

3 February, 2009

## Highlights

- **Group copper production for 2008 reached 477,700 tonnes, an increase of 11.6% over 2007 production of 428,100 tonnes mainly due to higher plant throughput and better ore grades at Los Pelambres. Production was also ahead of the original forecast of 463,000 tonnes.**
- **Full year molybdenum production at Los Pelambres decreased to 7,800 tonnes (2007 – 10,200 tonnes), mainly due to lower molybdenum grades, offset by higher throughput and metallurgical recoveries. Production was nevertheless ahead of the original forecast of 6,800 tonnes.**
- **Group cash costs for 2008 were 87.3 cents per pound compared with 31.6 cents per pound in 2007, mainly due to lower by-product credits (reflecting lower molybdenum prices and volumes) as well as expected higher on-site and shipping costs, although these were partly offset by lower tolling charges. The significant increase in cash costs from 76.4 cents in Q3 to 127.7 cents in Q4 resulted almost entirely from the effect on by-product credits of the sharp decline in molybdenum prices including related provisional pricing adjustments during the quarter.**

Group Total	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Full Year 2008	Full Year 2007
Total production of payable copper ('000 tonnes)	114.6	119.0	123.7	120.4	477.7	428.1
Total production of payable moly ('000 tonnes)	1.8	2.0	1.9	2.1	7.8	10.2
Weighted average cash costs before by-product credits (cents per pound)	129.5	131.9	130.4	125.4	129.3	110.7
Weighted average cash costs (cents per pound)	72.2	72.3	76.4	127.7	87.3	31.6

## Mining operations

### Los Pelambres

Los Pelambres produced 85,400 tonnes of payable copper in Q4, 5.1% below Q3 production. This was mainly due to lower plant throughput in the quarter as a result of scheduled maintenance in December, partly offset by marginally better ore grades. Annual production in 2008 was 339,200 tonnes, 2.8% ahead of forecast and 17.0% above the 2007 production of 289,900 tonnes, mainly due to the higher throughput and better ore grades during the year.

Molybdenum production was 2,100 tonnes in Q4, 10.5% above the previous quarter. The increase was mainly due to improved grades, which offset the lower plant throughput and lower metallurgical recoveries. Annual production for 2008 was 7,800 tonnes, a 23.5% decrease compared with 2007, but 14.7% above the forecast for the year.

Cash costs in Q4 were 116.3 cents per pound compared to 40.0 cents per pound in Q3, an increase of 76.3 cents per pound. This was almost entirely due to the significant reduction in by-product credits per pound of copper produced. The cumulative net impact of provisional pricing adjustments on molybdenum sales at Los Pelambres was a negative adjustment of approximately \$100 million in the 2008 full year, compared with a

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cumulative positive adjustment of \$2.9 million in the nine months ended 30 September 2008. The molybdenum provisional pricing adjustments in Q4 exceeded sales invoiced in the quarter, resulting in negative by-product revenues and hence a by-product charge of 3.2 cents per pound in Q4, compared with a credit of 74.3 cents per pound in Q3. On-site and shipping costs in Q4 decreased slightly compared with Q3 mainly due to lower shipping costs and higher inventories, partly offset by higher maintenance costs.

Cash costs for the 2008 full year were 57.3 cents per pound compared with negative 10.8 cents per pound for 2007, an increase of 68.1 cents per pound. This was mainly due to lower by-products credits and to a lesser extent higher on-site and shipping costs, which were partly offset by lower tolling charges. By-product credits decreased by 57.5 cents in 2008. This was due to both lower molybdenum market prices (including the impact of provisionally priced sales as explained above) as well as the lower molybdenum volumes. The increase in on-site and shipping costs of 23.2 cents was largely in line with budget, reflecting the increased costs of electricity, shipping and steel during the year. Tolling charges decreased by 12.6 cents reflecting the lower average level of contracted treatment and refining charges compared with the prior year.

In respect of sales of copper concentrate by Los Pelambres, the cumulative net impact of provisional pricing adjustments was a negative adjustment of approximately \$540 million in the 2008 full year, reflecting both the settlement of open sales during the year and the year-end mark-to-market adjustment. This resulted from the significant decrease in the LME copper price during Q4 as explained below, and compares with a cumulative negative adjustment of \$95.6 million in the nine months ended 30 September 2008.

Construction of the Mauro tailings dam was completed during Q4 and its operation commenced at the end of November. As announced on 4 December 2008, Los Pelambres became aware of further recent legal proceedings which have been initiated in first instance courts in Santiago and in Los Vilos. It is taking necessary steps to protect its position and remains confident of its rights to continue to operate the dam which is now in use.

For 2009 production of payable copper is expected to be approximately 300,000 tonnes, reflecting lower throughput due to an increase in the proportion of harder primary ore as well as lower expected ore grades. Molybdenum production is expected to be approximately 8,100 tonnes in 2009.

### ***El Tesoro***

Cathode production at El Tesoro in Q4 was 22,600 tonnes, a 5.1% increase compared with Q3. This was due to improved throughput levels as difficulties experienced in the third quarter with high moisture levels in the ore being treated (which can affect metallurgical recoveries) were successfully resolved through modifications to the production process.

Production for the full year was 90,800 tonnes, which was marginally ahead of the original forecast for the year. This compared with 93,000 tonnes in 2007 reflecting expected reductions in ore grades and lower metallurgical recoveries.

Cash costs in Q4 were 146.3 cents per pound, 6.6% lower than the previous quarter due to lower electricity, oil and other input costs. Full year costs averaged 144.7 cents per pound in line with forecast, compared with 109.8 cents per pound in 2007. The main reasons for this increase were higher sulphuric acid, electricity and labour costs compared with the previous year.

For 2009, cathode production is expected to be approximately 95,000 tonnes as the commencement of processing of ore from the higher grade Tesoro North-East deposit and the dump-leaching of ore from the low-grade oxide cap at Esperanza is expected to more than offset lower production from the existing open-pit. In view of current market conditions, El Tesoro announced during January 2009 that it had reviewed its mine plan in order to minimise costs. This has resulted in a number of steps including a 40% decrease in the amount of operational stripping to be carried out during the year compared with 2008, which results in a decrease in the workforce of approximately 50 employees.

### ***Michilla***

Michilla produced 12,300 tonnes of copper cathodes in Q4, in line with the previous quarter. Total annual production in 2008 was 47,700 tonnes of copper cathodes, 5.8% above 2007 production and 10.9% above the original forecast for the year of 43,000 tonnes through the combined effect of better ore grades and recoveries.

Cash costs in Q4 were 172.8 cents per pound, 29.0 cents per pound below the previous quarter, mainly due to the lower costs of purchasing ore from third parties (which is based on the copper price), decreased labour costs, the weakening of the Chilean peso and reduced sulphuric acid prices. Cash costs for the full year were

191.1 cents per pound, in line with the original forecast of just under 190 cents per pound but higher than the 143.5 cents in 2007.

As announced on 14 January 2009, Michilla will continue mining its underground operation but will cease operations at the higher cost Lince open pit mine. Consequently, cathode production in 2009 is expected to be approximately 38,000 tonnes compared with 45,000 tonnes had the open pit remained in operation. As announced, the closure of the Lince open pit mine will result in the reduction of approximately 70 personnel and termination of contracts related to its operation.

#### **Other**

As a result of the weaker economic environment and the operational decisions taken in respect of El Tesoro and Michilla, the Group is presently reviewing the carrying values of its assets. Any impairment provisions which may result from this review will be reported when the Group releases its 2008 preliminary results on 10 March 2009.

#### **Projects and Exploration**

The Esperanza project remains on schedule with first production expected by the end of 2010. Pre-stripping commenced in early 2008 and plant construction commenced in Q3 following approval of the environmental impact study in June. During Q4 the necessary permissions for building and operating Esperanza's port were obtained. By the end of 2008 nearly a quarter of pre-stripping had been completed. Following a detailed review completed in Q4, total development costs (excluding working capital and financing costs) were revised to US\$2.17 billion, compared with the previous estimate in early 2008 of US\$1.95 billion. This mainly reflected cost increases during the first nine months of the year. Including working capital and possible financing costs, total costs are estimated at US\$2.34 billion. The Group is responsible for its 70% share of these development costs and its partner Marubeni is responsible for the remaining 30%.

The plant expansion at Los Pelambres, which was approved in July 2008, remains on schedule for completion at the end of 2009 and within the cost estimate of approximately US\$1 billion with approximately half of the overall costs incurred or committed. At the end of 2008, the project was approximately one-third complete.

Feasibility studies for the Antucoya project in Chile and the Reko Diq project in Pakistan continue as planned. The Antucoya study is expected to be completed in the first half of 2009 and the Reko Diq study is now expected to be completed in the second half of this year.

As previously announced, Energía Andina S.A. was formed in October 2008. The company is 60% owned by the Group and 40% owned by Empresa Nacional del Petroleo ("ENAP") of Chile. Energía Andina S.A. has commenced a five-year programme which aims to explore for and eventually develop geothermal energy opportunities in Chile.

#### **Commodity prices**

The LME copper price averaged 178.7 cents per pound in 2008 Q4, compared with 348.9 cents per pound in 2008 Q3. The average price for 2008 was 315.3 cents per pound compared with 323.3 cents per pound in 2007. The spot price at 31 December 2008 was 131.6 cents per pound.

The market molybdenum price averaged US\$16.1 per pound in 2008 Q4, compared with US\$33.5 per pound in 2008 Q3. The average price for 2008 was US\$28.9 per pound compared with US\$30.2 per pound in 2007. The average price in December 2008 was US\$9.5 per pound.

The realised copper and molybdenum prices which the Group will recognise for its sales in the fourth quarter and for the full year will differ from the average market prices shown above because, in line with industry practice, sales agreements generally provide for provisional pricing at the time of shipment with final pricing based on the average market price for future periods. The average settlement period for copper concentrate sales is approximately four months from shipment date, for copper cathode sales approximately one month from shipment and for molybdenum sales approximately three months from shipment. Additionally, under IFRS open sales are marked to market at the end of each period through adjustments to turnover in the income statements using forward prices in the case of copper concentrate and copper cathode sales and month-end prices for molybdenum sales. An estimate of the expected impact in respect of Los Pelambres, where the effect of such adjustments is most material, is given in the commentary above.

In accordance with normal practice, the full effect of adjustments and their effect on Group turnover will be reported when the Group releases its 2008 preliminary results on 10 March 2009.

## Hedging

As of the date of this report, the Group has hedging instruments in place covering 61,450 tonnes of copper production in 2009 (of which 35,450 tonnes relates to El Tesoro and 26,000 tonnes relates to Michilla). This includes both hedging instruments in place at the end of 2008 and further hedges taken out during January 2009. Of these instruments, 45,400 tonnes are min/max instruments with a weighted average floor of 189.4 cents per pound and a weighted average cap of 295.2 cents per pound, and 16,050 tonnes are futures with a weighted average price of 150.5 cents per pound.

## Transport

The transport division had a solid operational performance during 2008 with rail volumes increasing by 12.7% to 5.6 million tons. This was due to increasing volumes from the San Cristobal mine in Bolivia (which commenced production in late 2007), the start-up of the Gaby mine in Chile and increases from existing customers. Road volumes remained substantially unchanged at 1.4 million tons.

## Water

The water business continued to perform well, with Q4 volumes increasing to 11.1 million cubic metres, 5.8% above the previous quarter. This was mainly due to increased demand from domestic clients. The volume of water sold for the 2008 year increased by 7.1% over 2007.

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

Los Pelambres	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Full Year 2008	Full Year 2007
<b>Production statistics</b>						
Daily average ore treated ('000 tonnes)	138.8	144.2	136.6	127.7	136.8	126.3
Average ore grade (%)	0.71	0.74	0.79	0.81	0.76	0.71
Average recovery (%)	91.1	91.8	92.6	93.0	92.1	92.3
Concentrate produced ('000 tonnes)	272.0	299.2	301.5	262.6	1,135.2	872.1
Average concentrate grade (%)	30.2	29.7	30.3	33.8	30.9	34.5
Fine copper in concentrate ('000 tonnes)	82.0	87.7	93.2	88.4	351.1	300.1
Payable copper in concentrate ('000 tonnes)	79.1	84.7	90.0	85.4	339.2	289.9
Average moly ore grade (%)	0.019	0.018	0.018	0.022	0.019	0.030
Average moly recovery (%)	73.5	80.8	84.3	81.6	80.1	74.2
Payable moly ('000 tonnes)	1.8	2.0	1.9	2.1	7.8	10.2
<b>Cash costs statistics</b>						
On-site and shipping costs (cents per pound)	100.4	99.1	99.5	99.3	99.5	76.3
Tolling charges for concentrates (cents per pound)	20.3	19.3	14.9	13.8	17.0	29.6
By - product credits (cents per pound) *	(83.2)	(83.7)	(74.3)	3.2	(59.2)	(116.7)
Cash costs (cents per pound)	37.4	34.6	40.0	116.3	57.3	(10.8)

(\*) Note: By-products credits do not include any costs attributable to the production of molybdenum concentrate. By-product calculations also do not take into account unrealised mark-to-market gains at the beginning or end of each period.

El Tesoro	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Full Year 2008	Full Year 2007
Daily average ore treated ('000 tonnes)	29.8	27.8	26.9	29.4	28.5	26.8
Average ore grade (%)	1.16	1.16	1.19	1.13	1.16	1.23
Average recovery (%)	76.8	75.4	72.9	73.4	74.7	77.8
Copper cathodes ('000 tonnes)	23.9	22.7	21.5	22.6	90.8	93.0
Cash costs (cents per pound)	129.4	147.9	156.7	146.3	144.7	109.8

Michilla	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Full Year 2008	Full Year 2007
Daily average ore treated ('000 tonnes)	16.2	15.4	15.4	15.0	15.5	14.8
Average ore grade (%)	0.98	1.04	1.11	1.09	1.06	1.03
Average recovery (%)	80.6	80.6	79.3	81.2	80.4	79.1
Copper cathodes ('000 tonnes)	11.5	11.6	12.3	12.3	47.7	45.1
Cash costs (cents per pound)	191.4	198.8	201.8	172.8	191.1	143.5

Transport	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Full Year 2008	Full Year 2007
Rail tonnage transported ('000 tons)	1,224	1,400	1,480	1,539	5,644	5,008
Road tonnage transported ('000 tons)	273	311	375	394	1,353	1,313

Water	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Full Year 2008	Full Year 2007
Water volume sold – potable and untreated ('000 m <sup>3</sup> ) **	10,743	10,248	10,534	11,149	42,674	39,858

(\*\*) Note: Water volumes include water transportation of 353,000 m<sup>3</sup> in Q1; 333,000 m<sup>3</sup> in Q2; 327,000 m<sup>3</sup> in Q3 and 338,000 m<sup>3</sup> in Q4 (300,000 m<sup>3</sup> in Q1 2007; 266,000 m<sup>3</sup> in Q2 2007; 348,000 m<sup>3</sup> in Q3 2007 and 343,000 m<sup>3</sup> in Q4 2007).