

# Directors' Report

The Directors present their Annual Report, together with the audited financial statements for the year ended 31 December 2009.

## Principal group activities

The principal activities of the Group are copper mining (including exploration and development), the transportation of freight by rail and road and the distribution of water. These activities are mainly based in Chile. The Company's principal activity is to act as a holding company. Group operations are carried out through subsidiaries, associates and joint ventures. The principal subsidiaries, associates and joint ventures that make up the Group are set out in Notes 16 to 18 to the financial statements. One subsidiary, the Antofagasta Railway Company plc, has a branch in Chile (known as the FCAB) which provides rail freight services.

## Business review

The Company is required by section 417 of the Companies Act 2006 to provide a business review in this Report. The requirements of the business review are fulfilled in the disclosures contained within the Chairman's Statement on page 3 to 5, the Marketplace section on pages 9 to 11, the Business Review (including information on expected future developments) on pages 16 to 41, the Financial Review on pages 42 to 49 and the Corporate Governance Report on pages 54 to 58. A summary of the key performance indicators considered most relevant to the Group is on pages 12 and 13. A description of the principal risks and uncertainties facing the Group is on pages 14 and 15. Information on environmental, employee and social and community matters is included within the Corporate Sustainability report on pages 32 to 41. Information on significant contractual and other arrangements which are essential to the business of the Group is included within this Directors' Report on pages 50 and 53. A description of the financial risk management objectives and policies of the Group, together with the principal risks to which the Group is exposed, is contained in the Financial Review on pages 46 and 47 and in Note 25(c) to the financial statements. Significant events since the balance sheet date requiring disclosure are set out in Note 39 to the financial statements. All the above matters are incorporated into this report by reference.

## Value of land

Land included within property, plant and equipment in the financial statements is mainly held at cost. It is not practicable to estimate the value of such land and mineral rights, since these principally depend on product prices over the long-term and will vary with market conditions.

Land included in investment properties relates to forestry properties which the Group maintains but does not use in any of its existing operations. The land is held for long-term real estate development and recreational potential and is held in the financial statements at cost. The fair value of such land is disclosed in Note 15 to the financial statements.

## Results and dividends

The consolidated profit before tax has decreased from US\$2,609.5 million in 2008 to US\$1,437.6 million in 2009.

The Board has recommended a final dividend of US 20.0 cents (2008 – US 53.6 cents) per ordinary share, comprising an ordinary dividend of US 6.0 cents (2008 – US 5.6 cents) and a special dividend of US 14.0 cents (2008 – US 48.0 cents). An ordinary interim dividend of US 3.4 cents was paid on 8 October 2009 (2008 ordinary dividend – US 3.4 cents, 2008 special dividend – US 3.0 cents). This gives total dividends per share proposed in relation to 2009 of US 23.4 cents (2008 – US 60.0 cents), including the special dividend. The total cost of dividends to ordinary shareholders (including special dividends) proposed in relation to 2009 will be US\$230.7 million, compared with US\$591.5 million in 2008.

Preference shares carry the right to a fixed cumulative dividend of 5% per annum. The preference shares are classified within borrowings, and preference dividends are included within finance costs. The total cost of dividends paid on preference shares and recognised as an expense in the income statement was US\$0.2 million (2008 – US\$0.2 million).

Further information relating to dividends is set out in the Financial Review on pages 45 and 46, and in Note 12 to the financial statements.

## Directors

The Directors who served during the year are set out on page 121. Mr. JW Ambrus resigned as an Independent Non-Executive Director on 14 October 2009. No Director has a service contract with the Company which cannot be terminated within 12 months.

Biographical details of those Directors seeking re-election are set out below. The reasons why the Board considers that these Directors should be re-elected are set out in the Corporate Governance statement on pages 54 to 58 and in particular in the sections headed "Performance Evaluation" and "Re-election".

*Mr. CH Bailey* was appointed a Non-Executive Director in 1987 and is the Senior Independent Non-Executive Director. Mr. Bailey is a Chartered Accountant, and a director of General Oriental Investment Limited and RIT Capital Partners plc. Mr. Bailey will be aged 76 at the date of the Annual General Meeting.

*Mr. WM Hayes* was appointed a Non-Executive Director in 2006. He is a director of Royal Gold Inc. He was previously a senior executive with Placer Dome Inc. from 1988 to 2006. Mr. Hayes is a former president of the Consejo Minero, the industry body representing the largest international mining companies operating in Chile. He holds a M.A. degree in International Management from the American Graduate School of International Management. Mr. Hayes is aged 65.

*Mr. GS Menéndez* was appointed a Non-Executive Director in 1985. He holds a degree in business administration from the Universidad de Chile and is a public accountant. He is a director of Quiñenco S.A., Banco de Chile, Telefónica del Sur S.A. and is chairman of the board of directors of Banco Latinoamericano de Comercio Exterior S.A. (Bladex). He is also the Vice-chairman of Fundación Andrónico Luksic A. and Fundación Pascual Baburizza, both of which are charitable foundations in Chile. Mr. Menéndez is aged 61.

*Mr. DE Yarur* was appointed a Non-Executive Director in 2004. Mr. Yarur is a director of several Chilean companies including Banco de Crédito e Inversiones S.A., Sociedad Química y Minera de Chile S.A. and Invertec Pesquera Mar de Chiloé. He holds a M.Sc. degree in Finance from the London School of Economics and completed the Advanced Management Program at Harvard Business School. He is a qualified accountant, and a former Chairman of the Chilean Securities and Exchange Commission. Mr. D E Yarur is aged 53.

Biographical details of the other Directors are given below:

*Mr. J-P Luksic* is Executive Chairman. He was appointed a Director in 1990 and Deputy Chairman in 2000. He holds a B.Sc. degree in management and science from the London School of Economics. He was also Chief Executive Officer of Antofagasta Minerals S.A. until his appointment as Chairman of the Group in 2004. He is a non-executive director of Quiñenco S.A. and Madeco S.A. He is vice-chairman of the Consejo Minero, the industry body representing the largest international mining companies operating in Chile. Mr. J-P Luksic will be aged 46 at the date of the Annual General Meeting.

*Mr. GA Luksic* was appointed a Non-Executive Director in 2005. Mr. Luksic is a director of Nexans and Banco de Chile and chairman of Quiñenco S.A., Compañía Cervecerías Unidas S.A., Vina San Pedro S.A. and Madeco S.A. Mr. GA Luksic is aged 54.

*Mr. JG Claro* was appointed a Non-Executive Director in 2005. He is currently chairman of Embotelladora Andina S.A. He is a director of several other companies in Chile, including Entel Chile S.A., Empresas CMPC S.A., Red Televisiva Chilevisión S.A. and Empresas Lafarge Chile S.A. He is also a member of the governing boards of Universidad Adolfo Ibáñez and Centro de Estudios Públicos, a non-profit academic foundation in Chile. He is a former chairman of the Sociedad de Fomento Fabril (Chilean Society of Industrialists), the Confederación de la Producción y del Comercio (Confederation of Chilean Business) and the Consejo Binacional de Negocios Chile-China (Council for Bilateral Business Chile-China). Mr. Claro is aged 59.

*Mr. RF Jara* was appointed a Non-Executive Director in 2003. He is a lawyer and a director of Empresa Nacional del Petróleo. He is deputy chairman of the Sociedad Nacional de Minería (Sonami), an organisation which represents a number of mining companies in Chile. He is chairman of the Fundación Minera Los Pelambres and a director of Fundación Andrónico Luksic A. and Fundación Pascual Baburizza, all of which are charitable foundations in Chile. Mr. Jara will be aged 57 at the date of the Annual General Meeting.

### Directors' interests

The interests of the persons (including the interests of their families) who were Directors at the end of the year, in the preference and ordinary share capital of the Company are shown on page 60.

### Directors' indemnities and insurance

In accordance with the Company's Articles of Association and to the extent permitted by the laws of England and Wales, Directors are granted an indemnity from the Company in respect of liabilities incurred as a result of their office. In respect of those matters for which the Directors may or may not be indemnified, the Company maintained a Directors' and Officers' liability insurance policy throughout the financial year. This policy has been renewed for the next financial year. Neither the Company's indemnity nor the insurance provides cover in the event that the Director is proven to have acted dishonestly or fraudulently.

### Conflicts of interest

The Companies Act 2006 requires that a Director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the Company's interests. The Company has undertaken a process to identify, and, where appropriate, authorise and manage potential and actual conflicts. The Directors of the Company have identified all interests which may constitute conflicts, including for example, directorships in other companies. The Board has considered the potential and actual conflict situations of each of the Directors and decided in relation to each situation whether to authorise it and the steps, if any, that need to be taken to manage it. The authorisation process is not regarded as a substitute for managing an actual conflict of interest if one arises. The monitoring and, if appropriate, authorisation of actual and potential conflicts of interest is an on-going process. Directors are required to notify the Company of any material changes in those positions or situations that have already been considered, as well as to notify the Company of any other new positions or situations that may arise. In addition to considering any new situations as they arise, the Board considers the conflict position of all Directors formally each year.

## Directors' Report continued

### Significant relationships

The Group has a number of significant contractual or other arrangements which are essential to its operations and projects:

- the Group holds a number of mining and exploration rights in Chile and other countries in which it has exploration or development activities, normally granted by the relevant national government;
- a significant proportion of the Group's sales of copper concentrate (and other payable elements) and molybdenum concentrate are made under long-term framework agreements with a number of customers. These framework contracts will typically set out the minimum annual volumes to be supplied, with the tolling charges determined annually and the pricing of contained material to be in accordance with market prices. A significant proportion of the Group's copper cathode sales are made under annual contracts with a number of customers. These contracts will typically specify the volumes to be supplied, with the pricing to be in accordance with market prices. Further details of such arrangements are given in Note 25(d) to the financial statements;
- there are collective labour agreements with each of the labour unions at the Group's mining operations. These agreements are typically of between three and four years' duration. Several of these labour unions are affiliated with the Federación Minera de Chile;
- the Group has contracts with a number of suppliers to sub-contract certain services at each of its mine sites, including vehicle and equipment maintenance and other logistical services. In addition, the Group has a number of medium and long-term contracts for the supply of key inputs such as electricity, sulphuric acid, oil and explosives with a number of suppliers;
- the Group has a number of engineering, construction and supply contracts in respect of the development of the Esperanza project, including an Engineering, Procurement and Construction Management (EPCM) contract with Aker Solutions;
- the contract for the feasibility study at the Reko Diq project, which has been assigned to SNC Lavalin;
- foreign investment agreements with the Chilean government (known as DL 600 agreements) are in place in respect of Los Pelambres and Esperanza. These agreements provide a stable legal, and in some cases tax, framework for a specified period of time, ensuring non-discriminatory and non-discretionary treatment for foreign investors;
- in 2003 the Group was awarded a 30-year concession to operate the water rights and facilities in the Antofagasta Region of Chile, supplying domestic and industrial users. The domestic tariffs are controlled by the Chilean Water Regulator. Further details are given in Note 35 to the financial statements;

- the transport division has long-term contracts with a number of customers, which typically govern volumes and pricing structures;
- the Group has shareholder agreements in place governing its relationship with its partners at its operations and development and exploration projects. The Group also has a number of "earn-in" agreements in respect of exploration and development projects; and
- the Group has a number of borrowing facilities in place to provide financing for its operations and projects. For example:
  - during 2009 Minera Esperanza signed a 12-year US\$1.05 billion project financing facility with a consortium of senior lenders including governmental agencies and commercial banks. Antofagasta plc, as a sponsor to the facility, has provided certain guarantees for the financing until the Esperanza project has satisfied certain specified completion tests, at which point the financing will become non-recourse to Antofagasta plc; and
  - in December 2009 and January 2010 Minera Los Pelambres entered into new corporate loan facilities totalling US\$750 million for a period of up to seven years provided by a group of commercial banks and export credit agencies.

### Capital structure

Details of the authorised and issued ordinary share capital, including details of any movements in the issued share capital during the year, are shown in Note 29 to the financial statements. The Company has one class of ordinary shares, which carry no right to fixed income. Each ordinary share carries one vote at any general meeting of the Company. Details of the preference share capital are shown in Note 23 to the financial statements. The preference shares are non-redeemable and are entitled to a fixed cumulative dividend of 5% per annum. Each preference share carries 100 votes on a poll at any general meeting of the Company. The nominal value of the issued ordinary share capital is 96.1% of the total sterling nominal value of all issued share capital, and the nominal value of the issued preference share capital is 3.9% of the total sterling nominal value of all issued share capital.

There are no specific restrictions on the transfer of shares or on their voting rights beyond those standard provisions set out in the Company's Articles of Association and other provisions of applicable law and regulation (including, in particular, following a failure to provide the Company with information about interests in shares as required by the Companies Act 2006). The Company is not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights. Details of significant holdings in the Company's shares are set out in the Substantial Shareholdings section below.

The Company has the authority to purchase up to 98,585,669 of its own ordinary shares, representing 10% of the issued ordinary share capital. With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the Combined Code 2006, the Companies Act 2006 and related legislation. The Articles of Association may be amended by special resolution of the shareholders. There are no significant agreements in place which take effect, alter or terminate upon a change of control of the Company. There are no agreements in place between the Company and its Directors or employees which provide for compensation for loss of office resulting from a change of control of the Company.

## Donations

The Group made charitable donations of US\$2.2 million during the year ended 31 December 2009 (2008 – US\$11.3 million). This includes US\$32,000 (2008 – US\$0.1 million) of charitable donations in the United Kingdom, principally related to educational studies with a focus on Chile. The Group made political donations of US\$2.2 million during the year ended 31 December 2009, in relation to Chilean presidential and parliamentary elections (2008 – US\$1.0 million in relation to Chilean municipal elections). These donations were made in accordance with the Chilean legislation which governs the financing of political parties and candidates in order to facilitate the democratic process of the country. The donations were made via the Chilean Electoral Management Body, which transfers funds to political parties and candidates.

## Supplier payment policy and creditor days

The Company acts as a holding company and does not trade in the United Kingdom or elsewhere. Creditor days for the Group have been calculated at 40 days (2008 – 39 days). Each operating company is responsible for agreeing terms of payment with each of their suppliers. It is Group policy that payments to suppliers are made in accordance with agreed terms.

## Environment

The Group seeks to ensure that its operations and products cause minimal harm to the environment. Care is taken to limit discharges of environmentally harmful substances and to dispose of waste material in a safe manner. Contingency arrangements and plans exist to reduce the risk and limit the effect of any accidental spillage. The Group's policy is that all its operations should comply fully with or exceed applicable Chilean regulations. Further information regarding the Group's environmental performance and activities is given in the Corporate Sustainability report on pages 32 to 41.

## Auditors

In the case of each of the persons who is a Director at the date of approval of this Annual Report:

- so far as he is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- he has taken all steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

For these purposes, "relevant audit information" means information needed by the Company's auditors in connection with preparing their report. This statement is made and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

A resolution to re-appoint Deloitte LLP as the Company's auditor will be proposed at the forthcoming Annual General Meeting.

## Substantial shareholdings

As at the date of this report, the following significant holdings of voting rights in the share capital of the Company have been disclosed to the Company under Disclosure and Transparency Rule 5:

Table of substantial shareholdings	Ordinary Share Capital %	Preference Share Capital %	Total Share Capital %
Metalinvest Establishment	50.72	94.12	58.04
Kupferberg Establishment	9.94	–	8.27
Aureberg Establishment	4.26	–	3.54

Metalinvest Establishment and Kupferberg Establishment are both controlled by the E. Abaroa Foundation, in which members of the Luksic family are interested. As explained on page 102, Metalinvest Establishment is the immediate parent company of the Group and the E. Abaroa Foundation is the ultimate parent company. Aureberg Establishment is controlled by Mr. J-P Luksic, the Chairman of the Company.

## Annual General Meeting

The Annual General Meeting of the Company will be held from 10.30 a.m. on 9 June 2010 at Church House Conference Centre, Dean's Yard, Westminster, London SW1P 3NZ. The Notice of the Meeting, together with an explanation of the business to be dealt with at the Meeting, is included in a separate document sent to shareholders with this Annual Report.

By Order of the Board



For and on behalf of  
**Petershill Secretaries Limited**  
 Company Secretary

8 March 2010