

DIRECTORS' COMMENTS FOR THE HALF YEAR TO 30 JUNE 2008

Overview

The Group has achieved strong results for the 2008 half-year, with net earnings up 8.8% to US\$792.8 million and cash flow from operations up 12.1% to US\$1,512.9 million. These results were achieved against a background of sound operational performances across the Group and continued strength in metal prices.

Metal prices in this period remained well above historical levels. LME copper prices averaged 367.8 cents per pound (2007 half year – 307.0 cents per pound), increasing from approximately 303 cents at the beginning of the year to just under 400 cents at the end of June. The Group expects fundamentals for the copper market to remain sound with prices remaining strong well into 2009, despite a softening of prices in the seasonally weaker third quarter. Nevertheless, with continued uncertainty in financial markets and the increased role of investment funds in commodity markets, the volatility that has characterised exchange-traded commodities in recent years is expected to continue. Molybdenum prices, which were much more stable, averaged US\$33.1 per pound compared with US\$28.4 per pound in the first half of 2007. The Group has benefitted from these higher metal prices together with continued positive pricing adjustments on provisionally invoiced copper sales particularly at Los Pelambres. The copper concentrates market remains in continued deficit, and this has kept tolling charges at levels favourable to producers.

The Group's operations performed well in the 2008 first half. Group copper production reached 233,600 tonnes in line with forecast and 10.1% above the 2007 half year, mainly reflecting increased throughput at Los Pelambres. As expected, molybdenum production at Los Pelambres decreased by 22.4% to 3,800 tonnes as a result of lower molybdenum grades. The transport and water divisions also performed strongly with transport tonnages maintained and water volumes increased compared with the 2007 half year.

Weighted average cash costs were 72.2 cents per pound in the 2008 half year, compared with 30.3 cents per pound in the same period last year. This increase mainly reflected lower by-product credits as a result of lower molybdenum volumes and increased on-site and shipping costs at the Group's three mines in line with forecast as a result of industry cost pressures such as energy, fuel and sulphuric acid prices and freight costs. These factors were partly offset by lower tolling charges as a result of the favourable concentrates market. Labour relations across the group remained positive. El Tesoro negotiated new 46-month agreements with both its unions in June 2008 well in advance of the expiry of the previous agreements in May 2009. All of the Group's three mining operations now have labour agreements in place which run until at least 2011.

Mainly as a result of these factors, profit before tax in the 2008 half year increased by 15.3% to US\$1,656.6 million. As explained in the Financial Commentary, income tax expense was US\$431.2 million (2007 half year – US\$331.7 million), partly reflecting the higher profit before tax but also a higher effective tax rate of 26.0% compared with 23.1% in the 2007 half year, principally due to the planned increase in the effective rate of the Chilean mining tax from approximately 2% to approximately 4%. Consequently, earnings per share increased in line with net earnings by 8.8% to 80.4 cents per share.

The Group made continued progress with its development plans during this half year. The US\$1.9 billion Esperanza project received environmental approval in June and remains on schedule with first production expected at the end of 2010. At Los Pelambres, construction of the Mauro tailings dam is expected to be completed by the beginning of the fourth quarter of this year. In May, a court-approved settlement was reached in the case concerning the validity of a sectoral permit issued by the Chilean Water Authority and other related cases concerning water rights. One remaining case on land ownership involving different claimants needs to be resolved before the new tailings dam can be put into operation and the Group remains confident of its position in front of the Chilean Courts in this case. The existing Quillayes tailings dam has capacity until early 2009. A further plant upgrade which is within existing environmental permits has been approved by the Los Pelambres board at a total estimated capital cost of US\$1.0 billion, and this is expected to result in additional production from early 2010. When fully operational, the Esperanza project and the plant upgrade at Los Pelambres are expected to lift annual Group copper production by approximately 285,000 tonnes, an increase of more than 60% from current levels. During the first half of 2008, feasibility studies were also initiated for the Reko Diq joint venture project in Pakistan and the Antucoya project in Chile, both of which are expected to be completed in the first half of 2009 and could also contribute to the Group's pipeline of future growth.

In April 2008, the Group entered into an agreement with Marubeni Corporation ("Marubeni") whereby Marubeni would enter as an investment partner in the Sierra Gorda district by acquiring a 30% interest in both the Esperanza project and the El Tesoro mine and by agreeing to fund its 30% share of the development costs of the Esperanza project. The Marubeni transaction also permits the Group to introduce further properties in the Sierra Gorda district to the venture with Marubeni in the future. Completion of this agreement was reached on 25 August, with a final consideration received (after closing adjustments) of US\$1,401 million. In April 2008, the Group also entered into an agreement to acquire the remaining minority interest in certain mining properties held through Antomin Limited required for the Marubeni transaction as well as certain other properties including part of the Antucoya project. Completion of this agreement was also reached on 25 August with a final consideration (after closing adjustments) of

US\$243 million. Neither the Marubeni nor Antomin transactions is recorded in the results to 30 June 2008 as completion had not occurred by that date.

During the 2008 first half, the Group also continued to advance its exploration programme and to acquire new opportunities in both Chile and the rest of the world. Further drilling is in progress at the Telegrafo and Caracoles deposits in the Sierra Gorda district, where the Group's existing resources exceed 3 billion tonnes and which has potential for development as a single mining complex for oxide and sulphide ores. The results of a two year drilling programme at Los Pelambres are currently under review. The Group also signed exploration agreements to acquire interests in two prospecting licences in Zambia, an interest in the Rio Figueroa deposit in Chile and to explore for geothermal energy resources in southern Chile.

As explained in "Current trading prospects" below, the Group expects to meet its planned copper and molybdenum production of 463,000 tonnes and 6,800 tonnes respectively, with weighted average cash costs before by-product credits in line with forecast at around 125 cents per pound.

The Board has declared an ordinary interim dividend of 3.4 cents per share (2007 half year – 3.2 cents per share). In view of the continued strong results this year, the Board also decided to declare a special dividend of 3.0 cents per share (2007 half year – 3.0 cents per share) giving a total interim dividend of 6.4 cents (2007 half year – 6.2 cents). This represents an increase of 6.3% on the ordinary interim dividend and an increase of 3.2% on the total interim dividend. As in previous years, the Board intends to determine an appropriate level of final dividend when the full year results are announced in March 2009 taking into account the level of profits earned in the period under review, the existing cash position of the Group and significant known or expected funding commitments.

Review of operations

Los Pelambres

Los Pelambres achieved another strong set of results with operating profit of US\$1,340.3 million, 23.3% above the 2007 half year, as increased copper volumes, higher realised copper and molybdenum prices and lower tolling charges offset the effects of higher onsite and shipping costs and lower molybdenum production.

Realised copper prices at Los Pelambres were 420.7 cents per pound (2007 half year – 348.6 cents per pound) due to both higher average LME copper prices compared with the first half of 2007 and stronger provisional pricing credits resulting from the significant increase in prices during the first half of this year. Realised molybdenum prices were US\$33.6 per pound (2007 half year – US\$30.9 per pound), mainly reflecting higher market prices and continued tight market conditions in the 2008 first half and to a lesser extent stronger pricing credits. Further details of pricing adjustments for both copper and molybdenum are given in the Financial Commentary on page 11 and in Note 4(a) to the condensed financial statements.

Los Pelambres produced 163,800 tonnes of payable copper in the first six months of 2008, 15.5% above the first six months of last year when 141,800 tonnes were produced. This was mainly as a result of higher ore throughput which averaged 141,500 tonnes per day (2007 half year – 125,500 tonnes per day) due to the lower proportion of harder primary ore treated in the period. Grades and recoveries remained similar at 0.72% and 91.5% respectively (2007 half year – 0.71% and 92.2% respectively).

Molybdenum production was 3,800 tonnes, 22.4% below the 4,900 tonnes produced in the first half of 2007. The expected decrease was mainly due to a reduction in molybdenum grades under the current phase of the mine plan following the extraction of ore from a higher grade area during the previous two years.

Cash costs, which are stated net of by-product credits and include tolling charges, were 36.0 cents per pound, marginally below forecast but 44.6 cents higher than the negative 8.6 cents per pound achieved in the first half of 2007. On-site and shipping costs increased by 26.3 cents per pound to 99.7 cents per pound mainly due to higher energy and shipping costs, partly offset by the impact of the higher production in the period. By-product credits were 27.3 cents per pound lower at 83.5 cents per pound due to the lower molybdenum volumes in the period partly offset by higher molybdenum market prices. These factors were partly offset by lower tolling charges which decreased by 9.1 cents per pound to 19.7 cents, partly due to the more favourable annual treatment and refining charges achieved in the negotiations with smelters in the 2008 calendar year, together with continued benefit from nil price participation first achieved in 2007 as a result of the "brick system" under which the annual terms agreed are often averaged over two years. The individual components of Los Pelambres' cash costs are set out in Note 26(b) to the condensed financial statements.

During the 2008 half year, Los Pelambres continued to reduce its borrowings with repayments of US\$43.1 million. Total borrowings (net of deferred financing costs) were US\$190.8 million at 30 June 2008. Continued progress was

also achieved with Los Pelambres' capital expenditure programmes, which are being financed out of its cash resources. Total capital expenditure in the 2008 half year was US\$189.4 million, including expenditures on the Mauro tailings dam project and initial works for the further upgrade of plant capacity which, as explained below, was approved in July.

Los Pelambres advanced with construction at the Mauro tailings dam, which is now virtually complete with remaining works expected to be finished by the beginning of the fourth quarter. Cumulative expenditure on this project to 30 June 2008 was US\$568 million, which included US\$41.9 million in the first half of 2008. As announced on 7 May 2008, Los Pelambres reached a binding court-approved settlement relating to the validity of a sectoral permit issued by the Chilean Water Authority and other related cases concerning water rights. This settlement committed the claimants to withdrawing their claims and allows the construction of the Mauro tailings dam to be completed. As part of the settlement, Los Pelambres paid an amount of US\$23 million to the claimants in order to acquire an area of land of approximately 8,000 hectares and related water rights adjacent to the Mauro tailings dam belonging to one of the claimants and for the settlement of the various cases.

As also explained in that announcement, a separate case concerning land ownership involving different claimants remains outstanding. Los Pelambres has appealed to the Chilean Court of Appeals against a first instance decision in 2007 which prevents operation of the tailings dam from commencing. As announced on 12 August 2008, the claimants have objected to the Chilean Constitutional Court on the basis that the relevant provision of the Chilean Civil Procedure Code on which one of the grounds of appeal is based should be declared inapplicable. The Group has been notified that the Constitutional Court has agreed to hear this objection and has accordingly ordered the Court of Appeals hearing, which is expected to take place later this year, to be temporarily suspended. Minera Los Pelambres is taking action in front of the Chilean Constitutional Court with the aim thereby of having the suspension of the Court of Appeals hearing lifted. The Group is confident of its position in front of the Chilean Constitutional Court and it is expected that its application will be heard shortly. The Group also remains confident that Minera Los Pelambres' legal title to the land in question will be upheld on appeal. The existing Quillayes tailings dam has capacity until early 2009.

Following the completion of a feasibility study in 2007 and expenditures on early works, Los Pelambres approved a further upgrade of its plant capacity in July 2008 through additional infrastructure including a third SAG mill and sixth ball mill. The repowering is within existing environmental permits and when completed is expected to increase production of payable copper by an annual average of 90,000 tonnes over the first 15 years from early 2010. The total cost of this project is expected to be approximately US\$1.0 billion including escalation. Cumulative expenditure on this project to 30 June 2008 was US\$148.2 million of which US\$96.6 million was incurred in the first half of 2008.

Copper production in the second half of the year is expected to be similar to the first half as higher ore grades are expected to compensate for lower ore throughput due to a higher proportion of harder primary ore. Molybdenum production is expected to decrease as a result of the lower ore throughput and slightly lower molybdenum grades. Full year forecast production is expected to remain at approximately 330,000 tonnes of payable copper and 6,800 tonnes of molybdenum. Cash costs before by-product credits are expected to remain in line with forecast at approximately 113 cents per pound, including on-site and shipping costs of approximately 95 cents per pound. By-product credits in the second half of 2008 will be affected by expected lower molybdenum production as compared with the first half of the year, although Los Pelambres should continue to benefit from continued strong molybdenum prices.

El Tesoro

Operating profit at El Tesoro rose by 17.6% from US\$188.4 million in the 2007 half year to US\$221.5 million, reflecting higher copper prices partly offset by increased cash costs.

Realised copper prices were 386.2 cents per pound compared with 321.8 cents per pound in the 2007 half year, reflecting the higher average LME prices, cathode premiums and pricing adjustments on provisionally invoiced cathode sales.

Production at El Tesoro was 46,600 tonnes, only marginally below the 2007 half year production of 46,800 tonnes. Higher ore throughput which averaged 28,800 tonnes per day (2007 half year – 27,100 tonnes per day) offset the effects of lower ore grades of 1.16% (2007 half year – 1.23%) and marginally lower metallurgical recoveries of 76.1% (2007 half year – 77.4%). Cash costs during the first half of the year were 138.5 cents per pound, which was below year-to-date budget but 41.6 cents per pound higher than the same period last year. The increase was mainly due to higher energy and sulphuric acid prices.

Labour relations remained positive and El Tesoro was able to reach a new 46 month labour agreement with both its unions in June, well in advance of the expiry of the previous agreement in May 2009.

As previously explained, El Tesoro entered into a commodity hedging programme in 2007 using min-max instruments for part of its production until the end of 2009. This did not have any material impact on its operating results in either 2007 or the first half of 2008. Further details of the effects of commodity hedging instruments in place at 30 June

2008 are given in the financial commentary under “Derivative Financial Instruments” and in Note 4(b) to the condensed financial statements.

Outstanding borrowings at El Tesoro of US\$14.1 million at the beginning of 2008 were fully repaid in the first half of the year.

Capital expenditure in the period was US\$55.7 million, which included US\$32.6 million relating to pre-stripping at the Tesoro North-East satellite deposit located approximately one kilometre from the existing open pit and which following the completion of the Antomin transaction described under “Corporate transactions” below is now owned by El Tesoro. As previously explained, the Tesoro North-East deposit has been incorporated in El Tesoro’s mine plan; it mitigates the decline in grades that would otherwise occur from mining exclusively from the open pit and has extended the mine life to 2020. The incorporation of Tesoro North-East has a total capital cost of approximately US\$80 million and pre-stripping is expected to be completed by mid-2009. During the second half of 2008, El Tesoro will also incur the necessary expenditures at a capital cost of approximately US\$76 million to process the Esperanza low-grade oxide ores through a run-of-mine operation from 2009.

Full year production and cash costs are expected to remain in line with forecasts at approximately 90,000 tonnes and 142 cents per pound respectively.

Michilla

Operating profit in the 2008 half year was US\$75.3 million, a 17.5% decrease over the 2007 half year (US\$91.3 million), reflecting lower sales volume and higher cash costs which offset the higher copper prices.

Realised copper prices in the period were 372.9 cents per pound (2007 half year – 315.3 cents per pound), reflecting continued strong copper prices, cathode premiums and positive pricing adjustments partly offset by realised hedging losses.

Production in the period reached 23,100 tonnes of copper cathodes, a marginal decrease on the 23,400 tonnes produced in the 2007 half year. This reflected slightly lower ore grades, which averaged 1.01% (2007 half year – 1.04%). Shipments in the period however were 21,200 tonnes, 12.0% below the 24,100 tonnes achieved in the comparative period due to timing differences as a result of shipment and loading schedules. These timing differences unwound in July.

Cash costs were 195.1 cents per pound in the first half of 2008, a significant increase over the 132.3 cents per pound in the 2007 half year. The increase was mainly due to the increased costs of purchasing material from third parties because of the higher copper price, and increased sulphuric acid and energy prices. The effect of commodity hedging on operating results was a loss of US\$6.9 million (2007 half year – loss of US\$3.3 million), and further details of the effects of commodity hedging and of instruments in place at 30 June 2008 are given in the Financial Commentary under “Derivative Financial Instruments” and in Note 4(b) to the condensed financial statements.

Forecast cathode production for the year is expected to remain at approximately 43,000 tonnes with cash costs of approximately 190 cents per pound. Michilla’s current mine plan extends to the end of 2009 and the Group is continuing to examine options for an extension of mine life, including evaluation of existing resources for inclusion as additional reserves and further exploration including analysis of the Aurora sector which was drilled during 2007. A decision whether to extend the mine plan to at least 2012 could be taken in the second half of this year.

Railway and other transport services

Rail and road transport volumes in the first half of 2008 were 2.6 million tons (2007 half year – 2.6 million tons) and 0.6 million tons (2007 half year – 0.7 million tons) respectively, largely unchanged over the 2007 half year on a combined basis. Minor reductions in tonnages from existing customers were offset by initial shipments for Coldeco’s Gaby mine and increasing volumes from the San Cristobal mine in Bolivia following initial shipments in the second half of 2007.

Despite flat tonnages, turnover (net of sales to the mining division) increased by 32.4% to US\$72.4 million due to a number of factors. These included an increase in average haulage distances due to the location of new customers, tariff adjustments to contracts in line with costs including inflation and fuel and to a lesser extent guaranteed payments under some contracts where minimum tonnages were not met. As a result, operating profit was US\$24.3 million compared with US\$17.3 million in the 2007 half year.

Transport tonnages should increase in the second half of the year as both the San Cristobal and Gaby mines reach full production. The rail network also remains well placed to benefit from any further increases in mining activity in northern Chile.

Aguas de Antofagasta

Aguas de Antofagasta continued to perform well in the 2008 half year. Combined water sales increased by 6.0% from 19.8 million cu. m. in the 2007 first half to 21.0 million cu. m. this period. Turnover increased by 35.0% to US\$45.1 million; in addition to improved volumes, this was also due to the strengthening of the Chilean peso (the currency in which the majority of sales are billed) compared with the 2007 first half, tariff adjustments in line with inflation and sundry income from installation and construction services for water facilities provided by Aguas de Antofagasta to its customers. Operating profit accordingly increased from US\$16.1 million to US\$22.7 million.

Corporate transactions

On 24 April 2008 the Group announced that it had entered into an agreement with Marubeni Corporation (“Marubeni”) under which Marubeni would enter as an investment partner in the Sierra Gorda district by acquiring a 30% interest in both the Esperanza project (including the Telegrafo deposit) and the El Tesoro mine (including the Tesoro North-East deposit) and would fund its 30% share of the development costs of the Esperanza project. Closing of this transaction was achieved on 25 August 2008 following satisfaction of all conditions precedent including receipt of environmental approvals for the Esperanza project and the completion of the transfer of certain mining properties to Minera Esperanza and Minera El Tesoro. The final cash consideration received by the Group from Marubeni was US\$1,401 million, reflecting the base consideration of US\$1,310 million plus interest thereon from signing to completion and other adjustments specified in the agreements signed on 24 April 2008.

As also announced on 24 April 2008, the Group entered into an agreement to acquire Mineralinvest Establishment’s (“Mineralinvest”) approximately 49% interest in certain mining properties required for the Marubeni transaction as well as other properties including part of the Antucoya project. Mineralinvest’s approximately 49% interest was held through Antomin Limited, a company in which the Group held the remaining approximately 51%. Mineralinvest is an entity ultimately controlled by the Luksic family, which has a significant indirect interest in Antofagasta plc. The Antomin transaction was, therefore, approved by a committee of independent directors of Antofagasta. Conditions for closing of this transaction were also achieved on 25 August 2008 effectively concurrently with completion of the Marubeni transaction. The final consideration payable by the Group to Mineralinvest was US\$243 million, reflecting the base consideration of US\$240 million plus interest to completion.

During the first half of 2008, the Group also signed exploration agreements with TEAL Exploration & Mining Incorporated in Zambia and New Gold Inc. (formerly Metallica Resources Inc.) in Chile, as well as a memorandum of understanding with Empresa Nacional del Petroleo for the exploration and exploitation of potential sources of geothermal energy in Chile. Further details of these activities are given in “Projects, exploration and new opportunities” below.

Projects, exploration and new opportunities

Esperanza

The Esperanza project continues on schedule with first production expected by the end of 2010. The project received board approval for its development in June 2007 and an environmental impact assessment was submitted in August of that year. Pre-stripping and other early works began in early February 2008 following receipt of provisional environmental authorisation at the end of 2007. The full environmental impact assessment was received in June this year and the main construction works were initiated at the end of July. A number of key contracts have been assigned, including an engineering, procurement and construction management contract with Aker-Kvaerner for the plant which was signed in June.

Cumulative capital expenditure to the end of June 2008 was US\$161.7 million, with approximately 2,000 workers on site. Total capital costs (before working capital and any financing costs) are currently estimated at approximately US\$1.9 billion, with an update of project status expected in the fourth quarter of this year with the preparation of a definitive estimate when the detailed engineering is substantially complete. Following the inclusion of Marubeni Corporation as a 30% partner in the project as explained above, the Group intends to continue to examine further options for financing.

Esperanza is a sulphide deposit located in Chile’s Antofagasta Region approximately four kilometres south of the Group’s El Tesoro mine. It will produce copper concentrate containing gold and silver by-product credits through a conventional milling and flotation process, with ore throughput expected to average approximately 97,000 tonnes per day. In its first ten years of operation, Esperanza is expected to produce approximately 700,000 tonnes of concentrate

containing 195,000 tonnes of payable copper, 229,000 ounces of payable gold and 1,556,000 ounces of silver, with molybdenum production expected to start in the fifth year of operation with approximately 2,100 tonnes per year over the following five years.

Esperanza has at present a 15 year mine life, although the adjacent Telegrafo deposit is ultimately expected to utilise the Esperanza plant and facilities well beyond this period. The Esperanza deposit includes an oxide resource of 119 million tonnes with an average copper grade of 0.35% mainly forming part of the overburden to be removed through pre-stripping and which as explained above is expected to be processed through the El Tesoro plant.

Reko Diq (Tethyan Copper Company Limited)

The Group holds a 50% interest in Tethyan Copper Company Limited (“Tethyan”), its joint venture with Barrick Gold Corporation established in 2006. Tethyan’s principal assets are a 75% interest in the exploration licence encompassing the Reko Diq prospects in the Chagai Hills region of South-West Pakistan (in which the Government of Balochistan holds the remaining 25%) including the Western Porphyries, and a 100% interest in certain other licences in the region. The current resource estimate for the Western Porphyries is 4.1 billion tonnes with a copper grade of 0.50% and a gold grade of 0.291 g/t. In addition, the previous resource estimates at other prospects in Reko Diq, which have not yet been updated, amount to a further 0.8 billion tonnes with a copper grade of 0.45% and a gold grade of 0.22 g/t.

A feasibility study was initiated in February this year for an initial project of 72,000 tonnes per day of ore throughput. The feasibility contract was assigned to SNC-Lavalin of Toronto as lead engineer and is expected to be completed in the first half of 2009. An additional 69,000 metres were drilled in the first six months of 2008, which mainly related to infill drilling of the existing resource. Costs by Tethyan incurred in the first six months of 2008 amounted to US\$44.7 million, including initial expenditure on the feasibility study and acquisition of additional surface rights.

Negotiations are in progress with the Federal Government of Pakistan and the Government of Balochistan for a mineral agreement to establish a framework for future investment. The Group continues to believe that the potential of this investment remains positive.

Antucoya

Antucoya is an oxide deposit located approximately 45 kilometres from Michilla with a resource estimate, following a drilling programme completed at the end of 2007, of 531.4 million tonnes of ore with an average copper grade of 0.39%. Following the acquisition of certain mining properties held through Antomin Limited as described above, the Antucoya deposit is now wholly owned by the Group.

A feasibility study for the Antucoya project was initiated in February this year, with additional drilling to provide samples for metallurgical testing now underway. Following a review of project parameters in the course of this study and given the increased prospects for an extension to the mine life of Michilla, Antucoya is now being evaluated under a number of scenarios including as a stand-alone SX-EW project with possible cathode production of approximately 30,000 tonnes per year. The feasibility study for Antucoya is expected to be completed in the first half of 2009.

Other exploration activities and opportunities

The Group spent US\$22.4 million on exploration activities in the first six months of 2008 (2007 half year – US\$16.1 million), including US\$13.6 million relating to its share of exploration costs at Reko Diq (2007 half year – US\$5.7 million). The balance of US\$8.8 million (2007 half year – US\$10.4 million) related mainly to the Group’s exploration and evaluation programmes in Chile and the rest of the world.

In Chile, the Group’s primary focus remains the Sierra Gorda district, where El Tesoro and Esperanza are located.

Drilling is being carried out at the Telegrafo deposit which is adjacent to Esperanza and which as explained above could extend the life of Esperanza beyond its current mine plan. During the first half of 2008, an infill drilling programme of 21,900 metres was carried out at Telegrafo Sur, with further drilling around both Telegrafo Norte and Telegrafo Sur planned for the second half of the year to examine the continuity of these deposits with Esperanza.

Drilling is also in progress at Caracoles, a porphyry copper-gold system approximately 10 kilometres southeast of Esperanza. The Caracoles deposit is held through a joint venture in which the Group holds 81.5% and Compañía Minera Milpo S.A.A. of Peru holds the remaining 18.5% through Minera Rayrock Limitada. A 24,500 metre oxide programme was completed in the first half of the year, with further drilling of sulphide targets in progress in the second half of the year.

With current estimated mineral resources (including El Tesoro, Esperanza and Telegrafo) of over 3 billion tonnes, the Sierra Gorda district has good potential for development as a single complex for oxide and sulphide deposits.

At Los Pelambres, a new resource estimate is under preparation to incorporate the results of the two-year drilling programme which was completed at the end of 2007. The results of this drilling programme, with the aim of identifying additional resources beyond the present 2.9 billion tonnes, were encouraging and the revised resource estimate is expected to be completed by the end of this year.

The Group also progressed with its exploration programme both in Chile and the rest of the world. As announced in June, the Group signed an agreement with Minera Metallica Resources Chile Limitada, a subsidiary of New Gold Inc., to acquire a 30% interest in Rio Figueroa, an exploration project located in Chile's Atacama Region, approximately 80 km east of Copiapo city, for a consideration of US\$2.6 million payable in instalments. Under the agreement the Group has the right to increase its interest up to 70% in successive stages over a number of years by first incurring exploration expenditures of US\$7 million and subsequently completing a feasibility study and making a further payment of US\$5 million to Minera Metallica Resources Chile Limitada.

As announced in April, the Group has entered into an agreement with TEAL Exploration & Mining Incorporated ("TEAL") to acquire an initial 30% interest in two of TEAL's exploration licences on the Zambian Copperbelt covering an area of approximately 2,067 sq. km. for a consideration of US\$5 million. The agreement gives the Group the right to earn an additional 20% interest by spending US\$4.5 million on exploration (of which US\$2 million is committed expenditure) over a period of 4 years. TEAL is a company listed on the Toronto Stock Exchange and the JSE Limited with exploration and project interests in Africa.

As also announced in April the Group signed a memorandum of understanding with Empresa Nacional del Petroleo ("ENAP") of Chile for the exploration and exploitation of potential sources of geothermal energy. The memorandum of understanding envisages that these activities will be carried out through a newly-created entity in which the Group will hold a 60% interest and ENAP will hold 40% interest, and a full agreement is expected to be signed in the second half of 2008. In addition to the Tinguiririca concessions granted in 2007, further concessions at Suride and Lirima have been applied for in 2008 and it is intended that these will be explored by the new entity to be created by the Group and ENAP. As previously announced, the Group is also examining opportunities for coal in southern Chile.

Dividends

The Board has declared an ordinary interim dividend of 3.4 cents per share (2007 half year – 3.2 cents per share). In view of the continued strong results this year, the Board also decided to declare a special dividend of 3.0 cents per share (2007 half year – 3.0 cents per share). Accordingly, a total interim dividend of 6.4 cents per share (2007 half year – 6.2 cents per share) will be paid on 9 October 2008 to ordinary shareholders on the register at the close of business on 19 September 2008. This represents an increase of 6.3% on the ordinary interim dividend and an increase of 3.2% on the total interim dividend.

Dividends are payable in either US dollars or sterling, and the exchange rate to be applied to dividends to be paid in sterling will be set on 23 September 2008.

The Board's policy is to establish an ordinary dividend which can be maintained or progressively increased at conservative long-term copper prices and through the economic cycle. It recommends or declares special dividends when it considers these appropriate after taking into account the level of profits earned in the period under review, the existing cash position of the Group and significant known or expected funding commitments. As in previous years, the Board intends to take these factors into account in determining an appropriate level of final dividend when the full year results are announced in March 2009.

Current trading prospects

The copper market remained volatile during the 2008 half year, driven by continued uncertainty in financial markets and economic concerns particularly in Europe and the United States. With tight supply conditions, however, LME copper prices performed strongly in the period increasing from 303 cents at the beginning of the year to 398 cents at the end of June.

More recently, prices in the first half of August have averaged just under 350 cents with seasonal weakness in the third quarter together with concerns of slowing consumption in Asia. Nevertheless, visible inventories still remain at historically low levels and continued supply limitations are expected to compensate for any temporary weakness in demand. Fundamentals for the copper market remain strong and recent consensus estimates are for prices to average over 360 cents per pound for 2008 and remain at a similar or higher level through 2009. Nevertheless, the increased role of investment funds in commodity markets in recent years has made base metal prices more sensitive to changes in market sentiment and, given continuing financial and economic concerns, prices are expected to remain volatile.

The concentrate market also remains in favour of producers, with the concentrates deficit which developed in 2006 supported by growth in smelting capacity and limitations in supply as a result of continued disruptions in mine production. Most mid-year negotiations have been agreed at around US\$42 per dry metric tonne for smelting and 4.2 cents per pound of copper for refining compared with US\$45 and 4.5 cents for the 2008 calendar year, with price participation remaining at nil. Most commentators now expect the concentrates deficit to remain at least until 2010, when the market could return to balance or a small surplus although this is dependent on additional mine production coming on stream without the delay or disruption that has characterised the industry in recent years.

The molybdenum market has also remained strong, with prices remaining steadily over US\$33 per pound to date in the second half. Demand from the steel and catalyst sectors remain strong, with supply constraints offsetting any seasonal weakness in demand. Inventory levels for molybdenum remain low and the market, which also continues to be vulnerable to supply disruptions, is expected to remain in deficit until at least 2010 when additional production from new primary mines could balance the market.

Group copper production for 2008 is expected to remain in line with original forecasts at around 463,000 tonnes, with molybdenum production at Los Pelambres of around 6,800 tonnes. Cash costs at the Group's three mines, while higher than in 2007 as a result of industry-wide cost pressures, are also expected to remain in line with forecasts with weighted average cash costs before by-product credits of around 125 cents per pound.

The Group expects to continue to advance with its capital projects and growth opportunities in the second half of the year and, while the remaining case in relation to the Mauro tailings dam requires resolution, the medium to longer-term prospects of the Group also remain good. These include the plant upgrade at Los Pelambres which is scheduled to start up at the beginning of 2010 and the Esperanza project which is expected to start up at the end of 2010. The Reko Diq and Antucoya projects could eventually contribute additional production in future years. The Group's exploration programme also remains promising, with good potential in the Sierra Gorda district and encouraging results at Los Pelambres. Further exploration agreements were signed in the first half of 2008 giving access to additional opportunities in Chile and abroad. With this mix of capital projects, exploration and agreements, the Group believes it has a number of prospects that could substantially enhance its current production profile in the medium to longer term and it intends to use its sound financial position to advance its existing assets and properties while continuing to seek opportunities globally to secure further world-class mining assets.