the other a regulated water business supplying domestic customers. The concession contract was signed and control of the assets and operation assumed on 29 December 2003 by Aguas de Antofagasta S.A., a wholly-owned subsidiary of the Group.

Under the concession contract, certain assets and liabilities (mainly certain specific property, plant and equipment and working capital items) were transferred to Aguas de Antofagasta by way of sale. Other assets (mainly water rights and infrastructure) were transferred by way of concession and will devolve to ESSAN at the end of the 30 year period. Further details of amounts included in intangible assets and in property, plant and equipment are given in Notes 12 and 13 respectively.

Aguas de Antofagasta will also be required to transfer to ESSAN any property, plant and equipment and working capital items under its ownership at the end of the 30 year concession period. A provision for the termination of the water concession has been created for the fixed assets and working capital items under Aguas de Antofagasta's ownership to be transferred to ESSAN at the end of the concession period. The provision is based on the net present value of the estimated value of these assets and liabilities in existence at the end of the concession. The release of the discount applied in establishing the net present value of future costs is charged to the income statement in each accounting period and is disclosed as a financing cost. Further details of this provision are given in Note 27.

The Chilean Water Regulator (Superintendencia de Servicios Sanitarios) sets domestic tariffs every five years following a regulatory review including representations from the operator of the concession. During 2006, a regulatory review was completed, which resulted in an average reduction in tariffs (compared with previous levels) of approximately 5% from July 2006.

### 36 Exchange Rates in US Dollars

The principal exchange rates expressed in US dollars used in the preparation of the 2007 financial statements are as follows:

	2007	2006
Year end rates	US\$1.9912 = £1; US\$1 = Ch\$497	US\$1.9569 = £1; US\$1 = Ch\$532
Average rates	US\$2.0004 = £1; US\$1 = Ch\$523	US\$1.8386 = £1; US\$1 = Ch\$530

### 37 Related Party Transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its associate are disclosed below.

The transactions which Group companies entered into with related parties who are not members of the Group are set out below.

#### a) Quiñenco S.A.

Quiñenco S.A. ("Quiñenco") is a Chilean financial and industrial conglomerate the shares of which are traded on the Santiago Stock Exchange. The Group and Quiñenco are both under the control of the Luksic family, and three Directors of the Company, Mr. J-P Luksic, Mr. G A Luksic and Mr. G S Menendez, are also directors of Quiñenco.

## 37 Related Party Transactions continued

### a) Quiñenco S.A. continued

The following material transactions took place between the Group and the Quiñenco group of companies, all of which were on normal commercial terms:

- the Group sold copper cathodes during the year for US\$2.9 million (2006 – US\$4.3 million) to Madeco S.A., a subsidiary of Quiñenco. The balance due from Madeco at the end of the year was US\$0.2 million (2006 – US\$0.4 million);
- the Group bought copper wire from Madeco for US\$0.1 million (2006 – US\$0.1 million);
- the Group earned interest income of US\$0.2 million (2006 – US\$1.0 million) during the year on deposits with Banco de Chile S.A., a subsidiary of Quiñenco. Deposit balances at the end of the year were US\$4.7 million (2006 – US\$30.1 million); and
- the Group's transport division provided trucking services for beverages amounting to US\$3.2 million (2006 – US\$5.0 million) to CCU S.A., an associate of Quiñenco. The balance due from CCU S.A. at the end of the year was US\$0.6 million (2006 – US\$0.4 million).

### b) Compañía de Inversiones Adriático S.A.

In 2007, the Group leased office space on normal commercial terms from Compañía de Inversiones Adriático S.A., a company controlled by the Luksic family, at a cost of US\$0.6 million (2006 – US\$0.6 million).

### c) Compañía Antofagasta Terminal Internacional S.A.

As explained in Note 16, the Group acquired a 30% interest in Antofagasta Terminal Internacional S.A. ("ATI") on 16 December 2004, which has been treated in these financial statements as an associate.

During 2007, the Group received a dividend of US\$2.4 million from ATI (2006 – US\$0.4 million).

### d) Antomin Limited

The Group holds a 51% interest in Antomin Limited, which owns a number of copper exploration properties in Chile's II and IV Regions. These include (but are not limited to) Buey Muerto, some properties in the Sierra Gorda district (including Tesoro North-East) and a small proportion of the Esperanza project. The Group acquired its interest in Antomin Limited pursuant to an agreement in 2001 for a nominal consideration from Mineralinvest Establishment, a company controlled by the Luksic family, which continues to hold the remaining 49% of Antomin Limited. Under the terms of the acquisition agreement, the Group committed to meet in full the exploration and pre-feasibility costs relating to these properties.

During the year the Group incurred US\$3.1 million (2006 – US\$1.5 million) of exploration and pre-feasibility costs in respect of these properties. The cumulative amount incurred to 31 December 2007 was US\$11.8 million (2006 – US\$8.7 million).

### e) Tethyan Copper Company Limited

As explained in Note 17(b), during 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.

During the year the Group contributed US\$15.1 million (2006 – US\$33.0 million including US\$30.0 million to extinguish BHP Billiton's claw-back right) to Tethyan, to provide funds for Tethyan's on-going exploration programme. The balance due from Tethyan to Group companies at the end of the year was US\$2.2 million (2006 – nil). Details of amounts relating to Tethyan included in the consolidated financial statements of the Group under the proportionate consolidation method are set out in Note 17(b).

## Notes to the Financial Statements *continued*

### 37 Related Party Transactions *continued*

#### f) Acquisition of Equatorial Mining Limited

During 2006 the Group acquired Equatorial Mining Limited, a company listed on the Australian Stock Exchange in which AMP held an interest of approximately 97%. Equatorial's principal asset was a 39% interest in Minera El Tesoro, in which the Group held the remaining 61% and which it accounted for as a subsidiary. AMP was a related party of the Group for the purposes of the Listing Rules of the United Kingdom Listing Authority as it held an indirect substantial interest in Minera El Tesoro. The total consideration for the acquisition of Equatorial amounted to US\$406.1 million. Further details of the acquisition are given in Note 30(b), and in the 2006 Annual Report and Financial Statements.

#### g) Ingeniera y Servicios Computacionales Geovectra S.A.

In 2007, the Group paid fees of approximately US\$66,000 (2006 – US\$78,000) for geological and technology services to Ingeniera y Servicios Computacionales Geovectra S.A. ("Geovectra"), a company controlled by Mr. J W Ambrus. Mr. Ambrus was a Director of the Company in both 2006 and 2007. These services were on normal arm's length commercial terms for services performed by employees of Geovectra.

#### h) Directors and other key management personnel

Information relating to Directors' remuneration and interests are given in the Remuneration Report pages 72 to 75. Information relating to the remuneration of key management personnel including the Directors is given in Note 7(c).

### 38 Contingent Assets and Contingent Liabilities

There are a number of claims currently outstanding to which Antofagasta plc or its subsidiaries ("the Group") is a party, for which no provision has been made in the financial statements and are currently not expected to result in any material loss to the Group. Details of the principal claims are set out below:

#### a) Los Pelambres – Mauro tailings dam

(i) In November 2006, the Court of Appeals of Santiago upheld a challenge by claimants in the Pupio Valley against the Chilean Water Authority (Direccion General de Aguas) in relation to the award of one of the sectoral permits issued during 2005 for the construction of the Mauro tailings dam by Los Pelambres. The Court of Appeals has rejected four requests by the claimants that work on the dam should be suspended. This has enabled Los Pelambres to continue construction pending a final resolution by the Chilean Supreme Court, where Los Pelambres has sought to reverse the November decision as an affected party together with the Direccion General de Aguas. The Group believes that Los Pelambres has received all the necessary technical and legal permits and that these have been properly applied for and granted entirely in accordance with the applicable regulations. It is confident that this view will be upheld by the Chilean Supreme Court.

(ii) On 19 April 2007 a first instance court in Santiago upheld a claim relating to a purchase agreement entered into in 1992 between two former owners of land in the area of the Mauro tailings dam, in which the validity of that purchase agreement was challenged by the plaintiff seller. Los Pelambres, which acquired the land in 2001, participated in this trial to protect its interest and has appealed against this decision to the Court of Appeals of Santiago. The appeal has the effect of suspending the effect of the first instance resolution. The Group is confident that Los Pelambres' legal title to the land in question will be upheld on appeal. On 18 May 2007 the Court rejected a second petition by the plaintiff in that case that works on the Mauro tailings dam should cease immediately, confirming Los Pelambres' right to complete its construction. The court nevertheless has held that operation of the dam by depositing tailings cannot for the moment commence.

(iii) On 24 August 2007, a first instance court in Los Vilos notified Los Pelambres of a new claim made by the same individuals involved in other litigation against the Mauro tailings dam. The claim was filed earlier the same

## 38 Contingent Assets and Contingent Liabilities continued

### a) Los Pelambres – Mauro tailings dam continued

week and Los Pelambres was neither notified of nor represented in the hearing. The court also notified Los Pelambres of an order to suspend those works which directly affect the Pupio stream. Los Pelambres believes that it has obtained all the necessary approvals and permits for the construction of the Mauro tailings, which was 98.5% complete at the end of 2007.

(iv) There are other claims at first instance currently in the Chilean courts against governmental authorities. These claims are not against Los Pelambres, but in some cases the company has intervened in case an eventual judgement affects the project.

Current operations are unaffected as the Quillayes dam which is expected to have capacity until early 2009 remains in use.

### b) Tethyan Copper Company Limited – Chagai Hills Exploration Joint Venture

On 26 June 2007 the High Court of Balochistan at Quetta dismissed a petition which had sought to declare that the Chagai Hills Exploration Joint Venture of 1993 and the exploration licences granted to Tethyan were null and void and overturned an injunction passed earlier by the Court. The petition had been filed in November 2006 and was directed at several parties including the Group, the Government of Pakistan and the Government of Balochistan.

The petitioners have filed a Civil Petition for Leave to Appeal (“CPLA”) against the judgment and this will be heard by the Supreme Court to decide whether the appeal should be heard on its merits.

### c) Equatorial Mining Limited – Errigal

In July 2006, Equatorial Mining Limited (“Equatorial”) received notice of a claim by Errigal Limited in the New South Wales Supreme Court. Errigal claims that it is a former minority shareholder in one of Equatorial’s subsidiaries whose interest was acquired by Equatorial in 1993. The claim is for amounts payable under the 1993 acquisition agreement. The Group does not agree with the interpretation of the 1993 agreement advanced by Errigal and the action will continue to be defended vigorously.

## 39 Ultimate Parent Company

The immediate parent of the Group is Metalinvest Establishment, which is controlled by E. Abaroa Foundation, in which members of the Luksic family are interested.

Both Metalinvest Establishment and the E. Abaroa Foundation are domiciled in Liechtenstein. Information relating to the interest of Metalinvest Establishment and the E. Abaroa Foundation are given in the Directors’ Report on page 62.

## Notes to the Financial Statements continued

### 40 Antofagasta plc – Balance Sheet of the Parent Company and Related Notes

#### Parent Company Balance Sheet

At 31 December 2007

	Notes	2007 US\$m	2006 US\$m
<b>Fixed assets</b>			
Investment in subsidiaries	40D	665.4	665.2
<b>Current assets</b>			
Debtors – amounts falling due within one year		0.5	0.4
– amounts owed by subsidiaries	40D	565.0	455.0
Current asset investments (term deposits)		6.6	5.0
Cash at bank and in hand		1.1	0.6
		573.2	461.0
<b>Creditors – amounts falling due within one year</b>			
Other creditors		(0.9)	(0.7)
Amounts owed to subsidiaries		(299.5)	(299.5)
		(300.4)	(300.2)
<b>Net current assets</b>			
		272.8	160.8
<b>Total assets less current liabilities</b>			
		938.2	826.0
<b>Creditors – amounts falling due after more than one year</b>			
Preference shares	40E	(4.0)	(3.9)
<b>Total assets less total liabilities</b>			
		934.2	822.1
<b>Capital and reserves</b>			
Called up share capital			
– Ordinary shares – equity	40F	89.8	89.8
<b>Reserves</b>			
– Share premium account	40F	199.2	199.2
– Profit and loss account	40F	645.2	533.1
<b>Shareholders' funds (including non-equity interests)</b>			
	40F	934.2	822.1

Approved by the Board and signed on its behalf on 10 March 2008.



J-P Luksic  
Chairman



CH Bailey  
Director

#### 40A Basis of Preparation of the Balance Sheet and Related Notes of the Parent Company

The Antofagasta plc parent company balance sheet and related notes have been prepared in accordance with United Kingdom generally accepted accounting principles ("UK GAAP") and in accordance with UK company law. The financial information has been prepared on a historical cost basis. The financial statements have been prepared on a going concern basis. The functional currency of the Company and the presentational currency adopted is US dollars.

A summary of the principal accounting policies is set out below. There were no changes in accounting policies in 2007.

The preparation of financial statements in conformity with UK GAAP requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Although these estimates are based on management's best knowledge of the amount, event or actions, following implementation of these standards, actual results may differ from those estimates.

As permitted by section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these financial statements. The profit after tax for the year of the parent company amounted to US\$597.1 million (2006 – US\$485.9 million).

#### 40B Principal Accounting Policies of the Parent Company

##### a) Currency translation

The Company's functional currency is the US dollar. Transactions denominated in other currencies, including the issue of shares, are translated at the rate of exchange ruling on the date of the transaction. Monetary assets and liabilities, including amounts due from or to subsidiaries, are translated at the rate of exchange ruling at the end of the financial year. Exchange differences are charged or credited to the profit and loss account in the year in which they arise.

##### b) Revenue recognition

Interest is accounted for on an accruals basis. Dividends proposed by subsidiaries are recognised as income by the Company when they represent a present obligation of the subsidiaries, i.e. in the period in which they are formally approved for payment.

##### c) Dividends payable

Dividends proposed are recognised when they represent a present obligation, i.e. in the period in which they are formally approved for payment. Accordingly, an interim dividend is recognised when paid and a final dividend is recognised when approved by shareholders.

##### d) Investments in subsidiaries

Investments in subsidiaries represent equity holdings in subsidiaries and long-term amounts owed by subsidiaries. Such investments are valued at cost less any impairment provisions. Investments are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is assessed by reference to the net present value of expected future cash flows of the relevant income generating unit or disposal value if higher.

As explained in Note 40D, amounts owed by subsidiaries due in foreign currencies are translated at year end rates of exchange with any exchange differences taken to the profit and loss account.

##### e) Current asset investments and cash at bank and in hand

Current asset investments comprise highly liquid investments that are readily convertible into known amounts of cash and which are subject to insignificant risks of changes in value, typically maturing within twelve months.

Cash at bank and in hand comprise cash in hand and deposits repayable on demand.

## Notes to the Financial Statements *continued*

### 40B Principal Accounting Policies of the Parent Company *continued*

#### f) Borrowings – preference shares

The sterling-denominated preference shares issued by the Company carry a fixed rate of return without the right to participate in any surplus. They are accordingly classified as borrowings and translated into US dollars at period end rates of exchange. Preference share dividends are included within finance costs.

#### g) Equity instruments – ordinary share capital and share premium

Equity instruments issued are recorded at the proceeds received, net of direct issue costs. Equity instruments of the Company comprise its sterling-denominated issued ordinary share capital and related share premium.

As explained above, the presentational and the functional currency of the Company is US dollars, and ordinary share capital and share premium are translated into US dollars at historical rates of exchange based on dates of issue.

#### h) Cash flow statement

The Company's individual financial statements are outside the scope of FRS 1 "Cash Flow Statements" because the Company prepares publicly available consolidated financial statements which include a consolidated cash flow statement. Accordingly, the Company does not present an individual company cash flow statement.

#### i) Related party disclosures

The Company's individual financial statements are exempt from the requirements of FRS 8 "Related Party Disclosures" because its individual financial statements are presented together with its consolidated financial statements. Accordingly, the individual financial statements do not include related party disclosures.

### 40C Employee Benefit Expense

#### a) Average number of employees

The average number of employees, including any Executive Directors was 8 (2006 – 6).

#### b) Aggregate remuneration

The aggregate remuneration of the employees mentioned above was as follows:

	2007 US\$m	2006 US\$m
Wages and salaries	3.1	2.1
Social security costs	0.3	0.2
Post-employment benefits – severance charge in the year	0.1	0.1
	3.5	2.4

Remuneration includes amounts paid to Executive Directors of the Parent Company.

### 40D Subsidiaries

#### a) Investment in subsidiaries

	2007 US\$m	2006 US\$m
Shares in subsidiaries at cost	57.6	57.6
Amounts owed by subsidiaries due after more than one year	607.8	607.6
	665.4	665.2

#### 40D Subsidiaries continued

##### a) Investment in subsidiaries continued

	Shares US\$m	Loans US\$m	Total US\$m
1 January 2007	57.6	607.6	665.2
Loans made	–	0.2	0.2
<b>31 December 2007</b>	<b>57.6</b>	<b>607.8</b>	<b>665.4</b>

##### b) Amounts owed by subsidiaries due within one year

At 31 December 2007, amounts owed by subsidiaries due within one year were US\$565.0 million (2006 – US\$455.0 million).

#### 40E Borrowings – Preference Shares

The authorised, issued and fully paid preference share capital of the Company comprised 2,000,000 5% cumulative preference shares of £1 each at both 31 December 2007 and 31 December 2006. As explained in Note 40B(f), the preference shares are measured in the balance sheet in US dollars at period end rates of exchange.

The preference shares are non-redeemable and are entitled to a fixed 5% cumulative dividend, payable in equal instalments in June and December of each year. On a winding up, the preference shares are entitled to repayment and any arrears of dividend in priority to ordinary shareholders, but are not entitled to participate further in any surplus. Each preference share carries 100 votes (see Note 22(a)(vi)) at any general meeting of the Company.

#### 40F Reconciliation of Movement in Shareholders' Funds

	Called up ordinary Share capital US\$m	Share premium account US\$m	Profit and loss account US\$m	Total US\$m
<b>At 1 January 2006 (equity)</b>	16.6	272.4	283.8	572.8
Capitalisation of share premium on bonus issue of ordinary shares	73.2	(73.2)	–	–
Profit for the financial year	–	–	485.9	485.9
Dividends paid	–	–	(236.6)	(236.6)
<b>At 31 December 2006 and 1 January 2007</b>	<b>89.8</b>	<b>199.2</b>	<b>533.1</b>	<b>822.1</b>
Profit for the financial year	–	–	597.1	597.1
Dividends paid	–	–	(485.0)	(485.0)
<b>31 December 2007 (equity)</b>	<b>89.8</b>	<b>199.2</b>	<b>645.2</b>	<b>934.2</b>

The ordinary shares rank after the preference shares in entitlement to dividend and on a winding up. Each ordinary share carries one vote at any general meeting.

## Notes to the Financial Statements *continued*

### 40G Independent Auditors' Report on the Parent Company Financial Statements to the Members of Antofagasta plc

We have audited the parent Company financial statements of Antofagasta plc for the year ended 31 December 2007 which comprise the Parent Company balance sheet and the related notes 40A to 40F. These parent Company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Group financial statements of Antofagasta plc for the year ended 31 December 2007 and on the information in the Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report, the Remuneration Report and the parent Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of Directors' responsibilities on pages 68 and 69.

Our responsibility is to audit the parent Company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent Company financial statements give a true and fair view and whether the parent Company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the Directors' Report is consistent with the parent Company financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited parent Company financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent Company financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

#### Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent Company financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent Company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent Company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent Company financial statements.

40G Independent Auditors' Report on the Parent Company Financial Statements to the  
Members of Antofagasta plc continued

Opinion

In our opinion:

- the parent Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2007;
- the parent Company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the parent Company financial statements.

*Deloitte & Touche LLP*

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

London

10 March 2008