

Corporate Governance Report

Introduction

The Company is incorporated in England and listed on the London Stock Exchange, with the Group's businesses, which comprise mining, transport and water distribution, principally located in Chile, the largest copper producing country in the world. The E. Abaroa Foundation, an entity in which members of the Luksic family are interested, controls 60.66% of the ordinary share capital and 94.12% of the preference share capital of the Company through two investment vehicles, Metalinvest Establishment and Kupferberg Establishment. Aureberg Establishment, which is controlled by Antofagasta's Chairman, Mr. J-P Luksic, holds 4.26% of the ordinary share capital of the Company as at the date of this report. Antofagasta's Board is committed to managing the operations of the Group with a view to maximising value for all shareholders.

During 2010 the Board had eight members, comprising an Executive Chairman and seven Non-Executive Directors. Two of these eight Directors (including the Chairman) are members of the Luksic family. Six of these Directors, including the Chairman, are based in Chile, where the Group's operations are principally located; one of these Directors is based in England, where the Company is incorporated and listed on the London Stock Exchange; and one of these Directors is based in the United States.

Subsequent to the year end, two further Directors were appointed to the Board, one of whom is based in the United States and one of whom is based in Canada.

The day-to-day operations of the Group are carried on through the boards of each division of the Group, Antofagasta Minerals S.A. (mining), Antofagasta Railway Company plc (FCAB – railway and other transport services) and Aguas de Antofagasta S.A. (water distribution). The Antofagasta Board oversees these divisional boards and provides strategic direction. Each division is headed by a chief executive officer who reports to his divisional board and the Chairman of the Group – Marcelo Awad for the mining division, Miguel Sepúlveda at the transport business and Marco Kútulas in the water division. Antofagasta Minerals S.A. has a team of senior executives who report to Marcelo Awad, focusing on areas including operations, strategy, risk management, human resources, finance and business development, exploration and mineral resources, corporate affairs and project development.

During the 2010 financial year, the Combined Code on Corporate Governance issued by the Financial Reporting Council in June 2008 ("the Combined Code") applied to the Company. The Board describes below how it applied the corporate governance principles contained in the Combined Code during that year. Two areas where the Company did not comply with the detailed Combined Code provisions are set out at the end of this report under the heading "Statement of compliance with the detailed provisions of the Combined Code". The UK Corporate Governance Code issued by the Financial Reporting Council in June 2010 will apply to the Company from the 2011 financial year and will be reported upon in the 2011 Annual Report and Financial Statements.

Directors

The Board

The Directors collectively have responsibility for the conduct of the Group's business. The Board, which met eight times during 2010, was comprised of an Executive Chairman and seven Non-Executive Directors, five of whom are considered by the Board to be independent. Subsequent to the year end, two further Directors, were appointed to the Board. One is not considered by the Board to be independent for the purposes of the UK Corporate Governance Code while the other is considered by the Board to be independent. One Director based in Chile who was considered independent resigned after the end of the year.

There is a schedule of matters specifically reserved for the Board. The Board is responsible for:

- providing leadership;
- setting the Group's strategic objectives and key policies;
- ensuring that appropriate resources are in place to enable the Group to meet its objectives;
- reviewing the Group's performance; and
- overseeing the Group's internal control systems.

The Chairman will always attempt to persuade the Board to act as a single team by obtaining consensus at Board meetings but, in exceptional circumstances, decisions may be taken by majority. The agenda for Board meetings are set by the Chairman in consultation with the other Directors.

Responsibility for developing and implementing the Group's strategic and financial objectives is delegated to the senior management of the Group. Accordingly, the boards of Antofagasta Minerals S.A. (mining), the Antofagasta Railway Company plc (railway and other transport services) and Aguas de Antofagasta S.A. (water distribution) meet regularly to consider strategic, operational and risk management issues in more detail. There is substantial overlap between membership of the Board of Antofagasta plc and these three divisional boards. The chief executive officer of each division reports to his divisional board and to the Chairman of the Group; the Board oversees these divisional boards and provides strategic direction. The Board is also responsible for reviewing the performance of management. The Non-Executive Directors scrutinise the performance of management in meeting goals and objectives and also monitor the reporting of performance, through the activities of the Remuneration Committee and the Audit Committee.

The Directors of the Company as at 7 March 2011 are set out on page 70. Mr. D E Yarur served as a Non-Executive Director throughout 2010, and resigned from the Board subsequent to the year end on 1 March 2011.

The recognised senior independent Non-Executive Director is Mr. C H Bailey, who is also Chairman of the Audit Committee. Mr. G S Menéndez is Chairman of the Remuneration and Nomination Committees. The Board does not have a Director formally designated as Chief Executive.

The role of the Chairman

Mr. J-P Luksic is Chairman of the Board. His role is that of a full-time Executive Chairman, and he has no other significant commitments that prevent him from devoting sufficient time to this role.

As explained above, the Group does not have a Board member who is designated as Chief Executive. Mr. Marcelo Awad is chief executive officer of Antofagasta Minerals S.A.; Mr. Miguel Sepúlveda is chief executive officer of the Antofagasta Railway Company plc; and Mr. Marco Kúttulas is the chief executive officer of Aguas de Antofagasta S.A. The Board believes that the Company is not at risk from a concentration of power by Mr. J-P Luksic having executive responsibilities as Chairman. In reaching this conclusion, it has taken into consideration the strong presence of Non-Executive Directors on the Board, the structure of the Audit, Remuneration, Nomination and Sustainability Committees designed to devolve away from the Chairman responsibility and control of certain key areas of Board responsibility, and the delegation of management responsibility to the chief executive officer of each division.

Board balance and independence

The Board considers five of its seven Non-Executive Directors who served during 2010 to be independent – Mr. C H Bailey, Mr. G S Menéndez, Mr. D E Yarur, Mr. J G Claro and Mr. W M Hayes. Mr. T C Baker who was also appointed subsequent to the year end is considered independent. The Board is satisfied that this balance limits the scope for an individual or small group of individuals to dominate the Board's decision-making. All Directors will be standing for re-election at the forthcoming Annual General Meeting and biographical details of each Director can be found on page 70.

Mr. Claro, Mr. Hayes and Mr. Baker meet the independence criteria set out in Combined Code provision A.3.1 and the Board is satisfied as to their independence. The Board is satisfied that Mr. Bailey remains independent in character and judgement, notwithstanding that he has served on the Board for more than nine years, since he does not receive any remuneration from the Company other than Non-Executive Directors' fees, nor does he have any other relationships with the Company or its majority shareholder.

The Board is also satisfied that Mr. Menéndez remains independent in character and judgement, notwithstanding that he has also served on the Board for more than nine years and notwithstanding that he is a non-executive director of Quiñenco S.A. (a Chilean-listed company also controlled by the Luksic family) and some of its subsidiaries, including Banco de Chile. This is because he does not receive any remuneration from the Group other than in a non-executive capacity. His position in the Quiñenco group is also solely as a non-executive director. The Board considers that Mr. Bailey's and Mr. Menéndez's length of service is of considerable benefit to the Board given their wealth of knowledge and experience of the Group and of Latin America and of the mining industry, and therefore proposes both for re-election.

The Board does not consider Mr. R F Jara or Mr. G A Luksic who served during the year nor Mr. Dryland who was appointed subsequent to the year end to be independent. Mr. R F Jara provides advisory services to the Group, as explained

in the Remuneration Report on page 82. Mr. G A Luksic is the brother of Mr. J-P Luksic, the Chairman of Antofagasta plc. Mr. G A Luksic is chairman of Quiñenco S.A. and chairman or a director of Quiñenco's other listed subsidiaries. Mr. J-P Luksic and Mr. G S Menéndez are also non-executive directors of Quiñenco and some of its listed subsidiaries. Like Antofagasta plc, Quiñenco is also controlled by the Luksic family. Mr. H Dryland was appointed a Non-Executive Director subsequent to the year end on 20 January 2011. The Board does not consider Mr. H Dryland to be independent, as Mr. Dryland has provided advisory services to the Group in his capacity as a senior managing director at Rothschild, which remains a financial advisor to the Group.

Appointments to the Board

The Nomination Committee currently comprises Mr. G S Menéndez (Chairman), Mr. C H Bailey and Mr. R F Jara. As explained above, Mr. C H Bailey and Mr. G S Menéndez are considered by the Board to be independent Non-Executive Directors.

The Nomination Committee periodically reviews the composition of the Board including the balance between Executive and Non-Executive Directors and considers succession planning for both Executive and Non-Executive Directors and the Group's senior management. It is also responsible for the process for new Board appointments and makes recommendations to the Board on the appointment of new Directors and is responsible for ensuring that appointments are made on merit and against objective criteria. In fulfilling these responsibilities, the Nomination Committee consults the Chairman, Mr. J-P Luksic. The Nomination Committee meets as necessary and, in any case, at least once a year. Its terms of reference are available from the Company's registered office and may be viewed on the Company's website – www.antofagasta.co.uk.

In making appointments to the Board, the Nomination Committee considers the skills, experience and knowledge of the existing Directors and assesses which of the potential candidates would most benefit the Board. It considers the potential candidate's knowledge and experience of Chile, the mining industry, Latin America, capital markets and the regulatory environment, and that they have sufficient time to devote to the role. The Chairman ensures that any new Directors are provided with a full induction on joining the Board.

All Non-Executive Directors have letters of appointment with the Company for an initial period of three years from the date of their appointment, subject to re-appointment at the Annual General Meeting. These letters require the Non-Executive Directors to undertake that they will have sufficient time to discharge their responsibilities. The letters of appointment are available for inspection at the Company's registered office during normal business hours and at the Annual General Meeting (for 15 minutes prior to and during the meeting). The Company intends to comply with provision B.7 of the UK Corporate Governance Code from the 2011 financial year and submit each Director for annual re-election.

Information and professional development

The Directors receive information for review ahead of each Board or Committee Meeting. In addition, they receive regular reports and forecasts for the Group and

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each significant operation to ensure that they remain properly briefed about the performance and financial position of the Group throughout the year. All Directors have access to management and to such further information as is needed to carry out their duties and responsibilities fully and effectively. Furthermore, all Directors are entitled to seek independent professional advice concerning the affairs of the Group at the Company's expense.

The Company also provides Directors with the necessary resources to develop and update their knowledge and capabilities. In particular, the Directors are regularly updated on the Group's business, the competitive and regulatory environment in which it operates and other changes affecting the Group as a whole. The Directors based outside Chile visit the country regularly and at least once a year, and the Directors based outside the United Kingdom also regularly visit this country, again normally at least once a year, and normally attend the Company's Annual General Meeting held in London.

Group management in the United Kingdom and Chile is responsible for ensuring that Board procedures and applicable rules and regulations are complied with and for advising the Board, through the Chairman, on all governance matters. Company secretarial services and advice are provided by Petershill Secretaries Limited.

Performance evaluation

The Board periodically considers its performance and effectiveness. A performance evaluation of the Board, its committees and its individual members was conducted during 2010 by Mr. G S Menéndez, with the assistance of senior management. Mr. C H Bailey, as the senior independent Non-Executive Director was responsible for the evaluation of the Chairman. The results were discussed with the Chairman and considered by the Board and were taken into account in the decision to recommend for re-election all of the Directors at the forthcoming Annual General Meeting. The Board is satisfied that each Director continues to contribute effectively and to demonstrate commitment to his role.

Directors' attendance at meetings in 2010

The number of Board and Committee meetings held during 2010, together with details of each Director's attendance, is set out below:

	Board		Audit Committee		Nomination Committee		Remuneration Committee		Sustainability Committee	
	Number attended	Maximum possible	Number attended	Maximum possible	Number attended	Maximum possible	Number attended	Maximum possible	Number attended	Maximum possible
J-P Luksic	8	8	–	–	–	–	–	–	1	1
C H Bailey	7	8	3	3	2	2	2	2	–	–
G S Menéndez	8	8	3	3	2	2	2	2	1	1
R F Jara	8	8	–	–	2	2	–	–	1	1
D E Yarur ⁽¹⁾	8	8	2	3	–	–	1	2	–	–
G A Luksic	2	8	–	–	–	–	–	–	–	–
J G Claro	8	8	–	–	–	–	–	–	–	–
W M Hayes ⁽¹⁾	7	8	–	–	–	–	–	–	–	–

⁽¹⁾ On 29 November Mr. D E Yarur retired from the Remuneration Committee and was replaced by Mr. W M Hayes. No meetings were held in 2010 since Mr. W M Hayes joined the committee.

All Directors in office at the time of the Annual General Meeting in June 2010 attended that meeting.

Each Director withdrew from any meeting when his own position was being considered.

Re-election

All Directors at the date of this report will stand for re-election at this year's Annual General Meeting. Biographical details of all the Directors are set out on page 70. The Chairman confirms that the Board is satisfied that each of the Directors continues to be effective and continues to demonstrate commitment to his role.

Remuneration

The membership of the Remuneration Committee, a statement of the Company's policy on remuneration, and the remuneration details and shareholding interests of each Director are contained in the Remuneration Report on pages 81 to 83.

Accountability and audit

Internal control

The Board has applied principle C.2 of the Combined Code by establishing a continuous process for identifying, evaluating and managing the significant risks the Group faces. The Board regularly reviews the process, which is an ongoing activity from the start of each financial year to the date of approval of this report and which is in accordance with revised guidance on internal control published in October 2005 ("the Turnbull Guidance"). The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

In compliance with provision C.2.1 of the Combined Code, the Board regularly reviews the effectiveness of the Group's system of internal control. The Board's monitoring covers all controls, including financial, operational and compliance controls and risk management. It is based principally on reviewing reports from management to consider whether significant risks are identified, evaluated,

managed and controlled and whether any significant weaknesses are promptly remedied and indicate a need for more extensive monitoring. The Board has also performed a specific assessment for the purpose of this Annual Report. This assessment considers all significant aspects of internal control arising during the period covered by the report including the work of internal audit. The Audit Committee assists the Board in discharging its review responsibilities. During the course of its review of the system of internal control, the Board has not identified nor been advised of any failings or weaknesses which it has determined to be significant. Therefore a confirmation in respect of necessary actions is not required. Further information relating to the Group's risk and management systems is given on pages 18 to 21.

Going concern

The Board's statement on going concern is included in the Financial Review on page 67.

Corporate sustainability

The Board takes into account the community, social, environmental and ethical impact of its decisions and is responsible for the relevant policies of the Group. A Corporate Sustainability Committee, comprising Mr. J-P Luksic, Mr. G S Menéndez and Mr. R F Jara, assists the Board in its responsibilities with respect to the Group's social responsibility. The Committee met once in 2010 with all three members in attendance. Key issues of social responsibility are identified and assessed through the Group's risk management processes described under "Internal control" above. The Group also published a separate annual Sustainability Report to provide further information on its social and environmental performance. More information on corporate sustainability is given on pages 46 to 57.

"Whistleblowing" procedures

The Audit Committee, whose other functions are described below, is responsible for reviewing arrangements by which employees of the Group may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. An Ethics Code is in place across the Group, which includes a procedure to enable employees to raise concerns, anonymously if necessary. An Ethics Committee, comprising members of senior management, is responsible for implementing, developing and updating the Ethics Code and investigating any allegations of impropriety. The Ethics Committee reports directly to the Chief Executive of Antofagasta Minerals S.A. The Audit Committee considers the results of this work and the operation of the Ethics Code as part of its annual review of the effectiveness of internal control.

Audit Committee and auditors

During the year the Audit Committee comprised Mr. C H Bailey (Chairman), Mr. G S Menéndez and Mr. D E Yarur. On 1 March 2011, Mr. D E Yarur retired from the Board and was replaced on the Audit Committee by Mr. W M Hayes. The Audit Committee members during the year and to the date of this report are considered by the Board to be independent Non-Executive Directors. All three members are considered to have recent and relevant financial experience.

The Audit Committee meets at least twice a year with the external auditors in attendance. The Audit Committee's purpose is to assist the Board in meeting its responsibilities relating to financial reporting and control matters. In particular, it reviews the scope and nature of the audit and issues arising from it and is responsible for ensuring the independence of the external auditors (including their objectivity and effectiveness), monitoring the provision of any non-audit services and for making recommendations to the Board for the appointment, re-appointment or removal of the external auditors. The Audit Committee periodically reviews if it is necessary to re-tender the audit engagement. It reviews the internal control and risk assessment procedures adopted by the Group described in the section under the heading "Internal control" above, including a review of the effectiveness of the internal audit function. The internal audit function is responsible for reviewing the adequacy of the internal control environment across the Group and for reporting the findings of the internal audit work to the Audit Committee on a regular basis. The Audit Committee also monitors the integrity of the financial statements and Directors' statements on internal controls and reviews the going concern basis prior to its endorsement by the Board. The Committee also reviews the preliminary announcement and the half yearly financial report. The terms of reference of the Audit Committee are available from the Company's registered office and may be viewed on the Company's website – www.antofagasta.co.uk.

The Audit Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employees and all employees are directed to co-operate with any request made by the Audit Committee.

The Company's external auditors, Deloitte LLP, have provided non-audit services to the Company, which amounted to US\$609,000. This comprised the provision of services relating to corporate finance advisory services, tax compliance and other consultancy services. The Audit Committee has reviewed the level of these services in the course of the year and is confident that the objectivity and independence of the auditors are not impaired by reason of such non-audit work.

The Audit Committee has also considered the effectiveness of the external audit function through the year through meetings with Deloitte LLP, a review of their audit plan and a consideration of the results of work performed by the external auditors prior to release of the half year and full year results.

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Relations with shareholders

Directors and senior management regularly meet with institutional shareholders and analysts in the United Kingdom, Europe, Chile, North America, Asia and Australia. The senior independent Non-Executive Director, Mr. C H Bailey, also attends meetings with major shareholders when required. Other Non-Executive Directors are given the opportunity to meet with major shareholders and attend meetings if requested to do so by shareholders. These meetings ensure that the Board is able to develop and maintain an understanding of the views of several of the Company's major investors. The Company carries out a formal programme of presentations to update institutional shareholders and analysts on developments in the Group after the announcement of the half year and full year results.

In addition, quarterly production figures and financial results are published for the mining, transport and water divisions. Copies of these results and production announcements, presentations and other press releases issued by the Company are available on its website. As noted above, the Group also publishes a separate Sustainability Report to provide further information on its social and environmental performance. The Company's Annual General Meeting ("AGM") is also used as an opportunity to communicate with both institutional and private shareholders; the Board of Directors encourages all shareholders to attend. The notice of the AGM is sent to shareholders at least 20 working days in advance of the meeting. At the meeting, the Company complies with the Combined Code as it relates to voting, including votes withheld, the separation of the resolutions and the attendance of committee chairmen.

Statement of compliance with the detailed provisions of the Combined Code

As explained above, the Company complied with the detailed code provisions contained in the Combined Code throughout 2010 except as follows:

- the Board did not have a separately identified Chief Executive and hence at Board level there is no formal separation of the functions of Chairman and Chief Executive (provision A.2.1). As explained above, the Group has separate chief executives for its mining, transport and water distribution divisions who report to their respective divisional boards and to the Chairman of the Group. The Board considers that its predominantly non-executive composition combined with the delegation of management responsibility to the chief executive officer of each division achieves an appropriate balance and prevents a concentration of power in its Executive Chairman; and
- performance-related pay measures did not apply to Board members (provision B.1.1). The Board considers this appropriate given its predominantly Non-Executive composition and the role of the only Executive Director, who is a member of the controlling family, as Chairman of the Board. Performance-related bonuses are paid to senior management in the Group based on a combination of personal, divisional and Group performance assessed against targets set at the start of each year.