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## **Proposed demerger of 33.6 per cent. interest in Quiñenco**

### *Highlights*

- *Distribution of the Group's investment in Quiñenco by way of dividend in specie of shares in Andsberg Limited*
- *Consistent with Antofagasta's strategy to focus on its mining and transportation activities*
- *Enhances value of Quiñenco investment for all shareholders*
- *Redemption right at a fixed price of US\$1.11 per Andsberg share*

Antofagasta plc ("Antofagasta" or the "Company") announces its intention to demerge its 33.6% investment in Quiñenco S.A., a diversified industrial and financial group listed in Santiago and, in ADR form, on the New York Stock Exchange. The demerger will take place via a special dividend to ordinary shareholders of shares in Andsberg Limited, an unlisted Jersey-registered holding company which has as its principal ultimate asset the investment in Quiñenco.

The demerger requires shareholder approval which is being sought at an Extraordinary General Meeting which is to be held on 1 October 2003. Antofagasta will today send shareholders a circular describing the proposed demerger in detail.

Following approval of the demerger, ordinary shareholders will receive one share in Andsberg for every share in Antofagasta held on the record date for the special dividend, which is expected to be 1 October 2003. The shares in Andsberg will carry a redemption right at a fixed price of US\$1.11 per Andsberg share, which represents an underlying value of US\$6.00 per Quiñenco ADR. The redemption right may be exercised until 30 October 2003, and shareholders who choose not to exercise their redemption right will remain as shareholders in Andsberg.

Antofagasta is a UK listed mining group with operations in Chile. It owns the Los Pelambres, El Tesoro and Michilla copper mines, together with a rail and road network in Northern Chile. In 2003, Antofagasta expects to produce around 460,000 tonnes of copper at cash costs below 40 cents per pound, placing it among the lowest cost producers worldwide.

Antofagasta today also announced its interim results for the six months ended 30 June 2003 with pre-tax profits up 46 per cent. to US\$138.1 million. In announcing these results, Jean-Paul Luksic, CEO of the mining division, commented "The proposal to demerge the holding in Quiñenco will allow Antofagasta to focus on its core mining and transportation activities and, as a low cost producer, the Group should continue to benefit from any further improvement in copper prices."

## Background

As stated in the Chairman's Review in the 2002 Annual Report to Shareholders dated 6 May 2003, Antofagasta's Board has been considering various options in relation to its non-core investments in order to focus on its mining and transportation activities. As a result of this review, the Board appointed Cazenove & Co. Ltd ("Cazenove") to review the options available to the Company with regard to its holding in Quiñenco in order to maximise its value to Shareholders. The Board has also appointed a committee (the "Committee") which has been asked to review the proposed demerger and Redemption Right to ensure that they are in the best interests of the Company and all Shareholders. The Committee consists of two Directors, Mr. Philip Adeane and Mr. Charles Bailey.

## Description of Andsberg and Quiñenco

Andsberg is a wholly owned subsidiary of Antofagasta whose principal ultimate asset is the Group's 33.6 per cent. holding in Quiñenco. Antofagasta received this holding in 1996 following the merger of its banking and industrial interests with those of Quiñenco.

Quiñenco is a diversified Chilean financial and industrial group. Its shares are listed in Santiago and, in ADR form, on the New York Stock Exchange. Its principal interests are in five sectors:

- *Financial services* – a 52.2 per cent. interest in Banco de Chile, Chile's second largest financial institution;
- *Food and beverages* – a 30.8 per cent. interest in CCU, the largest brewer in Chile in which Quiñenco's joint venture partner is Heineken. Quiñenco also holds a 93.7 per cent. interest in Lucchetti, a manufacturer of food products including pasta and edible oils;
- *Telecommunications* – a 73.6 per cent. interest in Telsur, the leading provider of telecommunications services in the 8th, 9th, 10th and 11th regions of Chile. Quiñenco also holds a 5.7 per cent. interest in Entel, a leading provider of mobile telephone, long-distance and ISP services in Chile;
- *Manufacturing* – a 56.7 per cent. interest in Madeco, a manufacturer of copper wire and tube and aluminium based products with operations in Chile, Brazil, Argentina and Peru;
- *Real estate and hotels* – a 50.0 per cent. interest in Habitaria, a residential real estate developer oriented towards Chilean families in the middle and upper-middle-income brackets and an 89.9 per cent. interest in Hoteles Carrera, which owns or operates a number of luxury hotels in Chile.

As at 31 December 2002, companies owned or controlled by the Luksic family held 82.4 per cent. of Quiñenco's issued share capital (which includes the 33.6 per cent. held through Antofagasta).

For the year ended 31 December 2002, Quiñenco generated a net loss of Ch\$75,480 million on revenues of Ch\$396,299 million and the net shareholders' equity of Quiñenco was Ch\$630,515 million at 31 December 2002.

For the six months ended 30 June 2003, Quiñenco generated a net profit of Ch\$40,364 million on revenues of Ch\$184,320 million and the net shareholders' equity of Quiñenco was Ch\$670,825 million at 30 June 2003.

### **Principal terms of the demerger**

The Company's shareholding in Quiñenco is held through an unlisted Jersey-registered public company, Andsberg Limited, whose principal ultimate asset is the holding in Quiñenco. The number of issued shares of Andsberg is the same as the number of issued ordinary shares of Antofagasta (apart from one non-redeemable ordinary share in Andsberg held by Dolberg Finance Corporation Establishment ("Dolberg") on bare trust for the Company). Under the terms of the demerger, Ordinary Shareholders will therefore receive:

One share in Andsberg for every Ordinary Share held on the Record Date.

The Andsberg Shares to be distributed may be redeemed at the option of holders for a limited period until 30 October at a price of US\$1.11 per Andsberg share.

The demerger is conditional on shareholder approval of the resolution to be proposed at the Extraordinary General Meeting. If shareholder approval is obtained, it is expected that the Record Date for ordinary shareholders to receive the special dividend will be 1 October 2003 and that the certificates of entitlement in respect of Andsberg shares (incorporating a redemption form printed on the reverse) will be posted to ordinary shareholders by 3 October 2003.

### **Background to and reasons for the demerger**

Antofagasta obtained its 33.6 per cent. interest in Quiñenco in 1996 following the merger of its banking and industrial interests with those of Quiñenco. The merger of these interests enabled Antofagasta to concentrate on the development of the Los Pelambres and El Tesoro mining projects and to become a major low-cost copper producer. The Quiñenco holding played a significant role in the implementation of this strategy and formed part of the security for Antofagasta's share of the financing of the Los Pelambres mine during its development period by enabling Antofagasta to maintain a majority controlling participation in this project.

This strategy has been achieved with the successful development of these projects between 1997 and 2001. Antofagasta now has three copper mining operations, Los Pelambres, El Tesoro and Michilla as well as a rail and road transportation business providing services in Northern Chile, the country's most important mining region. It also has an active exploration programme in Chile and Peru to identify opportunities for further growth in copper mining.

In 2002, the first year in which all three mines were fully operational, the Group produced 460,700 tonnes of copper at average cash costs of under 40 cents per pound, placing it among the lowest cost copper producers worldwide. In 2002, Group turnover was US\$863.1 million and profit before tax was US\$176.8 million, of which US\$3.2 million related to dividend income from Quiñenco.

The Committee supports the Board's conclusion that the interests of the Company and its Shareholders will be best served by focusing on the Group's core mining and transportation activities and that Antofagasta's interest in Quiñenco should be divested through the demerger of Andsberg. Since 1999, as Antofagasta's mining interests have grown substantially, the Quiñenco holding has become increasingly less relevant to the activities and valuation of the Group. The Board believes that the holding is not required to support Antofagasta's further growth.

Following the demerger, ordinary shareholders will retain their investment in Antofagasta. In addition, ordinary shareholders will own shares in Andsberg which will provide exposure through its holding in Quiñenco to a diversified portfolio of Chilean and other Latin American assets, together with any other investments acquired by Andsberg going forward.

In recommending the distribution of Andsberg Shares as a special dividend to ordinary shareholders, the Committee has taken a number of important factors into consideration:

- the demerger is in the interests of Antofagasta and is consistent with a well defined strategy to focus on its core activities of mining and transportation;
- the demerger enhances value for all shareholders without undermining the valuation basis of Antofagasta, its capital and tax structure, its future funding capacity or its longer term growth and expansion prospects;
- the demerger gives rise neither to an immediate cash tax payment for Antofagasta nor the creation of potential future liability for the Company; and
- the demerger creates appropriate choice for ordinary shareholders and, for those ordinary shareholders who elect to have their Andsberg shares for redeemed cash, that the cash value ascribed to the underlying Quiñenco shares demonstrates fair value.

In addition, a number of issues relating to Quiñenco have been taken into account by the Committee:

- the historical trading performance of Quiñenco and its subsidiary holdings;
- given that Quiñenco is controlled by the Luksic family, it is unlikely that another buyer of a significant minority holding would emerge;
- given the limited free float of Quiñenco shares (82.4 per cent. are held directly or indirectly by the Luksic family) and the low trading volumes, any attempt to release value from a direct sale of Quiñenco shares would be likely to attract a material discount to the prevailing market price if, in any event, such a sale were possible;
- the share price of Quiñenco trades at a discount to its underlying assets due to the taxation and other costs that would arise on the realisation by Quiñenco of these underlying assets;
- the share price of Quiñenco, in view of the above considerations, reflects the performance and near term prospects of its subsidiary holdings;
- a direct sale by Antofagasta of its Quiñenco holding would create significant tax liabilities for the Group and thereby diminish any value which could be passed to Shareholders; and
- the proposed structure mitigates the issues of market liquidity and Chilean tax which would inhibit a direct distribution of Quiñenco shares to ordinary shareholders and a subsequent sale of such shares by them.

## **The demerger**

The demerger requires the approval of shareholders since it is being effected by way of a dividend in specie. In accordance with Antofagasta's Articles of Association, such a dividend must be approved by Shareholders in a general meeting. Shareholder approval of the demerger is therefore being sought at the Extraordinary General Meeting which is to be held on 1 October 2003.

If the demerger is approved by shareholders, ordinary shareholders will receive one share in Andsberg for every ordinary share they hold on the Record Date. Andsberg shares will not be listed or quoted on any securities exchange or regularly traded although ordinary shareholders will be granted a redemption right in respect of all or part of their holding of Andsberg shares. This is described below.

If Antofagasta shareholders do not exercise in full their redemption right, they will continue to hold Andsberg Shares. Definitive share certificates in respect of their Andsberg Shares will be sent to them by 6 November 2003.

Initially Andsberg's only significant asset will be its investment in Quiñenco and, although this will be its core investment, it is envisaged that it will diversify its interests over time by investing in opportunities principally in Chile and in the Southern Cone and also possibly in other parts of the world, identified as offering substantial scope for capital growth and enhancement of shareholder value. It is not intended that these opportunities will be in the mining or transportation sectors in the Southern Cone which will remain the strategic focus of the Antofagasta Group.

## **Right to have Andsberg Shares redeemed**

It is recognised that some ordinary shareholders may not wish or be able to retain their investment in Andsberg. Accordingly it is proposed that, following shareholder approval of the demerger, Andsberg shareholders will have the right to have all or some of their Andsberg shares redeemed for cash, by completing and returning a redemption form (which will be printed on the reverse of the certificate of entitlement to Andsberg shares) to be received by the Company's registrars, Computershare Investor Services PLC, on or before 3.00 p.m. on 30 October 2003. The obligation of Andsberg to pay the redemption price upon the exercise by ordinary shareholders of their redemption right will be funded by Dolberg, an entity connected with the Luksic family, subscribing in cash for an equivalent number of new non-redeemable shares of Andsberg.

## **Principal terms of the redemption right**

Following shareholder approval of the demerger, ordinary shareholders receiving Andsberg shares will have a right to have all or some of their Andsberg shares redeemed for cash at a fixed price of US\$1.11 per Andsberg Share. This price represents an underlying value of US\$6.00 per Quiñenco ADR, reflecting a small discount of 8.8 per cent. to the 30 day average price of a Quiñenco ADR of US\$6.58 in the period ending 29 August 2003. This discount takes into account the Committee's considerations referred to earlier in this announcement.

The tables below set out the average and closing prices over the periods and on the dates indicated of a Quiñenco ADR in US dollars:

*Average prices (US\$)*

2 years	5.50
18 months	5.11
1 year	5.12
6 months	5.82
3 months	6.30
30 day	6.58

*Closing prices (US\$)*

4 September 2001	7.65	1 May 2002	5.40	2 January 2003	4.80
1 October 2001	5.96	3 June 2002	5.22	3 February 2003	5.09
1 November 2001	6.05	1 July 2002	4.75	3 March 2003	4.80
3 December 2001	6.60	1 August 2002	3.55	1 April 2003	4.54
2 January 2002	7.35	3 September 2002	4.10	1 May 2003	5.92
4 February 2002	6.71	1 October 2002	4.00	2 June 2003	6.10
1 March 2002	6.13	1 November 2002	3.60	1 July 2003	6.10
1 April 2002	6.03	2 December 2002	4.30	1 August 2003	6.70

The price on 29 August 2003 (the latest practicable date prior to the posting of the circular) was US\$6.80.

The Committee has reviewed, with the assistance of Cazenove, a valuation of the assets held by Andsberg and considers that the terms of the Redemption Right are fair and reasonable so far as Ordinary Shareholders are concerned.

**Current trading and prospects for Antofagasta**

Antofagasta has announced its interim results today for the period ended 30 June 2003.

As stated in the trading statement accompanying these results and based on management figures to date, annual copper production is forecast to be around 460,000 tonnes and cash costs are expected to remain under 40 cents per pound. As a low cost producer, the Group remains well-placed to continue to benefit from any further improvement in copper prices.

The Board also believes that Antofagasta's prospects in the longer term remain good. In May of this year, Los Pelambres submitted an Environmental Impact Study which, if approved, could enable a potential expansion of its existing operations. Antofagasta has an active exploration programme in the Sierra Gorda district in Northern Chile as well as in Southern Peru, through a joint-venture with the Brazilian company CVRD to identify further opportunities for growth. The divestment of Quiñenco through the demerger of Andsberg is not expected to affect Antofagasta's ability to take advantage of these opportunities.

**Extraordinary General Meeting**

Antofagasta has today sent shareholders a circular incorporating a notice convening an Extraordinary General Meeting of Antofagasta to be held at 10.30 a.m. on 1 October 2003 at the Armourers' Hall, 81 Coleman Street, London EC2R 5BJ for the purpose of considering, and if thought fit, passing, the resolution to approve the demerger.

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