

# Notes to the Financial Statements

## 1 Basis of Preparation

### a) Accounting standards applied

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. For these purposes, IFRS comprise the Standards issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") that have been endorsed by the European Union ("EU").

The financial statements have been prepared on the going concern basis. Details of the factors which have been taken into account in assessing the Group's going concern status are set out on page 49 of the Financial Review.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

- Improvements to IFRS's (April 2009)
- IFRS 3 (revised 2008) Business Combinations
- IAS 27 (revised 2008) Consolidated and Separate Financial Statements
- IAS 28 (revised 2008) Investments in Associates
- IFRIC 17 Distributions of Non-cash Assets to Owners

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group except for:

- IFRS 3 (revised 2008) Business Combinations. This standard will affect the treatment of business combinations which take place in periods commencing on or after 1 July 2009, when the revised standard comes into effect.
- IAS 27 (revised 2008) Consolidated and Separate Financial Statements. This standard will affect the accounting for transactions or events that result in a change in the Group's interests in its subsidiaries.

### b) Adoption of new accounting standards

In the current financial year the Group has adopted the following standards that have affected the presentation and disclosure in these financial statements:

- IFRS 8 Operating Segments. In the current year the Group has adopted IFRS 8. The standard requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Antofagasta plc board to allocate resources to the segments and to assess their performance. The adoption of IFRS 8 has not resulted in any changes to segments previously disclosed, but has resulted in further disclosures on each of these segments and these are set out in Note 4.
- IAS 1 (Revised) Presentation of Financial Statements. In the current year the Group has adopted IAS 1 (revised), which separates owner and non-owner changes in equity. The statement of changes in equity details transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the Standard introduces a statement of comprehensive income, which presents all items of income and expense which are not recognised in the income statement.

The following standards and interpretations are effective but have not had any significant impact on the financial statements:

- IFRS 1 (amended)/IAS 27 (amended) Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
- IFRS 2 (amended) Share-based Payment – Vesting Conditions and Cancellations
- IFRS 7 (amended) Financial Instruments: Disclosures
- IAS 20 (amended 2008) Accounting for Governments and Disclosure of Government Assistance
- IAS 23 (revised) Borrowing Costs
- IAS 32 (amended)/IAS 1 (amended) Puttable Financial Instruments and Obligations Arising on Liquidation

- IAS 38 (amended 2008) Intangible Assets
- IAS 39 (amended) Financial Instruments: Recognition and Measurement – eligible hedged items
- IAS 40 (amended 2008) Investment Property
- IFRIC 13 Customer Loyalty Programmes
- IFRIC 15 Agreements for the Construction of Real Estate
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation
- IFRIC 18 Transfers of Assets from Customers

## 2 Principal Accounting Policies

### a) Accounting convention

These financial statements have been prepared under the historical cost convention as modified by the use of fair values to measure certain financial instruments, principally provisionally priced sales as explained in Note 2(d) and financial derivative contracts as explained in Note 2(s).

### b) Basis of consolidation

The financial statements comprise the consolidated financial statements of Antofagasta plc ("the Company") and its subsidiaries (collectively "the Group").

- (i) **Subsidiaries** – A subsidiary is an entity over which the Group has power to govern the operating and financial policies in order to obtain benefits from its activities. The consolidated financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating inter-company balances and transactions. For partly-owned subsidiaries, the net assets and net earnings attributable to minority shareholders are presented as "Minority Interests" in the consolidated balance sheet and consolidated income statement.
- (ii) **Associates** – An associate is an entity over which the Group is in a position to exercise significant influence, but not control or jointly control, through the power to participate in the financial and operating policy decisions of that entity. The Group's share of the net assets, the results post tax and post acquisition reserves of associates are included in the financial statements. This requires recording the investment initially at cost to the Group and then, in subsequent periods, adjusting the carrying amount of the investment to reflect the Group's share of the associate's results less any impairment of goodwill and any other changes to the associate's net assets such as dividends.
- (iii) **Jointly controlled entities** – A jointly controlled entity is an entity in which the Group holds a long-term interest and shares joint control over the operating and financial decisions with one or more other venturers under a contractual arrangement. Jointly controlled entities are accounted for using proportionate consolidation, which combines the Group's share of the results of the jointly controlled entity on a line by line basis with similar items in the Group's financial statements.
- (iv) **Other investments** – The accounting treatment of investments which are not subsidiaries, associates or jointly controlled entities is set out in Note 2(s) relating to other financial instruments.
- (v) **Acquisitions and disposals** – Acquisitions and disposals are treated as explained in Note 2(e) relating to business combinations and goodwill.

### c) Currency translation

The functional currency for each entity in the Group is determined as the currency of the primary economic environment in which it operates. Transactions other than those in the functional currency of the entity are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in currencies other than the functional currency are retranslated at year end exchange rates. Gains and losses on retranslation are included in net profit or loss for the period within other finance items.

The presentational currency of the Group and the functional currency of the Company is the US dollar. On consolidation, income statement items for entities with a functional currency other than the US dollar are translated into US dollars at average rates of exchange. Balance

sheet items are translated at period end exchange rates. Exchange differences on translation of the net assets of such entities are taken to equity and recorded in a separate currency translation reserve. Cumulative translation differences arising after the transition date to IFRS are recognised as income or as expenses in the income statement in the period in which an operation is disposed.

On consolidation, exchange gains and losses which arise on balances between Group entities are taken to reserves where that balance is, in substance, part of the net investment in a foreign operation, i.e. where settlement is neither planned nor likely to occur in the foreseeable future. All other exchange gains and losses on Group balances are dealt with in the income statement.

Fair value adjustments and any goodwill arising on the acquisition of a foreign entity are treated as assets of the foreign entity and translated at the period end rate.

#### d) Revenue recognition

Turnover represents the value of goods and services supplied to third parties during the year. Turnover is measured at the fair value of consideration received or receivable, and excludes any applicable sales tax.

A sale is recognised when the significant risks and rewards of ownership have passed. This is generally when title and any insurance risk has passed to the customer, and the goods have been delivered to a contractually agreed location or when any services have been provided.

Turnover from mining activities is recorded at the invoiced amounts with an adjustment for provisional pricing at each reporting date, as explained below. For copper and molybdenum concentrates, which are sold to smelters and roasting plants for further processing, the invoiced amount is the market value of the metal payable by the customer, net of deductions for tolling charges. Turnover includes revenues from the sale of by-products.

Copper and molybdenum concentrate sale agreements and copper cathode sale agreements generally provide for provisional pricing of sales at the time of shipment, with final pricing based on the monthly average London Metal Exchange ("LME") copper price or the monthly average market molybdenum price for specified future periods. This normally ranges from 30 to 180 days after delivery to the customer. Such a provisional sale contains an embedded derivative which is required to be separated from the host contract. The host contract is the sale of metals contained in the concentrate or cathode at the provisional invoice price less tolling charges deducted, and the embedded derivative is the forward contract for which the provisional sale is subsequently adjusted. At each reporting date, the provisionally priced metal sales together with any related tolling charges are marked-to-market, with adjustments (both gains and losses) being recorded in turnover in the consolidated income statement and in trade debtors in the balance sheet. Forward prices at the period end are used for copper concentrate and cathode sales, while period-end average prices are used for molybdenum concentrate sales due to the absence of a futures market.

Interest income is accrued on a time basis, by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' right to receive payment has been established.

#### e) Business combinations and goodwill

- (i) **Acquisitions** – The results of businesses acquired during the year are brought into the consolidated financial statements from the effective date of acquisition. The identifiable assets, liabilities and contingent liabilities of a subsidiary, joint venture entity or an associate which can be measured reliably are recorded at their provisional fair values at the date of acquisition. Provisional fair values are finalised within 12 months of the acquisition date.
- (ii) **Goodwill** – Goodwill represents the difference between the cost of acquisition and the fair value of the identifiable net assets acquired. Any goodwill on the acquisition of subsidiaries is separately disclosed, while any goodwill on the acquisition of associates is included within investments in equity accounted entities. Internally generated goodwill is not recognised.

Where the fair values of the identifiable net assets acquired exceed the cost of the acquisition, the surplus (which represents the discount on the acquisition) is credited to the income statement in the period of acquisition.

- (iii) **Disposals** – The results of businesses sold during the year are included in the consolidated financial statements for the period up to the effective date of disposal. Gains or losses on disposal are calculated as the difference between the sales proceeds (net of expenses) and the net assets attributable to the interest which has been sold. Where a disposal represents a separate major line of business or geographical area of operations, the net results attributable to the disposed entity are shown separately in the income statement.

#### f) Intangible assets

- (i) **Concession right** – In 2003, the Group's wholly owned subsidiary, Aguas de Antofagasta S.A., was awarded a 30-year concession to operate the water rights and facilities in the Antofagasta Region of Chile previously controlled by Empresa Concesionaria de Servicios Sanitarios S.A. ("ECONSSA").

All infrastructure assets relating to the Water concession are recorded within intangible assets, as part of the "concession right". The concession right also includes an amount recognised in respect of the right to use those assets not recognised as their lives extend substantially beyond the period of the concession. The concession right is measured as the difference between the cost of the concession and the fair values of the assets and liabilities recognised on acquisition plus the fair value of any further assets transferred to the Group by way of concession subsequent to acquisition.

- (ii) **Exploration licences** – In 2006, the Group acquired Tethyan Copper Company Limited ("Tethyan"), a company with copper-gold interests in Pakistan, and entered into a joint venture over Tethyan's mineral interests with Barrick Gold Corporation through the disposal of a 50% interest in Tethyan. An intangible asset has been recognised for the Group's proportionate share of the full unencumbered value attributed to the interest in the exploration licences held by Tethyan in Pakistan, along with related rights acquired subsequently. In addition, the intangible asset balance also includes amounts relating to interests in other prospecting licences.

#### g) Exploration and evaluation expenditure

Exploration and evaluation are expensed in the year in which it is incurred. When a decision is taken that a mining project is commercially viable (normally when the project has reached the pre-feasibility stage) all further directly attributable pre-production expenditure is capitalised. Capitalisation of pre-production expenditure ceases when commercial levels of production are achieved.

#### h) Property, plant and equipment

The costs of mining properties and leases, which include the costs of acquiring and developing mining properties and mineral rights, are capitalised as property, plant and equipment in the year in which they are incurred.

The cost of plant, property and equipment comprises the purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended. Once a project has been established as commercially viable, related development expenditure is capitalised. This includes costs incurred in preparing the site for mining operations, including pre-stripping costs. Capitalisation ceases when the mine is capable of commercial production, with the exception of development costs which give rise to a future benefit.

Interest on borrowings directly related to construction or development of projects is capitalised, until such time as the assets are substantially ready for their intended use or sale which, in the case of mining properties, is when they are capable of commercial production.

#### i) Depreciation of property, plant and equipment and amortisation of intangible assets

Property, plant and equipment is depreciated over its useful life, or over the remaining life of the operation if shorter, to residual value. The major categories of property, plant and equipment are depreciated as follows:

- (i) **Land** – Freehold land is not depreciated. Any leasehold land is depreciated on a straight-line basis over the life of the lease.
- (ii) **Mining properties** – mining properties, including capitalised financing costs, are depreciated on a unit of production basis, in proportion to the volume of ore extracted in the year compared with total proven and probable reserves at the beginning of the year.
- (iii) **Buildings and infrastructure** – straight-line basis over 10 to 25 years.
- (iv) **Railway track (including trackside equipment)** – straight-line basis over 20 to 25 years.
- (v) **Wagons and rolling stock** – straight-line basis over 10 to 20 years.
- (vi) **Machinery, equipment and other assets** – straight-line basis over 5 to 10 years.
- (vii) **Assets under construction** – no depreciation until asset is available for use.
- (viii) **Assets held under finance lease** – are depreciated over the shorter of the lease term and their useful life.

Residual values and useful lives are reviewed, and adjusted if appropriate, at least annually, and changes to residual values and useful lives are accounted for prospectively.

The concession right is amortised on a straight-line basis over the life of the concession, or the useful life of any component part if less.

# Notes to the Financial Statements continued

## 2 Principal Accounting Policies continued

### j) Impairment of property, plant and equipment and intangible assets (excluding goodwill)

Property, plant and equipment and finite life intangible assets are reviewed for impairment if there is any indication that the carrying amount may not be recoverable. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Any intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted.

For mining properties, estimates of future cash flows are based on assumptions as to expected production levels, commodity prices, cash costs of production and capital expenditure. IAS 36 "Impairment of Assets" includes a number of restrictions on the future cash flows that can be recognised in respect of future restructurings and improvement related expenditure. When calculating value in use, it also requires that calculations should be based on exchange rates current at the time of assessment. For operations with a functional currency other than the US dollar, the impairment review is conducted in the relevant functional currency.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount is reduced to the recoverable amount. An impairment charge is recognised in the income statement immediately. Where an impairment subsequently reverses, the carrying amount is increased to the revised estimate of recoverable amount, but so that the increased carrying amount does not exceed the carrying value that would have been determined if no impairment had previously been recognised. A reversal is recognised in the income statement immediately.

### k) Investment property

Investment property is property held to earn rentals and/or for capital appreciation and includes land held for a currently undetermined future use. The Group has elected to adopt the cost model in IAS 40 "Investment Property". Accordingly, investment property is measured initially at cost, which includes transaction costs for the acquisition of the property and, as detailed in Note 2(f) relating to property, plant and equipment, is not depreciated.

### l) Inventory

Inventory and work-in-progress are valued at the lower of cost and net realisable value. Net realisable value represents estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. The production cost of inventory includes an appropriate proportion of depreciation and production overheads. Raw materials and consumables are valued at cost on a weighted average basis. Finished products are valued at raw material cost, plus labour cost and a proportion of manufacturing overhead expenses including depreciation.

### m) Taxation

Tax expense comprises the charges or credits for the period relating to both current and deferred tax.

Current tax is based on taxable profit for the year. Taxable profit may differ from net profit as reported in the income statement because it excludes items of income or expense that are taxable and deductible in different years and also excludes items that are not taxable or deductible. The liability for current tax is calculated using tax rates for each entity in the consolidated financial statements which have been enacted or substantively enacted at the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on temporary differences (i.e. differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit). Deferred tax is

accounted for using the balance sheet liability method and is provided on all temporary differences with certain limited exceptions as follows:

- (i) tax payable on undistributed earnings of subsidiaries, associates and joint ventures is provided except where the Group is able to control the remittance of profits and it is probable that there will be no remittance of past profits earned in the foreseeable future;
- (ii) deferred tax is not provided on the initial recognition of an asset or liability in a transaction that does not affect accounting profit or taxable profit and is not a business combination; nor is deferred tax provided on subsequent changes in the carrying value of such assets and liabilities, for example where they are depreciated; and
- (iii) the initial recognition of any goodwill.

Deferred tax assets are recognised only to the extent that it is probable that they will be recovered through sufficient future taxable profit. The carrying amount of deferred tax assets is reviewed at each balance sheet date.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also taken directly to equity.

### n) Provisions for decommissioning and site restoration costs

An obligation to incur decommissioning and site rehabilitation costs occurs when environmental disturbance is caused by the development or ongoing production of a mining property. Costs are estimated on the basis of a formal closure plan and are subject to regular formal review.

Such costs arising from the installation of plant and other site preparation work, discounted to their net present value, are provided and capitalised at the start of each project, as soon as the obligation to incur such costs arises. These decommissioning costs are charged against profits over the life of the mine, through depreciation of the asset and unwinding or amortisation of the discount on the provision. Depreciation is included in operating costs while the unwinding of the discount is included as financing costs. Changes in the measurement of a liability relating to the decommissioning of plant or other site preparation work are added to, or deducted from, the cost of the related asset in the current period.

The costs for restoration of site damage, which is created on an ongoing basis during production, are provided for at their net present values and charged against operating profits as extraction progresses. Changes in the measurement of a liability relating to site damage created during production is charged against operating profit.

### o) Provision for termination of Water concession

Under the terms of the Water concession from ECONSSA, certain items of working capital recognised by Aguas de Antofagasta (as described in Note 2(f) above) are to be transferred to the state-owned operator ECONSSA at the end of the concession period for nil consideration. Provision is made for the estimated net present value of these assets and liabilities which are expected to be in existence when the concession comes to an end. The unwinding of the discount is charged within financing costs.

### p) Post-employment benefits

The Group operates defined contribution schemes for a limited number of employees. For such schemes, the amount charged to the income statement is the contributions paid or payable in the year.

Employment terms may also provide for payment of a severance indemnity when an employment contract comes to an end. This is typically at the rate of one month for each year of service (subject in most cases to a cap as to the number of qualifying years of service) and based on final salary level. The severance indemnity obligation is treated as an unfunded defined benefit plan, and the calculation is based on valuations performed by an independent actuary using the projected unit credit method which are regularly updated. The obligation recognised in the balance sheet represents the present value of the severance indemnity obligation. Actuarial gains and losses are immediately recognised in the income statement within operating cost.

**q) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, deposits held on call with banks, highly liquid investments that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value, net of bank overdrafts which are repayable on demand. Cash and cash equivalents normally have a maturity period of three months or less.

**r) Leases**

Rental costs under operating leases are charged to the income statement account in equal annual amounts over the term of the lease.

Assets under finance leases are recognised as assets of the Group at inception of the lease at the lower of fair value or the present value of the minimum lease payments derived by discounting at the interest rate implicit in the lease. The interest element is charged within financing costs so as to produce a constant periodic rate of interest on the remaining balance of the liability.

**s) Other financial instruments**

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

- (i) **Investments** – Investments which are not subsidiaries, associates or joint ventures are initially measured at cost, including transaction costs.

Investments are classified as either held for trading or available for sale, and are normally measured at subsequent reporting dates at fair value. Fair value is determined in the manner described in Note 25(b). Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

Securities are classified as “held-for-trading” when they are acquired principally for the purpose of sale in the short term, and gains and losses arising from changes in fair value are included in the income statement for the period. Other investments are classified as “available-for-sale”, and gains and losses arising from changes in fair value are recognised directly in equity, within the “Fair value reserve”, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the income statement for the period.

Dividends on available-for-sale equity investments are recognised in the income statement when the right to receive payment is established.

- (ii) **Trade and other receivables** – Trade and other receivables do not generally carry any interest and are normally stated at their nominal value less any impairment. Impairment losses on trade receivables are recognised within an allowance account unless the Group considers that no recovery of the amount is possible, in which case the carrying value of the asset is reduced directly.
- (iii) **Trade and other payables** – Trade and other payables are generally not interest bearing and are normally stated at their nominal value.
- (iv) **Borrowings (loans and preference shares)** – Interest-bearing loans and bank overdrafts are initially recorded at the proceeds received, net of direct issue costs. They are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis using the effective interest rate method. Amounts are either recorded as financing costs in the income statement or capitalised in accordance with the accounting policy set out in Note 2(h). Finance charges are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

The sterling-denominated preference shares issued by the Company carry a fixed rate of return without the right to participate in any surplus. They are accordingly classified within borrowings and translated into US dollars at period end rates of exchange. Preference share dividends are included within finance costs.

- (v) **Equity instruments** – Equity instruments issued are recorded at the proceeds received, net of direct issue costs. Equity instruments of the Company comprise its sterling-denominated issued ordinary share capital and related share premium.

As explained in Note 2(c), the presentational currency of the Group and the functional currency of the Company is US dollars, and ordinary share capital and share premium are translated into US dollars at historical rates of exchange based on dates of issue.

- (vi) **Derivative financial instruments** – As explained in Note 25(e), the Group uses derivative financial instruments to reduce exposure to foreign exchange, interest rate and commodity price movements. The Group does not use such derivative instruments for trading purposes.

The Group applies the hedge accounting provisions and changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity, with such amounts subsequently recognised in the income statement in the period when the hedged item affects profit or loss. Any ineffective portion is recognised immediately in the income statement. Realised gains and losses on commodity derivatives recognised in the income statement are recorded within turnover.

The time value element of changes in the fair value of derivative options is excluded from the designated hedging relationship, and is therefore recognised directly in the income statement within other finance items.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value. Changes in fair value are reported in the income statement for the period. The treatment of embedded derivatives arising from provisionally-priced commodity sales contracts is set out in further detail in Note 2(d) relating to turnover.

- (vii) **Impairment of financial assets** – Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date.

Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For loans and receivables the amount of the impairment is the difference between the asset's carrying value and the present value of estimated future cash flows, discounted at the original effective interest rate. Any impairment loss is recognised in the income statement immediately.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the income statement immediately to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised. In respect of available-for-sale equity instruments, any increase in fair value subsequent to an impairment loss is recognised directly in equity.

## Notes to the Financial Statements continued

### 3 Critical Accounting Judgements and Key Sources of Estimation Uncertainty

Determining many of the amounts included in the financial statements involves the use of judgement and/or estimation. These judgements and estimates are based on management's best knowledge of the relevant facts and circumstances having regard to prior experience, but actual results may differ from the amounts included in the financial statements. Information about such judgements and estimates is included in the principal accounting policies in Note 2 or the other notes to the financial statements, and the key areas are set out below.

#### a) Useful economic lives of property, plant and equipment and ore reserves estimates

As explained in Note 2(i), mining properties, including capitalised financing costs, are depreciated in proportion to the volume of ore extracted in the year compared with total proven and probable reserves at the beginning of the year.

There are numerous uncertainties inherent in estimating ore reserves, and assumptions that were valid at the time of estimation may change when new information becomes available. These include assumptions as to grade estimates and cut-off grades, recovery rates, commodity prices, exchange rates, production costs, capital costs, processing and reclamation costs and discount rates. The actual volume of ore extracted and any changes in these assumptions could affect prospective depreciation rates and carrying values.

The majority of other items of property, plant and equipment are depreciated on a straight-line basis over their useful economic lives. Management reviews the appropriateness of useful economic lives at least annually and, again, any changes could affect prospective depreciation rates and asset carrying values.

#### b) Impairment of assets

As explained in Note 2(j), the Group reviews the carrying value of its intangible assets and property, plant and equipment to determine whether there is any indication that those assets are impaired. In making assessments for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash generating unit ("CGU"). The recoverable amount of those assets, or CGU, is measured at the higher of their fair value less costs to sell and value in use.

Management necessarily applies its judgement in allocating assets to CGUs, in estimating the probability, timing and value of underlying cash flows and in selecting appropriate discount rates to be applied within the value in use calculation. The key assumptions are set out in Note 2(j) and Note 5. Subsequent changes to CGU allocation or estimates and assumptions in the value in use calculation could impact the carrying value of the respective assets.

#### c) Provisions for decommissioning and site restoration costs

As explained in Note 2(n), provision is made, based on net present values, for decommissioning and site rehabilitation costs as soon as the obligation arises following the development or ongoing production of a mining property. The provision is based on a closure plan prepared with the assistance of external consultants.

Management uses its judgement and experience to provide for and (in the case of capitalised decommissioning costs) amortise these estimated costs over the life of the mine. The ultimate cost of decommissioning and site rehabilitation cost is uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other mine sites.

The expected timing and extent of expenditure can also change, for example in response to changes in ore reserves or processing levels. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

#### d) Post employment benefits

As explained in Note 2(p), the expected costs of severance indemnities relating to employee service during the period are charged to the income statement. Any actuarial gains or losses, which can arise from differences between expected and actual outcomes or changes in actuarial assumptions, are recognised immediately within operating costs in the income statement.

Assumptions in respect of the expected costs are set in consultation with an independent actuary. These include the selection of the discount rate used, service lives and expected rates of salary increases. While management believes the assumptions used are appropriate, a change in the assumptions used would impact the earnings of the Group.

#### e) Deferred taxation

As explained in Note 2(m), deferred tax is not provided for future tax payable on undistributed earnings where the Group is able to control the remittance of profits and it is probable that there will be no remittance of past profits earned in the foreseeable future.

Management uses its judgement in estimating the probability of such remittances. These are based on Group forecasts and include assumptions as to future profits and cash flows (which depend on several factors including commodity prices, operating costs, production levels, capital expenditures, interest costs, debt repayment and tax rates) and cash requirements (which may also depend on several factors including future dividend levels). A change in the assumptions used or in the estimate as to the probability that past profits will be remitted would impact the deferred tax charge and balance sheet provision.

## 4 Revenue and Total Profit from Operations and Associates

An analysis of the Group's total revenue is as follows:

	2009 US\$m	2008 US\$m
Sales of goods	2,827.8	3,229.0
Rendering of services	134.8	143.6
<b>Group turnover</b>	<b>2,962.6</b>	<b>3,372.6</b>
Other operating income	10.0	9.8
Investment income	13.2	78.9
<b>Total revenue</b>	<b>2,985.8</b>	<b>3,461.3</b>

Operating profit from subsidiaries and joint ventures and total profit from operations and associates is derived from Group turnover by deducting operating costs as follows:

	Notes	2009 US\$m	2008 US\$m
<b>Turnover</b>		<b>2,962.6</b>	3,372.6
Cost of sales (including 2008 exceptional items)	(i)	(1,166.8)	(1,496.8)
<b>Gross profit</b>		<b>1,795.8</b>	1,875.8
Administrative and distribution expenses		(244.2)	(274.1)
Closure provision		(2.2)	(5.0)
Severance charges		(13.3)	(10.6)
Exploration and evaluation expenditure		(67.1)	(54.9)
Other operating income		10.0	9.8
Other operating expenses		(20.0)	(15.0)
<b>Operating profit from subsidiaries and joint ventures</b>		<b>1,459.0</b>	1,526.0
Profit on part-disposal of subsidiaries (2008 exceptional item)	(ii)	–	1,024.9
Share of income from associates		4.5	2.3
<b>Total profit from operations and associates</b>		<b>1,463.5</b>	<b>2,553.2</b>

(i) In 2008, cost of sales includes an impairment charge of US\$188.3 million relating to property, plant and equipment at El Tesoro and Michilla (see Note 5(a)).

(ii) In 2008, profit on part-disposal of subsidiaries comprises a profit of US\$1,024.9 million relating to the sale of a 30% interest in Esperanza and El Tesoro to Marubeni Corporation (see Note 5(b)).

## 5 Exceptional Items

	Operating profit		Profit before tax		Earnings per share	
	2009 US\$m	2008 US\$m	2009 US\$m	2008 US\$m	2009 US\$m	2008 US\$m
Before exceptional items	1,459.0	1,714.3	1,437.6	1,772.9	67.7	85.5
Impairments	–	(188.3)	–	(188.3)	–	(11.1)
Marubeni transaction	–	–	–	1,024.9	–	98.7
<b>After exceptional items</b>	<b>1,459.0</b>	<b>1,526.0</b>	<b>1,437.6</b>	<b>2,609.5</b>	<b>67.7</b>	<b>173.1</b>

There were no exceptional items in 2009. Exceptional items in 2008 and the impact on results are set below:

### a) Total operating costs – Impairments

In 2008, an impairment charge of US\$188.3 million relating to property, plant and equipment at El Tesoro (US\$160.0 million) and Michilla (US\$28.3 million) was recorded within total operating costs, following an impairment review undertaken in light of the commodity market environment. The recoverable amounts in the impairment review were determined by a value in use calculation prepared using management's forecasts as to future commodity prices, operating costs and production volumes. The present value of the forecast future cash flows was calculated using a discount rate of 9.9%.

### b) Profit on part-disposal of subsidiaries – Marubeni transaction

In August 2008 the Group disposed of a 30% interest in both Esperanza and El Tesoro to Marubeni Corporation for a consideration of US\$1,401.2 million, resulting in a profit before tax of US\$1,024.9 million.

## Notes to the Financial Statements continued

**6 Segment Information**

The Group's reportable segments are as follows:

- Los Pelambres
- El Tesoro
- Michilla
- Esperanza
- Exploration and evaluation
- Railway and other transport services
- Water concession
- Corporate and other items

For management purposes, the Group is organised into three business divisions based on their products – Mining, Railway and other transport services and the Water concession. The mining division is split further for management reporting purposes to show results by mine and exploration activity. Los Pelambres, El Tesoro and Michilla are all operating mines and Esperanza is a mine currently under construction. Los Pelambres produces primarily copper concentrate and molybdenum as a by-product. El Tesoro and Michilla both produce copper cathodes. The transport division provides rail cargo (based in Chile and Bolivia) and road cargo (based in Chile) together with a number of ancillary services (based in Chile). The water division produces and distributes potable water to domestic customers and untreated water to industrial customers in Chile's Antofagasta Region. The Exploration and evaluation segment incurs exploration and evaluation expenses. Exploration costs relating to Tethyan Copper Company Limited ("Tethyan") are included within the Exploration and evaluation segment, and all other Tethyan related costs are included within "Corporate and other items". "Corporate and other items" also comprise costs incurred by the Company and Antofagasta Minerals S.A., the Group's mining corporate centre, that are not allocated to any individual business segment. Consistent with its internal management reporting, the Group's corporate and other items are included within the mining division.

Management monitors the operating results of business segments separately for the purpose of making decisions about resources to be allocated and of assessing performance. Segment performance is evaluated based on the operating profit of each of the segments.

**a) Segment revenues and results**

For the year ended 31 December 2009

	Los Pelambres US\$m	El Tesoro US\$m	Michilla US\$m	Esperanza US\$m	Exploration and evaluation US\$m	Corporate and other items US\$m	Mining US\$m	Railway and other transport services US\$m	Water concession US\$m	Total US\$m
<b>Revenue</b>	2,081.5	487.6	170.5	–	–	–	2,739.6	139.4	83.6	2,962.6
<b>EBITDA</b>	1,408.9	231.7	27.9	–	(67.1)	(37.5)	1,563.9	56.6	60.2	1,680.7
Depreciation and amortisation	(128.1)	(52.3)	(5.5)	–	–	(2.2)	(188.1)	(14.8)	(14.6)	(217.5)
Loss on disposals	(0.1)	(1.5)	(0.7)	–	–	(1.1)	(3.4)	(0.5)	(0.3)	(4.2)
<b>Operating profit</b>	1,280.7	177.9	21.7	–	(67.1)	(40.8)	1,372.4	41.3	45.3	1,459.0
Share of income from associates	–	–	–	–	–	(0.2)	(0.2)	4.7	–	4.5
Investment income	1.9	2.7	0.2	–	–	6.6	11.4	1.6	0.2	13.2
Interest expense	(19.1)	(0.2)	–	–	–	(4.1)	(23.4)	(0.6)	–	(24.0)
Other finance items	(15.6)	11.1	(4.1)	–	–	(2.6)	(11.2)	(5.0)	1.1	(15.1)
<b>Profit before tax</b>	1,247.9	191.5	17.8	–	(67.1)	(41.1)	1,349.0	42.0	46.6	1,437.6
Tax	(249.3)	(40.8)	6.1	–	–	(16.8)	(300.8)	(9.8)	(7.1)	(317.7)
Minority interests	(399.5)	(46.5)	(6.0)	–	–	–	(452.0)	(0.2)	–	(452.2)
<b>Net earnings</b>	599.1	104.2	17.9	–	(67.1)	(57.9)	596.2	32.0	39.5	667.7
<b>Additions to non-current assets</b>										
Capital expenditure	475.4	65.2	12.2	716.4	–	38.9	1,308.1	21.1	6.1	1,335.3
Additions to intangibles	–	–	–	–	–	–	–	–	52.5	52.5
<b>Segment assets and liabilities</b>										
Segment assets	3,494.9	759.5	130.0	1,815.8	–	2,364.6	8,564.8	703.4	242.3	9,510.5
Segment liabilities	(1,350.5)	(109.4)	(130.2)	(966.2)	–	(247.4)	(2,803.7)	(41.7)	(47.7)	(2,893.1)

For the year ended 31 December 2008

	Los Pelambres US\$m	El Tesoro US\$m	Michilla US\$m	Esperanza US\$m	Exploration and evaluation US\$m	Corporate and other items US\$m	Mining US\$m	Railway and other transport services US\$m	Water concession US\$m	Total US\$m
<b>Revenue</b>	2,172.0	632.4	332.7	–	–	–	3,137.1	151.0	84.5	3,372.6
<b>EBITDA</b>	1,429.7	342.8	118.4	–	(54.9)	(54.2)	1,781.8	64.2	53.8	1,899.8
Depreciation and amortisation	(81.5)	(55.5)	(17.6)	–	–	(1.5)	(156.1)	(12.6)	(11.5)	(180.2)
Loss on disposals	(0.5)	(2.4)	(1.2)	–	–	–	(4.1)	(1.2)	–	(5.3)
Impairments	–	(160.0)	(28.3)	–	–	–	(188.3)	–	–	(188.3)
<b>Operating profit</b>	1,347.7	124.9	71.3	–	(54.9)	(55.7)	1,433.3	50.4	42.3	1,526.0
Profit on part-disposal of subsidiaries	–	–	–	–	–	1,024.9	1,024.9	–	–	1,024.9
Share of income from associate	–	–	–	–	–	–	–	2.3	–	2.3
Investment income	10.8	15.4	1.9	–	–	41.9	70.0	8.2	0.7	78.9
Interest expense	(11.1)	(0.6)	–	–	–	(1.3)	(13.0)	(0.7)	–	(13.7)
Other finance items	(1.3)	(9.7)	(0.8)	–	–	(0.1)	(11.9)	3.6	(0.6)	(8.9)
<b>Profit before tax</b>	1,346.1	130.0	72.4	–	(54.9)	1,009.7	2,503.3	63.8	42.4	2,609.5
Tax	(326.0)	(27.9)	(22.2)	–	–	(124.4)	(500.5)	(11.4)	(7.8)	(519.7)
Minority interests	(408.4)	37.5	(11.7)	–	–	1.4	(381.2)	(2.1)	–	(383.3)
<b>Net earnings</b>	611.7	139.6	38.5	–	(54.9)	886.7	1,621.6	50.3	34.6	1,706.5
<b>Additions to non-current assets</b>										
Capital expenditure	463.9	125.7	21.0	460.6	–	65.4	1,136.6	38.5	14.5	1,189.6
Additions to intangibles	–	–	–	–	–	10.7	10.7	–	–	10.7
<b>Segment assets and liabilities</b>										
Segment assets	2,830.1	788.0	88.8	1,055.6	–	2,722.5	7,485.0	322.0	147.9	7,954.9
Segment liabilities	(983.1)	(92.8)	(46.2)	(68.7)	–	(255.0)	(1,445.8)	(44.4)	(32.1)	(1,522.3)

Notes to segment revenues and results

- (i) The accounting policies of the reportable segments are the same as the Group's accounting policies. Operating profit excludes the share of income from associates of US\$4.5 million (year ended 31 December 2008 – US\$2.3 million). Operating profit is shown before and after exceptional items (see Note 5).
- (ii) Inter-segment revenues are eliminated on consolidation. Turnover from the Railway and other transport services is stated after eliminating inter-segmental sales to the mining division of US\$10.3 million (year ended 31 December 2008 – US\$13.2 million). Turnover from the Water concession is stated after eliminating inter-segmental sales to the mining division of US\$8.6 million (year ended 31 December 2008 – US\$2.7 million) and after eliminating sales to the Railway and other transport services of US\$0.2 million (year ended 31 December 2008 – US\$0.2 million).
- (iii) Turnover includes the effect of both final pricing and mark-to-market adjustments to provisionally priced sales of copper and molybdenum concentrates and copper cathodes. Further details of such adjustments are given in Note 25(d).
- (iv) Turnover includes a realised loss on commodity derivatives at El Tesoro of US\$20.0 million (year ended 31 December 2008 – gain of US\$16.1 million) and a realised loss at Michilla of US\$45.8 million (year ended 31 December 2008 – gain of US\$13.9 million). Further details of such gains or losses are given in Note 25(e).
- (v) The copper and molybdenum concentrate sales are stated net of deductions for tolling charges. Tolling charges for copper and molybdenum concentrates are detailed in Note 25(d).
- (vi) Exceptional items affecting operating profit in 2008 relate to impairments at El Tesoro and Michilla (see Note 5).
- (vii) Capital expenditure represents purchases of property, plant and equipment stated on an accruals basis (see Note 14) and may therefore differ from the amount included in the cash flow statement.
- (viii) The assets of the Railway and transport services segment includes US\$3.8 million relating to the Group's 30% interest in Antofagasta Terminal International S.A. ("ATI"), which operates a concession to manage installations in the port of Antofagasta and US\$112.7 million relating to the Group's 40% interest in Inversiones Hornitos S.A. ("Inversiones Hornitos"), which owns the 150MW Hornitos thermoelectric power plant in Mejillones, in Chile's Antofagasta Region. The assets of the Corporate and other items segment includes US\$4.8 million relating to the Group's approximately 18% interest in Sunridge Gold Corp ("Sunridge"), which has a base and precious metals project in Eritrea.

## Notes to the Financial Statements continued

**6 Segment Information continued****b) Entity wide disclosures****Revenue by product**

	2009 US\$m	2008 US\$m
<b>Copper</b>		
– Los Pelambres	1,858.0	1,737.8
– El Tesoro	487.6	632.4
– Michilla	170.5	332.7
<b>Molybdenum</b>		
– Los Pelambres	180.1	394.8
<b>Silver</b>		
– Los Pelambres	19.8	21.8
<b>Gold</b>		
– Los Pelambres	23.6	17.6
<b>Total Mining</b>	<b>2,739.6</b>	<b>3,137.1</b>
<b>Railway and transport services</b>	<b>139.4</b>	<b>151.0</b>
<b>Water concession</b>	<b>83.6</b>	<b>84.5</b>
	<b>2,962.6</b>	<b>3,372.6</b>

**Revenue by location of customer**

	2009 US\$m	2008 US\$m
<b>Europe</b>		
– United Kingdom	148.1	3.7
– Switzerland	348.1	373.9
– Rest of Europe	377.5	603.0
<b>Latin America</b>		
– Chile	278.2	419.6
– Rest of Latin America	166.1	250.6
<b>North America</b>		
– United States	151.8	382.3
– Rest of North America	11.7	16.5
<b>Asia</b>		
– Japan	784.9	707.5
– China	392.8	353.5
– Rest of Asia	303.4	262.0
	<b>2,962.6</b>	<b>3,372.6</b>

### Information about major customers

Included in revenues arising from Los Pelambres for the year ended 31 December 2009 are revenues of approximately US\$720.5 million (year ended 31 December 2008 – US\$ 663.4 million) which arose from sales to two of the Group's largest customers, which are the only customers that individually account for more than 10% of the Group's revenues.

### Non-current assets by location of assets

	2009 US\$m	2008 US\$m
Chile	5,159.7	3,774.2
Bolivia	33.7	34.9
Pakistan	141.3	137.8
Other	11.0	6.2
	<b>5,345.7</b>	<b>3,953.1</b>

Non-current assets balance disclosed by location of asset and excludes financial instruments and deferred tax assets.

## 7 Profit for the Year

Profit for the year is stated after crediting/(charging):

	2009 US\$m	2008 US\$m
Foreign exchange gains/(losses)		
– included in net finance costs	0.4	(3.9)
– included in income tax expense	18.3	(66.3)
Amortisation of intangible asset included in cost of sales	(12.4)	(10.0)
Depreciation of property, plant and equipment		
– owned assets	(203.0)	(169.8)
– assets held under finance leases	(2.1)	(0.4)
Property and equipment written-off	(4.2)	(5.3)
Impairments of property, plant and equipment (exceptional items)	–	(188.3)
Cost of inventories recognised as expense	(906.3)	(1,020.0)
Employee benefit expense	(181.8)	(183.1)
Auditors' remuneration		
– audit services	(0.6)	(0.6)
– non-audit services	(0.1)	(0.2)

A more detailed analysis of auditors' remuneration on a worldwide basis is provided below:

	2009 US\$000	2008 US\$000
<b>Audit fees</b>		
Fees payable to the company's auditors for the audit of the company's annual accounts	(103)	(86)
Fees payable to the company's auditors and their associates for other services to the Group		
– the audit of the company's subsidiaries pursuant to legislation	(201)	(189)
– the audit of the company's subsidiaries as part of the audit of the consolidated financial statements	(126)	(119)
– the review of the company's half yearly financial report pursuant to legislation	(215)	(197)
<b>Total audit fees</b>	<b>(644)</b>	<b>(592)</b>
<b>Non-audit services</b>		
– Tax services	(44)	(42)
– Other consultancy services	(62)	(183)
	<b>(750)</b>	<b>(817)</b>

## Notes to the Financial Statements continued

**8 Employee Benefit Expense****a) Average number of employees**

	2009 Number	2008 Number
Los Pelambres	715	697
El Tesoro	475	534
Michilla	491	524
Esperanza	379	282
Exploration and evaluation	31	28
Corporate and other employees		
– Chile	149	121
– United Kingdom	8	7
– Other	132	39
<b>Mining</b>	<b>2,380</b>	<b>2,232</b>
<b>Railway and other transport services</b>	<b>1,562</b>	<b>1,509</b>
<b>Water concession</b>	<b>276</b>	<b>264</b>
	<b>4,218</b>	<b>4,005</b>

- (i) The average number of employees for the year includes all the employees of subsidiaries and the Group's share of employees of jointly controlled entities. The average number of employees does not include contractors who are not directly employed by the Group.
- (ii) The average numbers of employees does not include employees from associates.
- (iii) The average number of employees includes the Executive Director but does not include Non-Executive Directors.

**b) Aggregated remuneration**

The aggregated remuneration of the employees included in the table above was as follows:

	2009 US\$m	2008 US\$m
Wages and salaries	(193.3)	(176.5)
Social security costs	(7.0)	(3.2)
Post-employment benefits – severance charge in the year	(13.3)	(10.6)
	<b>(213.6)</b>	<b>(190.3)</b>

The amount relating to Esperanza of US\$31.8 million (2008 – US\$7.2 million) has been capitalised.

**c) Key management personnel**

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any Directors (Executive and Non-Executive) of the Company.

Compensation for key management personnel (including Directors) was as follows:

	2009 US\$m	2008 US\$m
Salaries and short-term employee benefits	(7.3)	(7.5)
Post-employment benefits – severance charge in the year	(0.1)	(0.1)
	<b>(7.4)</b>	<b>(7.6)</b>

Disclosures on Directors' remuneration required by Schedule 8 of the The Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2008 including those specified for audit by that Schedule are included in the Remuneration Report on pages 59 to 61.

**9 Net Finance (Expense)/Income**

	2009 US\$m	2008 US\$m
<b>Investment income</b>		
Interest receivable – from cash and cash equivalents	13.2	78.9
<b>Interest expense</b>		
Interest payable	(23.4)	(13.1)
Amortisation of deferred finance costs	(0.4)	(0.4)
Preference dividends	(0.2)	(0.2)
	<b>(24.0)</b>	<b>(13.7)</b>
<b>Other finance items</b>		
Time value effect of derivatives	(1.1)	(1.6)
Foreign exchange derivatives not hedge accounted for under IAS 39	(12.4)	(1.4)
Unwinding of discount on provisions	(2.8)	(2.0)
Foreign exchange	1.2	(3.9)
	<b>(15.1)</b>	<b>(8.9)</b>
<b>Net finance (expense)/income</b>	<b>(25.9)</b>	<b>56.3</b>

An income of US\$8.7 million (2008–expense of US\$6.2 million) relating to the net interest expense and other finance items at Esperanza was capitalised within the development expenditure of that project during the year, and is consequently not included within the above table.

**10 Taxation**

	2009 US\$m	2008 US\$m
<b>Current tax charge</b>		
– Corporate tax (principally first category tax in Chile)	(161.6)	(284.8)
– Mining tax (Royalty)	(41.4)	(70.3)
– Withholding tax provision	(0.4)	(120.3)
– Exchange gains/(losses) on corporate tax balances	18.3	(66.3)
	<b>(185.1)</b>	<b>(541.7)</b>
<b>Deferred tax (charge)/credit</b>		
– Corporate tax (principally first category tax in Chile)	(91.2)	(30.3)
– Mining tax (Royalty)	(13.7)	4.1
– Withholding tax provision	(27.7)	48.2
	<b>(132.6)</b>	<b>22.0</b>
<b>Total tax charge (Income tax expense)</b>	<b>(317.7)</b>	<b>(519.7)</b>

The current tax charge of US\$185.1 million (2008 – US\$541.7 million) comprises Chilean taxes of US\$184.4 million (2008 – US\$540.8 million) and other overseas taxes of US\$0.7 million (2008 – US\$0.9 million).

Current tax is based on taxable profit for the year. Deferred tax is the tax expected to be payable or recoverable on temporary differences (i.e. differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit). Deferred tax is accounted for using the balance sheet liability method and is provided on all temporary differences with certain limited exceptions. The Group incurs withholding taxes on the remittance of profits from Chile and the other countries in which it operates and deferred tax is provided on undistributed earnings to the extent that remittance is probable in the foreseeable future.

The rate of first category (i.e. corporation) tax in Chile was 17% for both 2009 and 2008. Los Pelambres, El Tesoro and Michilla are also subject to a mining tax (royalty) which imposes an additional tax of 4% of tax-adjusted operating profit. Production from the Tesoro North East deposit is subject to the mining tax at a rate of 5% of tax-adjusted operating profit. The mining tax is tax deductible (i.e. an allowable expense in determining liability to first category tax).

In addition to first category tax and the mining tax, the Group incurs withholding taxes on the remittance of profits from Chile. Withholding tax is levied on remittances of profits from Chile at 35% less first category tax already paid. Accordingly, the effective tax rate of withholding tax for the purpose of paying dividends to Group shareholders is approximately 18% of the amount remitted or expected to be remitted.

## Notes to the Financial Statements continued

**10 Taxation continued**

	2009		2008	
	US\$m	%	US\$m	%
<b>Profit before tax</b>	<b>1,437.6</b>		2,609.5	
Tax at the Chilean corporation tax rate of 17%	(244.4)	17.0	(443.6)	17.0
Tax effect of share of results of associate	(1.0)	0.1	(0.4)	–
Deferred tax assets not recognised in the year	–	–	(5.9)	0.2
Effect of items not subject to or deductible from first category tax	(7.4)	0.5	134.8	(5.2)
Royalty	(55.1)	3.8	(66.2)	2.5
Withholding taxes provided in year	(28.1)	2.0	(72.1)	2.8
Exchange differences	18.3	(1.3)	(66.3)	2.6
<b>Tax expense and effective tax rate for the year</b>	<b>(317.7)</b>	<b>22.1</b>	(519.7)	19.9

The tax charge for the year was US\$317.7 million and the effective tax rate was 22.1%. This rate varies from the standard rate principally due to the provision of withholding tax of US\$28.1 million, the effect of mining tax which resulted in a charge of US\$55.1 million, exchange gains of US\$18.3 million on Chilean peso denominated tax prepayments due to the strengthening of the US dollar during the year, and the effect of items which are not subject to or deductible from first category tax.

In 2008 the total tax charge was US\$519.7 million and the effective tax rate was 19.9%. This was principally due to the provision of withholding tax of US\$72.1 million, and the effect of the mining tax, which resulted in a charge of US\$66.2 million, exchanges losses of US\$66.3 million on Chilean peso denominated tax prepayments due to the weakening of the US dollar during the year, and the effect of items which are not subject to or deductible from first category tax.

**11 Earnings Per Share**

	2009 US\$m	2008 US\$m
Profit for the year attributable to equity holders of the Company (Net earnings)	667.7	1,706.5
Profit for the year attributable to equity holders of the Company (Net earnings) – excluding exceptional items	667.7	842.9

	2009 Number	2008 Number
Ordinary shares in issue throughout each year	985,856,695	985,856,695

	2009 cents	2008 cents
Basic earnings per share	67.7	173.1
Basic earnings per share – excluding exceptional items	67.7	85.5

Basic earnings per share is calculated as profit after tax and minority interest, based on 985,856,695 ordinary shares.

There was no potential dilution of earnings per share in either year set out above, and therefore diluted earnings per share did not differ from basic earnings per share as disclosed above.

In 2008 basic earnings per share excluding exceptional items is calculated on profit after tax and minority interest excluding exceptional items giving net earnings excluding exceptional items of US\$842.9 million. Further details together with the reconciliation of earnings per share to earnings per share excluding exceptional items is given in Note 5.

## 12 Dividends

Amounts recognised as distributions to equity holders in the year:

	2009 US\$m	2008 US\$m	2009 US cents per share	2008 US cents per share
Final dividend paid in June (proposed in relation to the previous year)				
– ordinary	55.2	53.3	5.6	5.4
– special	473.2	374.6	48.0	38.0
	<b>528.4</b>	<b>427.9</b>	<b>53.6</b>	<b>43.4</b>
Interim dividend paid in October				
– ordinary	33.5	33.5	3.4	3.4
– special	–	29.6	–	3.0
	<b>33.5</b>	<b>63.1</b>	<b>3.4</b>	<b>6.4</b>
	<b>561.9</b>	<b>491.0</b>	<b>57.0</b>	<b>49.8</b>

The proposed final dividend for each year, which is subject to approval by shareholders at the Annual General Meeting and has therefore not been included as a liability in this financial statements, is as follows:

	2009 US\$m	2008 US\$m	2009 US cents per share	2008 US cents per share
Final dividend proposed in relation to the year				
– ordinary	59.2	55.2	6.0	5.6
– special	138.0	473.2	14.0	48.0
	<b>197.2</b>	<b>528.4</b>	<b>20.0</b>	<b>53.6</b>

This gives total dividends proposed in relation to 2009 (including the interim dividend) of 23.4 cents per share or US\$230.7 million (2008 – 60.0 cents per share or US\$591.5 million).

In accordance with IAS 32, preference dividends have been included within interest expense (see Note 9) and amounted to US\$0.2 million (2008 – US\$0.2 million).

Further details relating to dividends for each year are given in the Directors' Report on page 50.

## 13 Intangible Assets

	Concession right 2009 US\$m	Exploration licences 2009 US\$m	Total intangible assets 2009 US\$m	Total intangible assets 2008 US\$m
<b>Cost</b>				
Balance at the beginning of the year	144.3	125.7	270.0	299.8
Additions	52.5	–	52.5	10.7
Foreign currency exchange difference	48.3	–	48.3	(40.5)
<b>Balance at the end of the year</b>	<b>245.1</b>	<b>125.7</b>	<b>370.8</b>	<b>270.0</b>
<b>Amortisation</b>				
Balance at the beginning of the year	(36.4)	–	(36.4)	(36.2)
Charge for the year	(12.4)	–	(12.4)	(10.0)
Foreign currency exchange difference	(10.8)	–	(10.8)	9.8
<b>Balance at the end of the year</b>	<b>(59.6)</b>	<b>–</b>	<b>(59.6)</b>	<b>(36.4)</b>
<b>Carrying amount</b>				
<b>Balance at the end of the year</b>	<b>185.5</b>	<b>125.7</b>	<b>311.2</b>	<b>233.6</b>

The concession right relates to the 30-year concession to operate the water rights and facilities in the Antofagasta Region of Chile which the Group's wholly-owned subsidiary, Aguas de Antofagasta S.A., acquired in December 2003. This intangible asset is being amortised on a straight-line basis over the life of the concession, or the useful life of any component part if less. Amortisation is included within operating costs.

At 31 December 2009, US\$125.7 million of the exploration licences mainly relate to the value attributed of US\$120.7 million acquired in the Reko Diq area of south-west Pakistan. The remaining US\$5.0 million relates to the acquisition of an initial interest in prospecting licences in Zambia from TEAL Exploration & Mining Limited. This intangible asset will be amortised in accordance with the Group's policy for mining properties when the related mining properties enter into production.

## Notes to the Financial Statements continued

**14 Property, Plant and Equipment**

	Land and mining properties US\$m	Buildings and infrastructure US\$m	Railway track US\$m	Wagons and rolling stock US\$m	Machinery, equipment and others US\$m	Assets under construction US\$m	Total US\$m
<b>Cost</b>							
At 1 January 2008	632.8	1,078.6	45.1	97.2	1,128.1	731.2	3,713.0
Acquisitions	243.1	–	–	–	–	–	243.1
Additions	28.1	18.4	–	6.2	316.2	820.7	1,189.6
Reclassifications	(6.5)	719.5	3.1	11.8	144.8	(872.7)	–
Asset disposals	(22.6)	(7.2)	–	(3.2)	(13.3)	(15.8)	(62.1)
Foreign currency exchange difference	0.3	(9.6)	–	(1.7)	(0.9)	(1.8)	(13.7)
At 31 December 2008 and 1 January 2009	875.2	1,799.7	48.2	110.3	1,574.9	661.6	5,069.9
Additions	30.1	5.9	–	3.6	83.3	1,212.4	1,335.3
Provisions capitalised	–	–	–	–	105.1	–	105.1
Reclassifications	–	241.6	–	7.1	121.0	(369.7)	–
Asset disposals	(1.0)	(9.8)	–	(2.0)	–	(6.5)	(19.3)
Foreign currency exchange difference	0.9	5.2	–	3.2	10.6	1.5	21.4
<b>At 31 December 2009</b>	<b>905.2</b>	<b>2,042.6</b>	<b>48.2</b>	<b>122.2</b>	<b>1,894.9</b>	<b>1,499.3</b>	<b>6,512.4</b>
<b>Accumulated depreciation and impairment</b>							
At 1 January 2008	(170.9)	(346.9)	(7.6)	(44.9)	(514.8)	(4.0)	(1,089.1)
Charge for the year	(39.7)	(43.3)	(1.6)	(8.0)	(77.6)	–	(170.2)
Depreciation capitalised	–	–	–	–	(6.9)	–	(6.9)
Impairment loss (see Note 5)	(69.9)	(55.9)	–	–	(62.5)	–	(188.3)
Asset disposals	–	13.1	–	2.1	41.6	–	56.8
Foreign currency exchange difference	–	5.8	–	1.0	0.7	–	7.5
At 31 December 2008 and 1 January 2009	(280.5)	(427.2)	(9.2)	(49.8)	(619.5)	(4.0)	(1,390.2)
Charge for the year	(76.8)	(87.3)	(1.7)	(9.2)	(30.1)	–	(205.1)
Depreciation capitalised	–	(0.7)	–	–	(47.6)	–	(48.3)
Asset disposals	–	2.4	–	1.5	11.2	–	15.1
Foreign currency exchange difference	–	(8.1)	–	(1.6)	(1.0)	–	(10.7)
<b>At 31 December 2009</b>	<b>(357.3)</b>	<b>(520.9)</b>	<b>(10.9)</b>	<b>(59.1)</b>	<b>(687.0)</b>	<b>(4.0)</b>	<b>(1,639.2)</b>
<b>Net book value</b>							
<b>At 31 December 2009</b>	<b>547.9</b>	<b>1,521.7</b>	<b>37.3</b>	<b>63.1</b>	<b>1,207.9</b>	<b>1,495.3</b>	<b>4,873.2</b>
At 31 December 2008	594.7	1,372.5	39.0	60.5	955.4	657.6	3,679.7
<b>Assets under finance leases included in the totals above</b>							
<b>Net book value</b>							
<b>At 31 December 2009</b>	<b>–</b>	<b>40.6</b>	<b>–</b>	<b>–</b>	<b>6.9</b>	<b>–</b>	<b>47.5</b>
At 31 December 2008	–	57.3	–	–	1.8	–	59.1

The Group has pledged assets with a carrying value of US\$403.6 million (2008 – US\$12.5 million) as security against bank loans provided to the Group.

At 31 December 2009 the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to US\$495.1 million (2008 US\$447.0 million).

Commitments at 31 December 2009 included US\$428.5 million (2008 – US\$221.3 million) relating to the Esperanza project and US\$49.2 million (2008 – US\$167.6 million) relating to the plant expansion project at Los Pelambres.

Compensation from insurance companies related to property, plant and equipment included in the consolidated income statement was US\$6.9 million in 2009 (2008 – US\$5.0 million).

At 31 December 2009, depreciation capitalised includes US\$24.2 million (2008 – US\$6.9 million) in respect of assets relating to the Esperanza project which have been capitalised within the development expenditure of that project and US\$24.1 million (2008 – nil) of depreciation in respect of assets relating to the ROM and Tesoro North East projects which have been capitalised within inventories, and accordingly is excluded from the depreciation charge recorded in the income statement as shown in Note 6(a).

## 15 Investment Property

Cost	2009 US\$m	2008 US\$m
Balance at the beginning of the year	2.7	3.5
Foreign currency exchange difference	0.7	(0.8)
<b>Balance at the end of the year</b>	<b>3.4</b>	<b>2.7</b>

Investment property represents the Group's forestry properties, which are held for long-term potential and accordingly classified as investment property and held at cost as permitted by IAS 40.

The fair value of the Group's investment property at 31 December 2009 was US\$11.0 million (2008 – US\$11.0 million), based on an independent valuation carried out during 2008 by Gabriel Durán, who is not connected with the Group. Mr. Durán is a Forestry Engineer, Valuer and Assessor of forestry properties for Banco Itau in Chile, with extensive experience of valuation in the region where the assets are located. The valuation was based on market evidence of transaction prices for similar properties.

Direct operating expenses (principally on-going maintenance costs) arising on these properties amounted to US\$0.2 million (2008 – US\$0.1 million).

## 16 Investments in Subsidiaries

The principal subsidiaries of the Group and the percentage of equity owned are set out below. These interests are consolidated within these financial statements. The Group has restricted the information to its principle subsidiaries as full compliance with Section 410 of the Companies Act 2006 would result in a statement of excessive length.

	Country of incorporation	Country of operations	Nature of business	Economic interest
<b>Direct subsidiaries of the Parent Company</b>				
Antofagasta Railway Company plc	Great Britain	Chile	Railway	100%
Minera Anaconda Perú S.A.	Peru	Peru	Mining	100%
Chilean Northern Mines Limited	Great Britain	Chile	Investment	100%
Sierra Gorda Investment Company Limited	Jersey	Jersey	Investment	100%
<b>Indirect subsidiaries of the Parent Company</b>				
Antofagasta Minerals S.A.	Chile	Chile	Mining	100%
Minera Los Pelambres	Chile	Chile	Mining	60%
Minera El Tesoro	Chile	Chile	Mining	70%
Minera Michilla S.A.	Chile	Chile	Mining	74.2%
Minera Esperanza	Chile	Chile	Mining	70%
Equatorial Mining Limited	Australia	Chile	Mining	100%
Antofagasta Services Limited	Great Britain	Great Britain	Group services	100%
Los Pelambres Investment Company Limited	Jersey	Jersey	Investment	100%
Inversiones Los Pelambres Chile Limitada	Chile	Chile	Investment	100%
Aguas de Antofagasta S.A.	Chile	Chile	Water distribution	100%
Servicios de Transportes Integrados Limitada	Chile	Chile	Road transport	100%
Empresa Ferroviaria Andina S.A.	Bolivia	Bolivia	Railway	50%
Forestal S.A.	Chile	Chile	Forestry	100%

The Group exercises management control over and has the right to appoint the majority of the board of Empresa Ferroviaria Andina S.A. Accordingly, this investment is treated as a subsidiary and is consolidated in these Group financial statements.

## 17 Investment in Associates

	Inversiones Hornitos 2009 US\$m	ATI 2009 US\$m	Sunridge 2009 US\$m	Total associates 2009 US\$m	Total associates 2008 US\$m
Balance at the beginning of the year	–	3.0	–	3.0	2.5
Acquisitions	80.9	–	5.0	85.9	–
Capital contributions	28.6	–	–	28.6	–
Share of profit before tax	3.9	1.8	(0.2)	5.5	2.7
Share of tax	(0.7)	(0.3)	–	(1.0)	(0.4)
Share of income from associates	3.2	1.5	(0.2)	4.5	2.3
Dividends received	–	(0.7)	–	(0.7)	(1.8)
<b>Balance at the end of the year</b>	<b>112.7</b>	<b>3.8</b>	<b>4.8</b>	<b>121.3</b>	<b>3.0</b>

The investments which are included in the US\$121.3 million balance at 31 December 2009 are set out below:

- The Group's 40% interest in Inversiones Hornitos S.A. ("Inversiones Hornitos"), which owns the 150MW Hornitos thermoelectric power plant in Mejillones, in Chile's Antofagasta Region.
- The Group's 30% interest in Antofagasta Terminal Internacional S.A. ("ATI"), which operates a concession to manage installations in the port of Antofagasta.
- The Group's 17.8% interest in Sunridge Gold Corp ("Sunridge"), which has a base and precious metals project in Eritrea. Although the Group holds less than a 20% interest in Sunridge, the Group's representation on the board of directors of Sunridge gives it significant influence over the entity and it is therefore accounted for as an associate. The fair value of the Group's interest in Sunridge at 31 December 2009 was US\$6.0 million.

## Notes to the Financial Statements continued

**17 Investment in Associates continued**

The Group's share of the summarised financial information of investment in associates, is as follows:

	Inversiones Hornitos 2009 US\$m	ATI 2009 US\$m	Sunridge 2009 US\$m	Total Associates 2009 US\$m	Total Associates 2008 US\$m
Total assets (net of fair value adjustments)	135.9	5.0	5.0	145.9	4.3
Total liabilities	(23.2)	(1.2)	(0.2)	(24.6)	(1.3)
Turnover	–	8.6	–	8.6	9.5
Profit after tax and minorities	3.2	1.5	(0.2)	4.5	2.3

**18 Joint Venture Agreements****a) Tethyan Copper Company Limited**

In 2006 the Group acquired 100% of the issued share capital of Tethyan Copper Company Limited ("Tethyan") for cash consideration (including transaction costs) of US\$170.4 million. In the same year, the Group subsequently entered into a joint venture agreement with Barrick Gold Corporation ("Barrick Gold"), to establish a 50:50 joint venture in relation to Tethyan's mineral interests in Pakistan.

From the date of incorporation to 2009, Tethyan was wholly engaged in mineral exploration and evaluation activities and did not generate any revenue. Tethyan's operating loss resulting during the year was US\$59.6 million (2008 – US\$54.6 million), which relates mainly to exploration and evaluation costs expensed in accordance with the Group's accounting policy and of which 50% is attributable to the Group.

The following amounts represent the Group's 50% share of the assets and liabilities, and results of the jointly controlled entity, and are included in the consolidated balance sheet and in the consolidated income statement of the Group under the proportionate consolidation method:

	2009 US\$m	2008 US\$m
Total non-current assets	137.7	137.7
Total current assets	4.6	5.9
Total current liabilities	(5.2)	(8.0)
Total non-current liabilities	(0.2)	(0.2)
<b>Group's share of jointly controlled entity's net assets</b>	<b>136.9</b>	<b>135.4</b>
Operating loss	(29.8)	(27.3)
Net finance income	–	1.5
Tax	–	–
<b>Group's share of jointly controlled entity's results</b>	<b>(29.8)</b>	<b>(25.8)</b>

In addition to these amounts, the Group incurred US\$3.5 million (2008 – US\$2.7 million) relating to Tethyan which is included in Corporate and other items.

**b) Energía Andina S.A.**

In October 2008 Energía Andina S.A. ("Energía Andina") was formed as a vehicle for the exploration and exploitation of potential sources of geothermal energy. The company is 60% owned by the Group and 40% owned by Empresa Nacional del Petróleo ("ENAP") of Chile. Control over the key operational and financial decisions in respect of the company are jointly exercised by the Group and ENAP, and accordingly the company is accounted for as a jointly controlled entity, with results included in the consolidated balance sheet and in the consolidated income statement of the Group under the proportionate consolidation method.

In 2009 and 2008, Energía Andina was wholly engaged in geothermal exploration and evaluation activities and did not generate any revenue in the period after its incorporation. The operating loss resulting from Energía Andina for the year was US\$2.4 million (2008 – US\$0.7 million), which relates mainly to exploration and evaluation costs expensed in accordance with the Group's accounting policy, and of which 60% is attributable to the Group.

The following amounts represent the Group's 60% share of the assets and liabilities, and results of the jointly controlled entity, and are included in the consolidated balance sheet and in the consolidated income statement of the Group under proportional consolidated method:

	2009 US\$m	2008 US\$m
Total current assets	7.3	8.6
<b>Group's share of jointly controlled entity's net assets</b>	<b>7.3</b>	<b>8.6</b>
Operating loss	(1.5)	(0.4)
<b>Group's share of jointly controlled entity's results</b>	<b>(1.5)</b>	<b>(0.4)</b>

In addition to these amounts, at 31 December 2008 the Group incurred US\$0.1 million relating to Energía Andina S.A. which is included in Corporate and other items.

## 19 Available-for-Sale Investments

Available-for-sale investments represent those investments which are not subsidiaries, associates or joint ventures and are not held for trading purposes.

The movement in available-for-sale assets during the year was as follows:

	2009 US\$m	2008 US\$m
Balance at the beginning of the year	0.7	3.3
Movements in fair value	0.5	(2.6)
<b>Balance at the end of the year</b>	<b>1.2</b>	<b>0.7</b>

At 31 December 2009, the balance of US\$1.2 million comprises mainly the market value of Panoro Minerals Limited's shares which were acquired as part consideration for the disposal of the Group's share of the joint venture entity Cordillera de las Minas S.A in 2007. The fair value of these shares increased by US\$0.5 million during the year (2008 – decrease of US\$2.6 million).

The fair value of the remaining available-for-sale investments of less than US\$0.1 million held by the Group at 31 December 2009 are mainly Chilean peso denominated and did not differ materially from cost at the year end.

## 20 Inventories

	2009 US\$m	2008 US\$m
Raw materials and consumables	57.5	49.6
Work in progress	166.0	87.1
Finished goods	16.6	19.2
	<b>240.1</b>	<b>155.9</b>

Work in progress includes the following balances which are expected to be processed more than 12 months after the balance sheet date:

(i) US\$30.0 million (2008 – US\$30.1 million) relating to long-term inventories are Los Pelambres

(ii) US\$5.2 million (2008 – US\$6.6 million) relating to high carbonate ore inventories at El Tesoro.

Work in progress includes US\$33.8 million (2008 – nil) relating to Tesoro North East and US\$50.9 million (2008 – nil) relating to the ROM project at El Tesoro.

During 2008 a write-off of US\$0.9 million was recorded at Michilla in order to reduce inventories to their expected net realisable value.

## 21 Trade and Other Receivables

	Due in one year		Due after one year		Total	
	2009 US\$m	2008 US\$m	2009 US\$m	2008 US\$m	2009 US\$m	2008 US\$m
Trade debtors	401.0	79.5	0.9	0.7	401.9	80.2
Other debtors	207.6	234.3	35.7	33.4	243.3	267.7
	<b>608.6</b>	<b>313.8</b>	<b>36.6</b>	<b>34.1</b>	<b>645.2</b>	<b>347.9</b>

There is no significant concentration of credit risk with respect to trade receivables as the exposure is spread over a large number of customers. The average credit period given on sale of goods and rendering of service is 49 days (2008 – 37 days). There is no material element which is interest-bearing. Trade debtors include mark-to-market adjustments in respect of provisionally priced sales of copper and molybdenum concentrates which remain open as to final pricing; where these have resulted in credit balances, these have been reclassified to trade creditors as disclosed in Note 25(d).

Movements in the provision for doubtful debts were as follows:

	2009 US\$m	2008 US\$m
Balance at the beginning of the year	(2.3)	(3.1)
Charge for the year	(0.6)	(0.2)
Amounts written-off	–	0.5
Unused amounts reversed	0.1	0.5
Foreign currency exchange difference	(0.2)	–
<b>Balance at the end of the year</b>	<b>(3.0)</b>	<b>(2.3)</b>

## Notes to the Financial Statements continued

**21 Trade and Other Receivables continued**

The ageing analysis of the trade receivables balance is as follows:

	Neither past due nor impaired US\$m	Past due but not impaired			Total US\$m
		Up to 3 months past due US\$m	3–6 months past due US\$m	More than 6 months past due US\$m	
<b>2009</b>	<b>635.7</b>	<b>6.8</b>	<b>2.6</b>	<b>0.1</b>	<b>645.2</b>
2008	338.2	6.9	0.2	2.6	347.9

With respect to the trade receivables that are neither past due nor impaired, there are no indications that the debtors will not meet their payment obligations. The carrying value of the trade receivables recorded in the financial statements represents the maximum exposure to credit risk. The Group does not hold any collateral as security.

Other debtors include US\$52.9 million (2008 – US\$46.1 million) relating to prepayments for the purchase of property, plant and equipment.

**22 Cash and Cash Equivalents**

Cash and cash equivalents comprise cash in hand, deposits held on call with banks and highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents had a maturity period of three months or less from the date of acquisition at both 31 December 2009 and 31 December 2008, and carried floating rates of interest. The fair value of cash and cash equivalents is not materially different from the carrying values presented. The credit risk on cash and cash equivalents is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The currency exposure of cash and cash equivalents was as follows:

	<b>2009 US\$m</b>	2008 US\$m
US dollars	<b>3,006.4</b>	3,017.6
Chilean pesos	<b>190.8</b>	289.6
Australian dollars	<b>23.2</b>	49.3
Sterling	<b>1.2</b>	1.0
Other	<b>0.7</b>	0.5
	<b>3,222.3</b>	3,358.0

Details of cross-currency swaps in place at the end of the year end are given in Note 25(e)(ii).

## 23 Borrowings

### a) Analysis by type of borrowing

Borrowings may be analysed by business segment and type as follows:

	Notes	2009 US\$m	2008 US\$m
<b>Los Pelambres</b>			
Corporate loans	(i)	(576.9)	(152.6)
Short-term loans	(ii)	(245.0)	(224.0)
<b>El Tesoro</b>			
Finance leases	(iii)	(0.3)	(0.4)
<b>Michilla</b>			
Finance leases	(iv)	(1.5)	–
<b>Esperanza</b>			
Corporate loans	(v)	(677.6)	–
Subordinated loans	(vi)	(66.1)	–
Finance leases	(vii)	(11.8)	(19.5)
<b>Corporate and other items</b>			
Finance leases	(viii)	(37.6)	(32.4)
<b>Railway and other transport services</b>			
Loans	(ix)	(6.6)	(7.1)
<b>Other</b>			
Preference shares	(x)	(3.2)	(2.9)
		<b>(1,626.6)</b>	<b>(438.9)</b>

(i) Corporate loans at Los Pelambres are unsecured and US dollar denominated. The balance of US\$576.9 million comprises:

- a) US\$76.3 million in respect of syndicated loans of US\$76.7 million less deferred financing costs of US\$0.4 million. These loans are repayable in semi-annual instalments with 1 year remaining and carry interest at approximately LIBOR six-month rate plus 0.24%.
- b) US\$500.6 million in respect of syndicated loans of US\$505.0 million less deferred financing costs of US\$4.4 million. This loan is for a term of 5 years and has an interest rate of LIBOR plus 1.6%.

During January 2010 Los Pelambres entered into an additional loan of US\$245.0 million with Japan Bank for International Cooperation ("JBIC"), which is expected to be drawn down during the first quarter of 2010. This loan is for a term of approximately 7 years and has an interest rate of approximately LIBOR plus 0.9%.

- (ii) Short-term loans at Los Pelambres have an average duration of 1.5 month and a weighted average interest rate average of 0.8%, comprising LIBOR plus spread. These loans are expected to be repaid when the JBIC loan is drawn down
- (iii) Finance leases at El Tesoro are US dollar denominated, and are fixed rate with an average interest rate of 1.09%.
- (iv) Finance leases at Michilla are US dollar denominated, and are fixed rate with an average interest rate of 6.25%.
- (v) On 15 May 2009 the Group signed an agreement for US\$1,050 million of project financing for Esperanza. The project financing facility is being provided by a consortium of senior lenders including Japan Bank for International Cooperation (US\$400 million), Export Development Canada (US\$200 million), KfW IPEX-Bank (US\$50 million) and a commercial bank syndicate (US\$400 million). The financing is for a term of approximately 12 years and over the life of the loan the borrowing interest is payable at an interest rate of LIBOR six-month rate plus margins of between 1.375%–3.000%. Financial closing and satisfaction of conditions to borrowing for this facility were achieved on 29 June 2009, and the first drawdown made on 9 July 2009. The balance of US\$677.6 million represents the US\$716.1 million drawn down net of deferred financing costs of US\$38.5 million.  
The Group has used interest rate swaps to swap the floating rate interest for fixed rate interest. At 31 December 2009 the Group had entered into contracts for a maximum notional amount of US\$787.8 million at a weighted average fixed rate of 1.353% maturing in February 2011 and a maximum notional amount of US\$840.0 million at a weighted average fixed rate of 3.372% maturing in February 2018.
- (vi) This balance includes long term subordinated debt provided to Esperanza by Marubeni Corporation with a duration of eight years and weighted average interest rate of 4.3%, comprising LIBOR plus spread. Long term subordinated debt provided by Group companies to Esperanza has been eliminated on consolidation.
- (vii) Finance leases at Esperanza are denominated in US dollars, Chilean Pesos and Unidades de Fomento (i.e. inflation-linked Chilean pesos) with a maximum duration of 5 years and fixed rate with an average interest rate of 2.8%.
- (viii) Finance leases at Corporate and other items are denominated in Unidades de Fomento (i.e. inflation-linked Chilean pesos) and have a duration of 20 years and a fixed rate of 5.29%.
- (ix) Railway and other transport services includes a balance of US\$6.4 million denominated in US dollars which is partly floating rate and partly fixed rate. The weighted average floating interest rate (Bolivian Reference Interest Rate Index) of 7.7% which is repayable over 1.4 years. The balance at 31 December 2009 also includes US dollar customer advances of US\$0.2 million.
- (x) The preference shares are sterling denominated and issued by the Company. There were 2,000,000 shares of £1 each authorised, issued and fully paid at 31 December 2009. The preference shares are non-redeemable and are entitled to a fixed cumulative dividend of 5% per annum. On winding up they are entitled to repayment and any arrears of dividend in priority to ordinary shareholders, but are not entitled to participate further in any surplus. Each preference share carries 100 votes in any general meeting of the Company.

## Notes to the Financial Statements continued

**23 Borrowings continued****b) Analysis of borrowings by currency**

The exposure of the Group's borrowings to currency risk is as follows:

	Pesos US\$m	Sterling US\$m	US dollars US\$m	2009 Total US\$m
<b>At 31 December 2009</b>				
Corporate loans	–	–	(1,254.5)	(1,254.5)
Other loans (including short-term loans)	–	–	(317.7)	(317.7)
Finance leases	(43.3)	–	(7.9)	(51.2)
Preference shares	–	(3.2)	–	(3.2)
	<b>(43.3)</b>	<b>(3.2)</b>	<b>(1,580.1)</b>	<b>(1,626.6)</b>

	Pesos US\$m	Sterling US\$m	US dollars US\$m	2008 Total US\$m
<b>At 31 December 2008</b>				
Corporate loans	–	–	(152.6)	(152.6)
Other loans (including short-term loans)	–	–	(231.1)	(231.1)
Finance leases	(46.1)	–	(6.2)	(52.3)
Preference shares	–	(2.9)	–	(2.9)
	<b>(46.1)</b>	<b>(2.9)</b>	<b>(389.9)</b>	<b>(438.9)</b>

**c) Analysis of borrowings by type of interest rate**

The exposure of the Group's borrowings to interest rate risk is as follows:

	Fixed US\$m	Floating US\$m	2009 Total US\$m
<b>At 31 December 2009</b>			
Corporate loans	–	(1,254.5)	(1,254.5)
Other loans (including short-term loans)	–	(317.7)	(317.7)
Finance leases	(51.2)	–	(51.2)
Preference shares	(3.2)	–	(3.2)
	<b>(54.4)</b>	<b>(1,572.2)</b>	<b>(1,626.6)</b>

	Fixed US\$m	Floating US\$m	2008 Total US\$m
<b>At 31 December 2008</b>			
Corporate loans	–	(152.6)	(152.6)
Other loans (including short-term loans)	–	(231.1)	(231.1)
Finance leases	(52.3)	–	(52.3)
Preference shares	(2.9)	–	(2.9)
	<b>(55.2)</b>	<b>(383.7)</b>	<b>(438.9)</b>

As set out in note 23 (a) the corporate loans of US\$1,254.5 million at 31 December 2009 include US\$677.7 million relating to the Esperanza project financing facility. As disclosed in note 23(a) the Group has used interest rate swaps to swap the floating rate interest on this facility for fixed rate interest.

**d) Maturity profile**

The maturity profile of the Group's borrowings is as follows:

	Within 1 year US\$m	Between 1–2 years US\$m	Between 2–5 years US\$m	After 5 years US\$m	2009 Total US\$m
<b>At 31 December 2009</b>					
Corporate loans	(76.3)	–	(527.0)	(150.6)	(753.9)
Other loans (including short-term loans)	(350.2)	(101.7)	(300.3)	(66.1)	(818.3)
Finance leases	(5.3)	(8.5)	(7.5)	(29.9)	(51.2)
Preference shares	–	–	–	(3.2)	(3.2)
	<b>(431.8)</b>	<b>(110.2)</b>	<b>(834.8)</b>	<b>(249.8)</b>	<b>(1,626.6)</b>
	Within 1 year US\$m	Between 1–2 years US\$m	Between 2–5 years US\$m	After 5 years US\$m	2008 Total US\$m
<b>At 31 December 2008</b>					
Corporate loans	(76.3)	(76.3)	–	–	(152.6)
Other loans (including short-term loans)	(229.8)	(1.3)	–	–	(231.1)
Finance leases	(12.9)	(6.4)	(33.0)	–	(52.3)
Preference shares	–	–	–	(2.9)	(2.9)
	<b>(319.0)</b>	<b>(84.0)</b>	<b>(33.0)</b>	<b>(2.9)</b>	<b>(438.9)</b>

The amounts included above for finance leases are based on the present value of minimum lease payments.

The total minimum lease payments for these finance leases may be analysed as follows:

	Within 1 year US\$m	Between 1–2 years US\$m	Between 2–5 years US\$m	After 5 years US\$m	Total US\$m
<b>2009</b>					
<b>Finance leases</b>	<b>(5.3)</b>	<b>(8.5)</b>	<b>(7.5)</b>	<b>(29.9)</b>	<b>(51.2)</b>
<b>2008</b>					
Finance leases	(9.6)	(6.4)	(36.3)	–	(52.3)

All leases are on a fixed payment basis and no arrangements have been entered into for contingent rental payments.

**e) Borrowings facilities**

The undrawn committed borrowing facilities available at the end for each year, in respect of which all conditions precedent had been met at those dates, were as follows:

	2009 US\$m	2008 US\$m
Expiring in one year or less	1,139.4	456.4
Expiring in more than one but not more than two years	2.0	2.0
Expiring in more than two years	–	–
	<b>1,141.4</b>	<b>458.4</b>

The available facilities comprise the undrawn element of the Esperanza project finance facility, as described in note 23(a), and general working capital facilities at the Group's operating subsidiaries. Of the general working capital facilities, US\$688.9 million (2008 – US\$379.2 million) are denominated in US dollars, US\$20.6 million (2008 – US\$16.9 million) in Unidades de Fomento (i.e. inflation-linked Chilean pesos), US\$3.0 million (2008 – US\$7.9 million) in Euro and US\$93.0 million (2008 – US\$54.4 million) in Chilean pesos.

## Notes to the Financial Statements continued

**24 Trade and Other Payables**

	Due in one year		Due after one year		Total	
	2009 US\$m	2008 US\$m	2009 US\$m	2008 US\$m	2009 US\$m	2008 US\$m
Trade creditors	(254.4)	(415.1)	–	–	(254.4)	(415.1)
Other creditors and accruals	(183.2)	(179.3)	(12.3)	(12.6)	(195.5)	(191.9)
	(437.6)	(594.4)	(12.3)	(12.6)	(449.9)	(607.0)

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 40 days (2008 – 39 days). At 31 December 2008, trade and other creditors includes US\$274.2 million related to amounts to be reimbursed to clients as a result of mark-to-market adjustment on provisional sales of copper and molybdenum concentrates and copper cathodes.

**25 Financial Instruments and Financial Risk Management****a) Categories of financial instruments**

The Group's financial instruments, grouped according to the categories defined in IAS 39 "Financial instruments: Recognition and Measurement", were as follows:

	2009 US\$m	2008 US\$m
<b>Financial assets</b>		
Derivatives in designated hedge accounting relationships	1.7	51.7
Available-for-sale investments	1.2	0.7
Loans and receivables (including cash and cash equivalents)	3,867.5	3,705.9
<b>Financial liabilities</b>		
Derivatives in designated hedge accounting relationships	(85.7)	(1.4)
Financial liabilities measured at amortised cost	(2,076.5)	(1,045.9)
	1,712.7	2,711.0

**b) Fair value of financial instruments**

The fair values of financial assets and financial liabilities are determined as follows:

- the fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- the fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and
- the fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis based on the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

The fair value of each category of financial asset and liability is not materially different from the carrying values presented for either 2009 or 2008.

The following table provides an analysis of the financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 US\$m	Level 2 US\$m	Level 3 US\$m	Total 2009 US\$m
<b>Financial assets at fair value through profit and loss</b>				
Derivatives in designated hedge accounting relationships	–	1.7	–	1.7
Debtors mark to market	–	62.8	–	62.8
<b>Available-for-sale investments</b>	1.2	–	–	1.2
<b>Financial liabilities</b>				
Derivatives in designated hedge accounting relationships	–	(85.7)	–	(85.7)
	1.2	(16.7)	–	(15.5)

There were no transfers between level 1 and 2 during the year.

## c) Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including commodity price risk, currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The Group uses derivative financial instruments to reduce exposure to commodity price, foreign exchange and interest rate movements. The Group does not use such derivative instruments for speculative trading purposes.

The Board of Directors is responsible for overseeing the Group's risk management framework. The Board has established the Risk Management Committee, which is responsible for developing and monitoring the Group's risk management policies. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Risk Management Committee.

### (i) Commodity price risk

The Group generally sells its copper and molybdenum concentrate and copper cathodes output at prevailing market prices, subject to final pricing adjustments which may be 30 to 180 days after delivery to the customer, and it is therefore exposed to changes in market prices for copper and molybdenum both in respect of future sales and previous sales which remain open as to final pricing. In 2009, sales of copper and molybdenum concentrate and copper cathodes represented 90.8% of Group turnover and therefore revenues and earnings depend significantly on LME and realised copper prices.

The Group uses futures, min-max instruments and options to manage its exposure to copper prices. These instruments may give rise to accounting volatility due to fluctuations in their fair value prior to the maturity of the instruments. Details of those copper and molybdenum concentrate sales and copper cathode sales which remain open as to final pricing are given in Note 25(d). Details of commodity rate derivatives entered into by the Group are given in Note 25(e).

#### Commodity price sensitivity

The sensitivity analysis below shows the impact of a movement in the copper price on the financial instruments held as at the reporting date. A movement in the copper forward price as at the reporting date will affect the final pricing adjustment to sales which remain open at that date, impacting the trade receivables balance and consequently the income statement. A movement in the copper forward price will also affect the valuation of commodity derivatives, impacting the hedging reserve in equity if the fair value movement relates to an effective designated cash flow hedge, and impacting the income statement if it does not. The calculation assumes that all other variables, such as currency rates, remain constant.

- If the copper forward price as at the reporting date had increased by 10 cents, net earnings would have increased by US\$0.2 million (2008 – US\$0.1 million) and hedging reserves in equity would have decreased by US\$13.8 million (2008 – US\$3.6 million).
- If the copper forward price as at the reporting date had decreased by 10 cents, net earnings would have decreased by US\$0.4 million (2008 – US\$0.1 million) and hedging reserves in equity would have increased by US\$13.0 million (2008 – US\$3.6 million).

In addition, a movement in the average copper price during the year would impact revenue and earnings. A 10 cents change in the average copper price during the year would affect net earnings by US\$48.8 million (2008 – US\$52.7 million) and earnings per share by 5.0 cents (2008 – 5.3 cents), based on production volumes in 2009, without taking into account the effects of provisional pricing and hedging activity. A US\$1 change in the average molybdenum price for the year would affect net earnings by US\$8.2 million (2008 – US\$8.2 million), and earnings per share by 0.8 cents (2008 – 0.8 cents), based on production volumes in 2009, and without taking into account the effects of provisional pricing.

### (ii) Currency risk

The Group is exposed to a variety of currencies. The US dollar, however, is the currency in which the majority of the Group's sales are denominated. Operating costs are influenced by the countries in which the Group's operations are based (principally in Chile) as well as those currencies in which the costs of imported equipment and services are determined. After the US dollar, the Chilean peso is the most important currency influencing costs and to a lesser extent sales.

Given the significance of the US dollar to the Group's operations, this is the presentational currency of the Group for internal and external reporting. The US dollar is also the currency for borrowing and holding surplus cash, although a portion of this may be held in other currencies, notably Chilean pesos and sterling, to meet short-term operational and capital commitments and dividend payments.

When considered appropriate, the Group uses forward exchange contracts and currency swaps to limit the effects of movements in exchange rates in foreign currency denominated assets and liabilities. The Group may also use these instruments to reduce currency exposure on future transactions and cash flows. Details of any exchange rate derivatives entered by the Group in the year are given in Note 25(e).

The currency exposure of the Group's cash and cash equivalents is given in Note 22, and the currency exposure of the Group's borrowings is given in Note 23. The effect of exchange gains and losses included in the income statement are given in Note 7. Exchange differences on translation of the net assets of entities with a functional currency other than the US dollar (the most material of which is Aguas de Antofagasta S.A.) are taken to the currency translation reserve and are disclosed in the Consolidated Statement of Changes in Equity on page 65.

#### Currency sensitivity

The sensitivity analysis below shows the impact of a movement in the US dollar/Chilean peso exchange rate on the financial instruments held as at the reporting date.

The impact on profit or loss is as a result of the retranslation of monetary financial instruments (including cash, trade receivables, trade payables, current tax balances and borrowings). The impact on equity is as a result of changes in the fair value of derivative instruments which are effective designated cash flow hedges, and changes in the fair value of available for sale equity investments. The calculation assumes that all other variables, such as interest rates, remain constant.

If the US dollar had strengthened by 10% against the Chilean peso as at the reporting date, net earnings would have decreased by US\$4.0 million (2008 – US\$6.8 million); there would have been no additional impact on equity. If the US dollar had weakened by 10% against the Chilean peso as at the reporting date, net earnings would have increased by US\$4.9 million (2008 – US\$8.3 million increase); there would have been no additional impact on equity.

### (iii) Interest rate risk

The Group's policy is generally to borrow and invest cash at floating rates. Fluctuations in interest rates may impact the Group's net finance income or cost, and to a lesser extent on the value of financial assets and liabilities. The Group occasionally uses interest rate swaps and collars to manage interest rate exposures on a portion of its existing borrowings. Details of any interest rate derivatives entered into by the Group are given in Note 25(e).

The interest rate exposure of the Group's cash and cash equivalents is given in Note 22, and the interest rate exposure of the Group's borrowings is given in Note 23.

#### Interest rate sensitivity

The sensitivity analysis below shows the impact of a movement in interest rates in relation to the financial instruments held as at the reporting date. The impact on profit or loss is as a result of the effect on interest expense in respect of floating rate borrowings, and interest income in respect of cash and cash equivalents. The impact on equity is as a result of changes in the fair value of derivative instruments which are effective designated cash flow hedges. The calculation assumes that all other variables, such as currency rates, remain constant.

If the interest rate increased by 1%, based on the financial instruments held as at the reporting date, net earnings would have increased by US\$12.3 million (2008 – US\$22.5 million) and hedging reserves in equity would have increased by US\$13.6 million (2008 – nil).

### (iv) Other price risk

The Group is exposed to equity price risk on its available-for-sale equity investments.

#### Equity price sensitivity

The sensitivity analysis below shows the impact of a movement in the equity values of the available-for-sale financial assets held as at the reporting date.

If the value of the available-for-sale investments had increased by 10% as at the reporting date, equity would have increased by US\$0.1 million (2008 – US\$0.1 million). There would have been no impact on the income statement.

### (v) Cash flow risk

The Group's future cash flows depend on a number of factors, including commodity prices, production and sales levels, operating costs, capital expenditure levels and financial income and costs. Its cash flows are therefore subject to the exchange, interest rate and commodity price risks described above as well as operational factors and input costs. Further information on production and sales levels and operating costs are given in the Business Review on pages 17 to 24.

### (vi) Credit risk

Credit risk arises from trade and other receivables, cash and cash equivalents and derivative financial instruments. The Group's credit risk is primarily to trade receivables. The credit risk on cash and cash equivalents and on derivative financial instruments is limited as the counterparties are banks with high credit ratings assigned by international credit agencies.

All customers are subject to credit review procedures, including the use of external credit ratings where available. Credit is provided only within set limits, which are regularly reviewed. Outstanding receivable balances are monitored on an ongoing basis.

## Notes to the Financial Statements continued

**25 Financial Instruments and Financial Risk Management continued**

The carrying value of financial assets recorded in the financial statements represents the maximum exposure to credit risk. The amounts presented in the balance sheet are net of allowances for any doubtful receivables.

**(vii) Liquidity risk**

The Group manages liquidity risk by maintaining adequate cash reserves and financing facilities, through the review of forecast and actual cash flows.

The Group typically holds surplus cash balances in either demand deposits or short-term deposits, while the majority of borrowings comprise corporate loans at Los Pelambres, repayable over periods of up to five years, and corporate loans at Esperanza, repayable over approximately 12 years.

At the end of both 2009 and 2008, the Group was in a net cash position, as disclosed in Note 33. Details of cash and cash equivalents are given in Note 22, while details of borrowings including the maturity profile are given in Note 23. Details of undrawn committed borrowing facilities are also given in Note 23(e).

The following table analyses the maturity of the Group's contractual commitments in respect of its financial liabilities and derivative financial instruments. The table has been drawn up based on the undiscounted cash flows on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Less than 6 months US\$m	Between 6 months to 1 year US\$m	Between 1–2 years US\$m	After 2 years US\$m	2009 Total US\$m
<b>At 31 December 2009</b>					
Corporate loans	(252.9)	(199.8)	(142.9)	(1,229.7)	(1,825.3)
Other loans (including short-term loans)	(1.5)	(1.5)	(2.8)	(1.3)	(7.1)
Finance leases	(5.4)	(3.8)	(10.1)	(54.4)	(73.7)
Preference shares	(0.1)	(0.1)	(0.2)	(*)	(0.4)
Trade and other payables	(431.1)	(6.5)	(7.6)	(4.7)	(449.9)
Derivative financial instruments	(41.0)	(41.1)	(5.7)	2.1	(85.7)
	<b>(731.9)</b>	<b>(252.7)</b>	<b>(169.1)</b>	<b>(1,288.0)</b>	<b>(2,441.7)</b>

	Less than 6 months US\$m	Between 6 months to 1 year US\$m	Between 1–2 years US\$m	After 2 years US\$m	2008 Total US\$m
<b>At 31 December 2008</b>					
Corporate loans	–	(76.7)	(76.6)	–	(153.3)
Other loans (including short-term loans)	(230.6)	(0.8)	(1.3)	(0.1)	(232.8)
Finance leases	(1.9)	(1.9)	(7.8)	(43.5)	(55.1)
Preference shares	(0.1)	(0.1)	(0.2)	(*)	(0.4)
Trade and other payables	(593.8)	(3.3)	(7.0)	(3.0)	(607.1)
Derivative financial instruments	(1.4)	–	–	–	(1.4)
	<b>(827.8)</b>	<b>(82.8)</b>	<b>(92.9)</b>	<b>(46.6)</b>	<b>(1,050.1)</b>

\* The preference shares pay an annual dividend of £100,000 (US\$155,910) in perpetuity, and accordingly it is not possible to determine total amounts payable for periods without a fixed end date.

**(viii) Capital risk management**

The Group's objective when managing its capital is to safeguard the Group's ability to continue as a going concern while maximising the return to stakeholders through the optimal capital structure.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 23, cash and cash equivalents as disclosed in Note 22 and equity attributable to minority interest and equity holders of the Company, comprising issued capital, reserves and retained earnings as disclosed in Note 29.

The Group reviews its capital structure on a regular basis. Based on this, the Group will balance its overall capital structure through the payment of ordinary and special dividends, the issue of new shares or repurchase of existing shares, the raising of additional debt or the redemption of existing debt. The Group's overall strategy remains unchanged from the prior year.

**d) Embedded derivatives – provisionally priced sales**

Copper and molybdenum concentrate sale agreements and copper cathode sale agreements generally provide for provisional pricing of sales at the time of shipment, with final pricing being based on the monthly average London Metal Exchange copper price or monthly average molybdenum price for specified future periods. This normally ranges from 30 to 180 days after delivery to the customer.

Under IFRS, both gains and losses from the marking-to-market of open sales are recognised through adjustments to turnover in the income statement and to trade debtors in the balance sheet. The Group determines mark-to-market prices using forward prices at each period end for copper concentrate and cathode sales, and period-end month average prices for molybdenum concentrate sales due to the absence of a futures market for that commodity.

The mark-to-market adjustments at the end of each period and the effect on turnover in the income statement for each period are as follows:

	Balance sheet net mark to market effect on debtors	
	2009 US\$m	2008 US\$m
Los Pelambres – copper concentrate	62.1	(257.6)
Los Pelambres – tolling charges for copper concentrates	(0.6)	4.5
Los Pelambres – molybdenum concentrate	(1.1)	(13.3)
El Tesoro – copper cathodes	2.0	(0.8)
Michilla – copper cathodes	0.4	0.2
	62.8	(267.0)

**(i) Copper sales**

	Los Pelambres Copper concentrate 2009 US\$m	El Tesoro Copper cathodes 2009 US\$m	Michilla Copper cathodes 2009 US\$m	Los Pelambres Copper concentrate 2008 US\$m	El Tesoro Copper cathodes 2008 US\$m	Michilla Copper cathodes 2008 US\$m
<b>Provisionally invoiced gross sales</b>	1,602.8	476.5	204.5	2,392.8	644.2	331.0
<b>Effects of pricing adjustments to previous year invoices</b>						
Reversal of mark-to-market adjustments at the end of the previous year	257.6	0.8	(0.2)	72.8	1.0	(0.1)
Settlement of copper sales invoiced in the previous year	(179.6)	0.6	1.3	58.3	1.9	1.0
<b>Total effect of adjustments to previous year invoices in the current year</b>	78.0	1.4	1.1	131.1	2.9	0.9
<b>Effects of pricing adjustments to current year invoices</b>						
Settlement of copper sales invoiced in the current year	240.2	27.7	10.3	(415.4)	(30.0)	(13.3)
Mark-to-market adjustments at the end of the current year	62.1	2.0	0.4	(257.6)	(0.8)	0.2
<b>Total effects of adjustments to current year invoices</b>	302.3	29.7	10.7	(673.0)	(30.8)	(13.1)
<b>Total pricing adjustments</b>	380.3	31.1	11.8	(541.9)	(27.9)	(12.2)
<b>Realised (losses)/gains on commodity derivatives</b>	–	(20.0)	(45.8)	–	16.1	13.9
<b>Turnover before deducting tolling charges</b>	1,983.1	487.6	170.5	1,850.9	632.4	332.7
<b>Tolling charges</b>	(125.1)	–	–	(113.1)	–	–
<b>Turnover net of tolling charges</b>	1,858.0	487.6	170.5	1,737.8	632.4	332.7

**i) Copper concentrate**

At 31 December 2009 copper concentrate sales at Los Pelambres had an average settlement period of approximately three months after shipment date. Sales totalling 73,700 tonnes remained open as to price, with an average mark-to-market price of US\$334.0 cents per pound compared with an average provisional invoice price of US\$295.8 cents per pound.

At 31 December 2008 copper concentrate sales at Los Pelambres had an average settlement period of approximately four months after shipment date. Sales totalling 123,800 tonnes remained open as to price, with an average mark-to-market price of US\$138.9 cents per pound compared with an average provisional invoice price of US\$233.3 cents per pound.

Tolling charges include a mark-to-market loss for copper concentrate sales open as to price at 31 December 2009 of US\$5.1 million (31 December 2008 – mark-to-market gain of US\$1.9 million).

**ii) Copper cathodes**

At 31 December 2009 and 31 December 2008 copper cathode sales at El Tesoro and Michilla had an average settlement period of approximately one month after shipment date.

At 31 December 2009, sales totalling 10,400 tonnes remained open as to price, with an average mark-to-market price of US\$333.5 cents per pound compared with an average provisional invoice price of US\$322.9 cents per pound.

At 31 December 2008 sales totalling 13,200 tonnes remained open as to price, with an average mark-to-market price of US\$138.3 cents per pound compared with an average provisional invoice price of US\$140.3 cents per pound.

## Notes to the Financial Statements continued

**25 Financial Instruments and Financial Risk Management continued****(ii) Molybdenum sales**

	<b>Los Pelambres Molybdenum concentrate 2009 US\$m</b>	<b>Los Pelambres Molybdenum concentrate 2008 US\$m</b>
<b>Provisionally invoiced gross sales</b>	<b>189.2</b>	<b>508.2</b>
<b>Effects of pricing adjustments to previous year invoices</b>		
Reversal of mark-to-market adjustments at the end of the previous year	13.3	(0.1)
Settlement of molybdenum sales invoiced in the previous year	(15.5)	2.7
<b>Total effect of adjustments to previous year invoices in the current year</b>	<b>(2.2)</b>	<b>2.6</b>
<b>Effects of pricing adjustments to current year invoices</b>		
Settlement of molybdenum sales invoiced in the current year	6.4	(90.5)
Mark-to-market adjustments at the end of the current year	(1.1)	(13.3)
<b>Total effects of adjustments to current year invoices</b>	<b>5.3</b>	<b>(103.8)</b>
<b>Total pricing adjustments</b>	<b>3.1</b>	<b>(101.2)</b>
<b>Turnover before deducting tolling charges</b>	<b>192.3</b>	<b>407.0</b>
<b>Tolling charges</b>	<b>(12.2)</b>	<b>(12.2)</b>
<b>Turnover net of tolling charges</b>	<b>180.1</b>	<b>394.8</b>

At 31 December 2009 molybdenum sales at Los Pelambres had an average settlement period of approximately two months after shipment date. Sales totalling 1,400 tonnes remained open as to price, with an average mark-to-market price of US\$11.3 per pound compared with an average provisional invoice price of US\$11.6 per pound.

At 31 December 2008 molybdenum concentrate sales at Los Pelambres had an average settlement period of approximately three months after shipment date. Sales totalling 2,000 tonnes remained open as to price, with an average mark-to-market price of US\$9.5 per pound compared with an average provisional invoice price of US\$12.5 per pound.

**e) Derivative financial instruments**

The Group periodically uses derivative financial instruments to reduce its exposure to commodity price, foreign exchange and interest rate movements. The Group does not use such derivative instruments for speculative trading purposes.

The Group has applied the hedge accounting provisions of IAS 39 "Financial Instruments: Recognition and Measurement". Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows have been recognised directly in equity, with such amounts subsequently recognised in the income statement in the period when the hedged item affects profit or loss. Any ineffective portion is recognised immediately in the income statement. Realised gains and losses on commodity derivatives recognised in the income statement have been recorded within turnover. The time value element of changes in the fair value of derivative options is excluded from the designated hedging relationship, and is therefore recognised directly in the income statement within other finance items. Realised gains and losses and changes in the fair value of exchange and interest derivatives are recognised within other finance items.

	Impact on income statement			Impact on reserves	Total balance sheet impact of mark-to-market adjustments
	Realised losses 2009 US\$m	Gains/(losses) resulting from mark-to-market adjustments on hedging instruments 2009 US\$m	Total net loss 2009 US\$m	Gains/(losses) resulting from mark-to-market adjustments on hedging instruments 2009 US\$m	Net financial asset/(liability) 2009 US\$m
<b>Commodity derivatives</b>					
El Tesoro	(20.0)	0.9	(19.1)	(52.5)	0.1
Michilla	(45.8)	(2.0)	(47.8)	(75.9)	(77.9)
<b>Exchange derivatives</b>					
Corporate and other items	(0.8)	(0.2)	(1.0)	–	(0.2)
Railway and other transport services	(8.4)	1.6	(6.8)	–	1.6
Water concession	(2.7)	(1.9)	(4.6)	–	(1.9)
<b>Interest derivatives</b>					
Esperanza	–	–	–	(5.7)	(5.7)
	(77.7)	(1.6)	(79.3)	(134.1)	(84.0)

	Impact on income statement			Impact on reserves	Total balance sheet impact of mark-to-market adjustments
	Realised gains 2008 US\$m	Gains/(losses) resulting from mark-to-market adjustments on hedging instruments 2008 US\$m	Total net gain 2008 US\$m	Gains/(losses) resulting from mark-to-market adjustments on hedging instruments 2008 US\$m	Net financial asset/(liability) 2008 US\$m
<b>Commodity derivatives</b>					
El Tesoro	16.1	(1.1)	15.0	52.6	51.7
Michilla	13.9	(0.5)	13.4	–	–
<b>Exchange derivatives</b>					
Railway and other transport services	–	(1.4)	(1.4)	–	(1.4)
	30.0	(3.0)	27.0	52.6	50.3

The gains/(losses) recognised in reserves are disclosed before minority interest and tax.

The net financial asset/(liability) resulting from the balance sheet mark-to-market adjustments are analysed as follows:

	2009 US\$m	2008 US\$m
<b>Analysed between:</b>		
Current assets	1.7	51.7
Current liabilities	(81.2)	(1.4)
Non-current liabilities	(4.5)	–
	(84.0)	50.3

#### Outstanding derivative financial instruments

(i) Commodity derivatives

(a) Min/max instruments

	'000 tonnes of copper production hedged					For instruments held at 31.12.09		
	At 31.12.2009 '000 tonnes	Entered into post period end '000 tonnes	Matured post period end '000 tonnes	At 28.02.10 '000 tonnes	Weighted average remaining period from 1 January 2010 Months	Covering a period up to	Weighted average floor US cents	Weighted average cap US cents
Michilla	22,200	–	(1,850)	20,350	6.5	31/12/2010	186.8	237.8

In 2009, 61,400 tonnes of 2009 Group copper production was hedged either during or before the start of 2009, all of which matured in the year.

## Notes to the Financial Statements continued

**25 Financial Instruments and Financial Risk Management continued**

Up to 28 February 2010, 22,200 tonnes of 2010 Group copper production has been hedged with min-max options of which 1,850 tonnes matured by 28 February 2010 and 20,350 tonnes remain outstanding and will mature by the end of the year.

**(b) Futures – copper production**

	'000 tonnes of copper production hedged				For instruments held at 31.12.09		
	At 31.12.2009 '000 tonnes	Entered into post period end '000 tonnes	Matured post period end '000 tonnes	At 28.02.10 '000 tonnes	Weighted average remaining period from 1 January 2010 Months	Covering a period up to	Weighted average price US cents
Michilla	9,800	–	(1,000)	8,800	6.4	31/12/2010	199.9

In 2009, 17,850 tonnes of 2009 Group copper production was hedged either during or before the start of 2009, all of which matured in the year.

Up to 28 February 2010 9,800 tonnes of 2010 Group copper production has been hedged with futures of which 1,000 tonnes matured by 28 February 2010 and 8,800 tonnes remain outstanding and will mature by the end of the year.

**(c) Combined min-max instruments and futures-copper production**

In total, in 2009, 79,250 tonnes of 2009 Group copper production was hedged either during or before the start of 2009, all of which matured in the year.

In total, up to 28 February 2010 32,000 tonnes of 2010 Group copper production has been hedged with either min-max options or futures of which 2,850 tonnes matured by 28 February 2010 and 29,150 tonnes remain outstanding and will mature by the end of the year.

**(d) Futures – arbitrage**

The Group also has futures for copper production, to buy and sell copper production with the effect of swapping COMEX prices for LME prices without eliminating underlying market price exposure.

	'000 tonnes of copper production hedged				For instruments held at 31.12.09		
	At 31.12.2009 '000 tonnes	Entered into post period end '000 tonnes	Matured post period end '000 tonnes	At 28.02.10 '000 tonnes	Weighted average remaining period from 1 January 2010 Months	Covering a period up to	Weighted average price US cents
El Tesoro	6,500	100	(500)	6,100	7.0	31/01/2011	278.7

**(ii) Exchange derivatives**

The Group periodically uses foreign exchange derivatives to reduce its exposure to fluctuations in the fair value of non-US dollar denominated assets or liabilities.

The Group has used cross currency swaps to swap Chilean pesos for US dollars:

	Principal value of cross currency swaps held				For instruments held at 31.12.09		
	At 31.12.2009 US\$m	Entered into post period end US\$m	Matured post period end US\$m	At 28.02.10 US\$m	Weighted average remaining period from 1 January 2010 Months	Covering a period up to	Weighted average rate Ch\$/US\$
Esperanza	–	68.0	–	68.0	–	–	–
Corporate and other items	24.7	10.0	30.2	4.5	2.0	01/04/2010	511.0
Railway and other transport services	68.8	56.8	68.8	56.8	1.0	31/01/2011	496.8
Water concession	9.3	–	6.2	3.1	2.0	31/01/2011	608.5
	<b>102.8</b>	<b>66.8</b>	<b>105.2</b>	<b>64.4</b>	<b>1.9</b>		<b>510.3</b>

**(iii) Interest derivatives**

The Group periodically uses interest derivatives to reduce its exposure to interest rate movements.

The Group has used interest rate swaps to swap the floating rate interest relating to the Esperanza financing for fixed rate interest. At 31 December 2009 the Group had entered into the contracts outlined below:

	Phase	Start date	Maturity date	Maximum notional amount US\$m	Weighted average fixed rate %
Esperanza	1	15/02/2010	15/02/2011	787.8	1.353
Esperanza	2	15/02/2011	15/02/2018	840.0	3.372

**26 Post-Employment Benefit Obligations****a) Defined contribution schemes**

The Group operates defined contribution schemes for a limited number of employees.

The amount charged to the income statement in 2009 was US\$0.1 million (2008 – less than US\$0.1 million), representing the amount paid in the year. There were no outstanding amounts which remain payable at the end of either year.

**b) Severance provisions**

Employment terms at some of the Group's operations provide for payment of a severance indemnity when an employment contract comes to an end. This is typically at the rate of one month for each year of service (subject in most cases to a cap as to the number of qualifying years of service) and based on final salary level. The severance indemnity obligation is treated as an unfunded defined benefit plan, and the obligation recognised is based on valuations performed by an independent actuary using the projected unit credit method, which are regularly updated. The obligation recognised in the balance sheet represents the present value of the severance indemnity obligation. Actuarial gains and losses are immediately recognised in the income statement within operating cost.

The most recent valuation was carried out in 2009 by Raúl Benavente, a qualified actuary in Santiago, Chile who is not connected with the Group. The main assumptions used to determine the actuarial present value of benefit obligations were as follows:

	2009	2008
Average nominal discount rate	5.5%	5.5%
Average rate of increase in salaries	1.5%	2.0%
Average staff turnover	3.5%	3.0%

Amounts included in the income statement in respect of severance provisions are as follows:

	2009 US\$m	2008 US\$m
Current service cost (charge to operating profit)	(3.8)	(10.1)
Actuarial losses (charge to operating costs)	(9.5)	(0.5)
Interest cost (charge to interest expenses)	(1.3)	(1.2)
Foreign exchange (charge)/credit to other finance items	(8.4)	9.4
<b>Total charge to income statement</b>	<b>(23.0)</b>	<b>(2.4)</b>

Movement in the present value of severance provisions were as follows:

	2009 US\$m	2008 US\$m
Balance at the beginning of the year	(29.0)	(29.1)
Current service cost	(3.8)	(10.1)
Actuarial gains and losses	(9.5)	(0.5)
Charge capitalised	(0.4)	(0.5)
Reclassification	(0.4)	–
Interest cost	(1.3)	(1.2)
Paid in the year	4.6	3.0
Foreign currency exchange difference	(8.4)	9.4
<b>Balance at the end of the year</b>	<b>(48.2)</b>	<b>(29.0)</b>

**27 Deferred Tax**

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during 2008 and 2009:

	Accelerated capital allowances US\$m	Timing differences on provisions US\$m	Withholding tax US\$m	Short-term differences US\$m	Mining tax (Royalty) US\$m	Tax losses US\$m	Total US\$m
At 1 January 2008	(234.9)	21.1	(155.4)	(1.1)	(0.1)	9.5	(360.9)
(Charge)/credit to income	(67.2)	37.9	48.2	6.2	4.1	(2.5)	26.7
Charge capitalised	(12.2)	–	–	–	–	–	(12.2)
Charge deferred in equity	–	–	–	(9.0)	–	–	(9.0)
At 1 January 2009	(314.3)	59.0	(107.2)	(3.9)	4.0	7.0	(355.4)
Charge to income	(37.3)	(37.2)	(27.7)	(22.5)	(12.9)	(0.1)	(137.7)
Charge capitalised	(8.4)	–	–	–	–	–	(8.4)
Credit deferred in equity	–	–	–	22.8	–	–	22.8
<b>At 31 December 2009</b>	<b>(360.0)</b>	<b>21.8</b>	<b>(134.9)</b>	<b>(3.6)</b>	<b>(8.9)</b>	<b>6.9</b>	<b>(478.7)</b>

The charge to the income statement of US\$137.7 million (2008 – US\$26.7 million credit) includes a charge for foreign exchange differences of US\$5.1 million (2008 – includes a credit of US\$4.7 million).

## Notes to the Financial Statements continued

**27 Deferred Tax continued**

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balance (after offset):

	2009 US\$m	2008 US\$m
Deferred tax assets	31.1	12.7
Deferred tax liabilities	(509.8)	(368.1)
Net deferred tax balances	(478.7)	(355.4)

At 31 December 2009, the Group had unused tax losses of US\$40.8 million (2008 – US\$41.2 million) available for offset against future profits. A deferred tax asset has been recognised in respect of the full US\$40.8 million (2008 – US\$41.2 million). In 2008, these losses may be carried forward indefinitely.

At 31 December 2009, there were no other deductible temporary differences, for which no deferred tax assets were recognised in the balance sheet. Equal situation occurred at 31 December 2008.

At 31 December 2009, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was US\$4,047.3 million (2008 – US\$3,440.9 million). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is likely that such differences will not reverse in the foreseeable future.

Temporary differences arising in connection with interests in associates are insignificant.

**28 Long-term Provisions**

	2009 US\$m	2008 US\$m
Balance at the beginning of the year	(18.0)	(10.9)
Charge to operating profit in the year	(2.2)	(5.0)
Release of discount to net interest in the year	(1.5)	(0.8)
Change in estimates	(105.1)	–
Reclassification	0.4	(0.7)
Charge capitalised	(1.3)	(0.7)
Foreign currency exchange difference	(0.2)	0.1
<b>Balance at the end of the year</b>	<b>(127.9)</b>	<b>(18.0)</b>

**Analysed as follows:**

Decommissioning and restoration	(127.1)	(17.5)
Termination of water concession	(0.8)	(0.5)
<b>Balance at the end of the year</b>	<b>(127.9)</b>	<b>(18.0)</b>

**a) Decommissioning and site rehabilitation**

Decommissioning and restoration costs relate to the Group's mining operations. Costs are estimated on the basis of a formal closure plan and are subject to regular independent formal review.

New assessments of the closure provisions for all mining operations have been performed by external consultants, resulting in a US\$105.1 million increase to the capitalised decommissioning and restoration provision. The capitalised provision balances are depreciated over the life of the corresponding asset or mine life if shorter. The increase in the provision balance is mainly due to the significant amount of construction work at Esperanza since the previous assessments.

It is estimated that the provision will be utilised over a period of up to 27 years based on current mine plans.

**b) Termination of water concession**

A provision for the termination of the water concession relates to the provisions for items of property, plant and equipment and working capital items under Aguas de Antofagasta's ownership to be transferred to the previous state-owned operator ECONSSA at the end of the concession period. The provision is based on the net present value of the estimated value of these assets and liabilities expected to be in existence at the end of the concession.

The release of the discount applied in establishing the net present value of future costs is charged to the income statement in each accounting period and is disclosed within other finance items.

**29 Share Capital and Other Reserves****a) Share capital**

The ordinary share capital of the Company is as follows:

	2009 Number	2008 Number	2009 US\$m	2008 US\$m
<b>Authorised</b>				
Ordinary shares of 5p each	1,300,000,000	1,300,000,000	118.9	118.9
	2009 Number	2008 Number	2009 US\$m	2008 US\$m
<b>Issued and fully paid</b>				
Ordinary shares of 5p each	985,856,695	985,856,695	89.8	89.8

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.

There were no changes in the authorised or issued share capital of the Company in either 2008 or 2009. Details of the Company's preference share capital, which is included within borrowings in accordance with IAS 32, are given in Note 23.

**b) Other reserves**

Details of the share premium account, hedging, fair value and translation reserves and retained earnings for both 2008 and 2009 are included within the Consolidated Statement of Changes in Equity on page 65.

### 30 Minority Interests

The minority interests of the Group are as follows:

	At 01.01.09 US\$m	Share of profit for the financial year US\$m	Acquisition of minority interests US\$m	Share of dividends US\$m	Hedging reserves US\$m	Exchange differences US\$m	At 31.12.09 US\$m
Los Pelambres	743.4	399.5	–	(280.0)	–	–	<b>862.9</b>
El Tesoro	229.5	46.5	–	(30.0)	(13.1)	–	<b>232.9</b>
Michilla	10.3	6.0	–	–	(16.3)	–	–
Esperanza	169.6	–	–	–	(1.3)	–	<b>168.3</b>
Caracoles	(1.4)	–	1.4	–	–	–	–
Railway and other transport services	14.4	0.2	–	–	–	0.1	<b>14.7</b>
<b>Total</b>	<b>1,165.8</b>	<b>452.2</b>	<b>1.4</b>	<b>(310.0)</b>	<b>(30.7)</b>	<b>0.1</b>	<b>1,278.8</b>

The minority share of movements in reserves was US\$30.7 million.

### 31 Acquisitions

There have been no business combinations that would require disclosures under IFRS 3 Business Combinations during the year ended 31 December 2009. This note sets out a summary of other transactions that occurred during the year ended 31 December 2009 which resulted in the acquisition of an interest in various assets.

#### Acquisition of minority interest in Caracoles

In February 2009 the Group acquired the 18.5% minority interest in its subsidiary Compañía Contractual Minera Caracoles from Compañía Minera Milpo of Perú, for consideration of US\$25.0 million.

#### Acquisition of interest in Inversiones Hornitos S.A.

On 3 July 2009, the Group, through its wholly-owned subsidiary Antofagasta Railway Company plc, exercised an option to acquire a 40% interest in Inversiones Hornitos S.A. ("Inversiones Hornitos") from GDF SUEZ, which will continue to hold the remaining 60% interest. Inversiones Hornitos is the owner of the 150MW Hornitos thermoelectric power plant which is being constructed in Mejillones, in Chile's Antofagasta Region. The Hornitos thermoelectric power plant, which is expected to begin commercial operation in 2011, will provide energy to Minera Esperanza to meet its energy requirements, under a long-term supply agreement signed at the end of 2007 between GDF SUEZ and Antofagasta Minerals S.A. ("Antofagasta Minerals"), the Group's mining division. The acquisition of the 40% interest in Inversiones Hornitos took place under an option granted to Antofagasta Minerals S.A. when the long-term supply agreement was signed. Under the acquisition, the Group is responsible for its 40% share of the estimated total US\$0.4 billion development costs of the Hornitos thermoelectric power plant. This includes an initial payment made on 15 July 2009 of US\$80.9 million to GDF SUEZ, representing the Group's share of costs already incurred plus interest to the date of acquisition. Further capital contributions of US\$28.6 million were made by the Group to Inversiones Hornitos between 15 July 2009 and the date of this report.

#### Acquisition of interest in Sunridge Gold Corp

In September 2009 the Group entered into an exploration and evaluation agreement with Sunridge Gold Corp ("Sunridge"). Under this agreement the Group can earn an initial 60% interest in Sunridge's Asmara project in Eritrea by funding US\$10 million of exploration and evaluation work over a five-year period, and a further 15% interest (for an aggregate 75% interest in the project) by delivering a feasibility study on the project. In October 2009 the Group acquired approximately 18% of the issued share capital of Sunridge under a private placement for a consideration of US\$5 million.

### 32 Other Transactions

In March 2009 Aguas de Antofagasta S.A. ("Aguas de Antofagasta") acquired the desalination plant located in the city of Antofagasta from the current owner, Desalant S.A. ("Desalant") for a purchase price of US\$52.5 million. As part of this agreement, on-going arbitration proceedings between Aguas de Antofagasta and Desalant were also terminated. The desalination plant will be held under the terms of the 30-year concession from the previous state-owned operator Empresa Concesionaria de Servicios Sanitarios S.A. ("ECONSSA").

In March 2009 the Group entered into an agreement with Almaden Minerals Ltd ("Almaden") to acquire an interest in the Tuligtic copper-gold project in Mexico. Following the review of initial drilling results, the Group has decided not to proceed further with this project.

In October 2009 the Group entered into an agreement with Ormonde Mining plc ("Ormonde") in respect of its La Zarza deposit in southern Spain. The Group has the right to earn a 51% interest in the deposit over a three-year period by funding US\$7 million of exploration and subsequent evaluation activities, with a minimum commitment of US\$1 million in the first year. Antofagasta will have the right to further increase its interest in the La Zarza project to 75% by funding a feasibility study for the project.

In November 2009 the Group entered into an agreement with International Base Metals Limited ("IBML") of Australia in respect of its Kopermyn mining property in northern Namibia. The Group has the right to earn up to a 60% interest in the property over a two-year period by funding up to US\$1.8 million of exploration activities, with a minimum commitment of US\$0.5 million.

In December 2009 the Group entered into an agreement with Carbon Energy Limited ("Carbon Energy"), whereby Carbon Energy can earn a 30% stake in the Mulpun deposit, through applying its underground coal gasification technology to the project and through funding 30% of the development costs of a trial project.

## Notes to the Financial Statements continued

**33 Notes to the Consolidated Cash Flow Statement****a) Reconciliation of profit before tax to net cash inflow from operating activities**

	2009 US\$m	2008 US\$m
<b>Profit before tax</b>	<b>1,437.6</b>	2,609.5
Depreciation and amortisation	217.5	180.2
Loss on disposal of property, plant and equipment	4.2	5.3
Asset impairments	–	188.3
Profit on part-disposal of subsidiaries	–	(1,024.9)
Net finance expense/(income)	25.9	(56.3)
Share of profit of associate	(4.5)	(2.3)
Increase in inventories	(59.8)	(26.0)
(Increase)/decrease in debtors	(266.2)	133.0
(Decrease)/increase in creditors and provisions	(186.9)	447.5
<b>Cash flows from operations</b>	<b>1,167.8</b>	2,454.3

**b) Analysis of changes in net cash**

	At 1.1.09 US\$m	Cash flows US\$m	Other US\$m	Exchange US\$m	At 31.12.09 US\$m
<b>Cash and cash equivalents</b>	<b>3,358.0</b>	<b>(188.5)</b>	–	52.8	<b>3,222.3</b>
Bank borrowings due within one year	(306.0)	(43.3)	(77.1)	(0.1)	(426.5)
Bank borrowings due after one year	(77.6)	(1,144.7)	76.6	–	(1,145.7)
Finance leases due within one year	(13.0)	10.9	(3.5)	0.3	(5.3)
Finance leases due after one year	(39.4)	–	0.1	(6.6)	(45.9)
Preference shares	(2.9)	–	–	(0.3)	(3.2)
Total borrowings	(438.9)	(1,177.1)	(3.9)	(6.7)	(1,626.6)
Net cash	2,919.1	(1,365.6)	(3.9)	46.1	1,595.7

	At 1.1.08 US\$m	Cash flows US\$m	Other US\$m	Exchange US\$m	At 31.12.08 US\$m
Cash and cash equivalents	2,212.5	1,169.6	–	(24.1)	3,358.0
Bank borrowings due within one year	(101.6)	(129.8)	(74.8)	0.2	(306.0)
Bank borrowings due after one year	(160.2)	–	82.6	–	(77.6)
Finance leases due within one year	(0.2)	9.8	(22.6)	–	(13.0)
Finance leases due after one year	–	–	(38.2)	(1.2)	(39.4)
Preference shares	(4.0)	–	–	1.1	(2.9)
Total borrowings	(266.0)	(120.0)	(53.0)	0.1	(438.9)
Net cash	1,946.5	1,049.6	(53.0)	(24.0)	2,919.1

**c) Net cash**

	2009 US\$m	2008 US\$m
Cash and cash equivalents	3,222.3	3,358.0
Total borrowings	(1,626.6)	(438.9)
	<b>1,595.7</b>	2,919.1

### 34 Operating Lease Arrangements

	2009 US\$m	2008 US\$m
Minimum lease payments under operating leases recognised in income for the year	14.8	11.4

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2009 US\$m	2008 US\$m
Within one year	10.8	9.1
In the second to fifth years inclusive	18.1	10.7
After five years	5.4	–
	34.3	19.8

Operating lease payments relate mainly to rental of plant and equipment by operating subsidiaries of the Group.

### 35 Concession Arrangements

In 2003, the Group was awarded a 30-year concession to operate the water rights and facilities in the Antofagasta Region of Chile previously controlled by Empresa Concesionaria de Servicios Sanitarios S.A. ("ECONSSA"). The concession consists of two businesses, one an unregulated business supplying mines and other industrial users and the other a regulated water business supplying domestic customers. The concession contract was signed and control of the assets and operation assumed on 29 December 2003 by Aguas de Antofagasta, a wholly-owned subsidiary of the Group.

Under the concession contract, certain assets and liabilities (mainly certain specific tangible fixed assets and working capital items) were transferred to Aguas de Antofagasta by way of sale. Other assets (mainly water rights and infrastructure) were transferred by way of concession and will devolve to ECONSSA at the end of the 30-year period.

Aguas de Antofagasta will also be required to transfer to ECONSSA any tangible fixed assets and working capital items under its ownership at the end of the 30-year concession period. A provision for the termination of the water concession has been created for the fixed assets and working capital items under Aguas de Antofagasta's ownership to be transferred to ECONSSA at the end of the concession period. The provision is based on the net present value of the estimated value of these assets and liabilities in existence at the end of the concession. The release of the discount applied in establishing the net present value of future costs is charged to the income statement in each accounting period and is disclosed as a financing cost. Further details of this provision are given in Note 28(b).

The Chilean Water Regulator (Superintendencia de Servicios Sanitarios) sets domestic tariffs every five years following a regulatory review including representations from the operator of the concession. The last regulatory review was completed during 2006, which resulted in an average reduction in tariffs (compared with previous levels) of approximately 5% from July 2006.

### 36 Exchange Rates in US Dollars

The principal exchange rates expressed in US dollars used in the preparation of the 2009 financial statements are as follows:

	2009	2008
Year end rates	US\$1.6062 = £1; US\$1 = Ch\$507	US\$1.4428 = £1; US\$1 = Ch\$636
Average rates	US\$1.5591 = £1; US\$1 = Ch\$559	US\$1.8386 = £1; US\$1 = Ch\$522

### 37 Related Party Transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its associate are disclosed below.

The transactions which Group companies entered into with related parties who are not members of the Group are set out below.

#### a) Quiñenco S.A.

Quiñenco S.A. ("Quiñenco") is a Chilean financial and industrial conglomerate the shares of which are traded on the Santiago Stock Exchange. The Group and Quiñenco are both under the control of the Luksic family, and three Directors of the Company, Mr. J-P Luksic, Mr. GA Luksic and Mr. GS Menéndez, are also directors of Quiñenco.

The following material transactions took place between the Group and the Quiñenco group of companies, all of which were on normal commercial terms:

- the Group sold copper cathodes during the year for US\$2.3 million (2008 – US\$8.9 million) to Madeco S.A., a subsidiary of Quiñenco. The balance due from Madeco at the end of the year was nil (2008 – US\$0.8 million);
- the Group bought copper wire from Madeco for less than US\$0.1 million (2008 – US\$0.3 million);
- the Group earned interest income of US\$0.1 million (2008 – US\$0.3 million) during the year on deposits with Banco de Chile, a subsidiary of Quiñenco. Deposit balances at the end of the year were US\$31.7 million (2008 – nil); and
- the Group's transport division did not provide trucking services for beverages (2008 – US\$1.3 million) to Compañía Cervecerías Unidas S.A., an associate of Quiñenco. The balance due from CCU S.A. at the end of the year was nil (2008 – US\$0.1 million).

#### b) Compañía de Inversiones Adriático S.A.

In 2009, the Group leased office space on normal commercial terms from Compañía de Inversiones Adriático S.A., a company controlled by the Luksic family, at a cost of US\$0.7 million (2008 – US\$0.6 million).

#### c) Compañía Antofagasta Terminal Internacional S.A.

As explained in Note 17, the Group acquired a 30% interest in Antofagasta Terminal Internacional S.A. ("ATI") on 16 December 2004, which has been treated in these financial statements as an associate. During 2009, the Group received a dividend of US\$0.7 million from ATI (2008 – US\$1.8 million).

#### d) Antomin Limited, Antomin 2 Limited and Antomin Investors Limited

In August 2008 the Group acquired Mineralinvest Establishment's ("Mineralinvest") interest in mining properties required for the Marubeni transaction together with certain other properties. Prior to the completion of this transaction these properties were held in Antomin Limited ("Antomin"), in which the Group held an approximately 51% interest and Mineralinvest held an approximately 49% interest. The consideration payable by the Group to Mineralinvest under the terms of this agreement was US\$243 million. Mineralinvest is an entity ultimately controlled by the Luksic family.

The Group acquired its original interest in Antomin pursuant to an agreement in 2001 for a nominal consideration from Mineralinvest. Under the terms of the acquisition agreement, the Group's committed to meet in full the exploration and evaluation costs relating to those properties held by Antomin. The cumulative amount incurred to 31 December 2008 (including expenditure relating to those properties wholly acquired by the Group during the year) was US\$11.8 million.

The remaining properties owned by Antomin which were not to be 100% acquired by the Group under the terms of this agreement were separated into newly created indirect subsidiaries of Antofagasta (Antomin 2 Limited ("Antomin 2") and Antomin Investors Limited ("Antomin Investors")), which will continue to be owned approximately 51% by the Group and approximately 49% by Mineralinvest. With respect to Antomin 2 and Antomin Investors, Antofagasta will have the exclusive right to acquire at fair value under certain conditions, the shareholding of Mineralinvest in those entities, or the underlying properties, for a period of five years from August 2008. The Group has also committed to meet in full any exploration costs relating to the properties held by these entities. No exploration and evaluation expenditure was incurred in respect of these properties during year (2008 – nil). Further details of the mining properties held by Antomin 2 and Antomin Investors are included within the Ore Reserves and Mineral Resources Estimates.

# Notes to the Financial Statements continued

## 37 Related Party Transactions continued

### e) Tethyan Copper Company Limited

As explained in Note 18(a), during 2006 the Group entered into a joint venture agreement with Barrick Gold Corporation ("Barrick Gold") to establish a 50:50 joint venture over Tethyan's mineral interests in Pakistan.

During the year the Group contributed US\$31.1 million (2008 – US\$46.1 million) to Tethyan, to provide funds for Tethyan's on-going exploration and evaluation programme. The balance due from Tethyan to Group companies at the end of the year was US\$0.5 million (2008 – US\$1.4 million). Details of amounts relating to Tethyan included in the consolidated financial statements of the Group under the proportionate consolidation method are set out in Note 18(a).

### f) Energía Andina S.A.

In October 2008 Energía Andina S.A. was formed, a joint venture between the Group and Empresa Nacional del Petróleo ("ENAP") of Chile. During 2008 the Group contributed US\$9.0 million to Energía Andina S.A. to provide funds for its operations (comprising US\$8.5 million in cash and US\$0.5 million relating to exploration licences and other expenses incurred by the Group). The balance due from Energía Andina S.A. to the Group at the end of 2009 was US\$0.2 million (2008 – US\$0.2 million).

### g) Ingeniería y Servicios Computacionales Geovectra S.A.

In 2009, the Group did not paid fees (2008 – US\$66,771) for geological and technology services to Ingeniería y Servicios Computacionales Geovectra S.A. ("Geovectra"), a company controlled by Mr. J W Ambrus. Mr. Ambrus was a Director of the Company in both 2008 and 2009 until 14 October 2009. These services were on normal arm's length commercial terms for services performed by employees of Geovectra.

### h) Minera Cerro Centinela S.A.

Minera Cerro Centinela S.A. ("Centinela"), an entity ultimately controlled by the Luksic family, has an interest of 7.973% in Minera Michilla S.A. ("Michilla"), a shareholding it has held since Michilla was created through the merger of two predecessor companies on 31 December 1993. During the year ended 31 December 2009 Centinela's share of dividends received from Michilla were nil (31 December 2008 – (US\$7.0 million)

### i) Directors and other key management personnel

Information relating to Directors' remuneration and interests are given in the Remuneration Report on pages 59 to 61. Information relating to the remuneration of key management personnel including the Directors is given in Note 8.

### j) Inversiones Hornitos S.A.

In July 2009, the Group acquired a 40% interest in Inversiones Hornitos S.A. (Inversiones Hornito) from GDF SUEZ. This interest is accounted for as an associate. The Group made an initial payment on 15 July 2009 of US\$80.9 million to GDF SUEZ, representing the Group's share of costs already incurred plus interest to date of acquisition. During the year ended 31 December 2009 the Group made further capital contributions of US\$28.6 million to Inversiones Hornitos. The balance due from Inversiones Hornitos to the Group at 31 December 2009 was US\$22.5 million (31 December 2008 – nil).

### k) Sunridge Gold Corp

In October 2009 the Group acquired 17.84% of the issued share capital of Sunridge Gold Corp ("Sunridge") under a private placement. This interest is accounted for as an associate. The Group paid US\$5 million for investment and during the year ended 31 December 2009 has not made capital contributions. The balance due from Sunridge to the Group at 31 December 2009 was nil (31 December 2008 – nil).

## 38 Contingent Assets and Contingent Liabilities

There are a number of claims currently outstanding to which Antofagasta plc or its subsidiaries ("the Group") is a party, for which no provision has been made in the financial statements and are currently not expected to result in any material loss to the Group. Details of the principal claims in existing either during or at the end of the year and their current status are set out below:

### a) Los Pelambres – Mauro tailings dam

As previously announced, during 2008 Los Pelambres entered into binding settlements in respect of litigation relating to the Mauro tailings dam. In December 2008, Los Pelambres became aware of further legal proceedings of which had been initiated in first instance courts in Santiago and Los Vilos by certain members of the Caimanes community located near the Mauro valley. These claims, some of which have already been rejected by the relevant courts, sought to prevent the operation of the Mauro tailings dam. Los Pelambres is continuing to take necessary steps to protect its position and remains confident of its rights to continue operation of the dam.

### b) Tethyan Copper Company Limited – Chagai Hills Exploration Joint Venture

On 26 June 2007 the High Court of Baluchistan at Quetta dismissed a petition which had sought to declare that the Chagai Hills Exploration Joint Venture of 1993 and the exploration licences granted to Tethyan were null and void and overturned an injunction passed earlier by the Court. The petition had been filed in November 2006 and was directed at several parties including the Group, the Government of Pakistan and the Government of Baluchistan.

The petitioners have filed a Civil Petition for Leave to Appeal ("CPLA") against the judgement and this will be heard by the Supreme Court to decide whether the appeal should be heard on its merits.

## 39 Events After the Balance Sheet Date

### a) Duluth Metals Limited

On 14 January 2010, the Group signed a legally binding Heads of Agreement ("HoA") with Duluth Metals Limited ("Duluth Metals"), a company listed on the Toronto Stock Exchange ("TSX"), pursuant to which Antofagasta will initially become a 40% partner in Duluth Metals' Nokomis copper-nickel-platinum group metal ("PGM") deposit ("Nokomis"), located in the highly prospective Duluth Complex in northeastern Minnesota, USA by committing to fund a total of US\$130.0 million of further exploration and evaluation and feasibility study expenditure over a three-year period. The Group will also have the option to acquire an additional 25% interest in Nokomis under certain conditions. The Group also subscribed for six million new ordinary shares in Duluth Metals by way of a private placement and a subsequent anti-dilution pre-emptive subscription of 550,939 shares at Cdn\$2.00 per share in cash, to become an approximate 7% shareholder in Duluth Metals.

### b) Los Pelambres financing

During January 2010 Los Pelambres entered into an additional loan of US\$245.0 million with Japan Bank for International Cooperation ("JBIC"), which is expected to be drawn down during the first quarter of 2010. This loan is for a term of approximately seven years and has an interest rate of approximately LIBOR plus 0.9%.

## 40 Ultimate Parent Company

The immediate parent of the Group is Metalinvest Establishment, which is controlled by E. Abaroa Foundation, in which members of the Luksic family are interested.

Both Metalinvest Establishment and the E. Abaroa Foundation are domiciled in Liechtenstein. Information relating to the interest of Metalinvest Establishment and the E. Abaroa Foundation are given in the Directors' Report on page 53.

# Parent Company Financial Statements

## 41 Antofagasta plc – Balance Sheet of the Parent Company and Related Notes

### Parent Company Balance Sheet

At 31 December 2009

	Notes	2009 US\$m	2008 US\$m
<b>Fixed assets</b>			
Investment in subsidiaries	41D	666.2	665.7
<b>Current assets</b>			
Debtors – amounts falling due within one year		0.5	0.3
– amounts owed by subsidiaries	41D	760.1	993.6
Current asset investments (term deposits)		9.6	8.1
Cash at bank and in hand		1.6	1.3
		<b>771.8</b>	<b>1,003.3</b>
<b>Creditors – amounts falling due within one year</b>			
Other creditors		(1.2)	(0.9)
Amounts owed to subsidiaries		(299.5)	(299.5)
		<b>(300.7)</b>	<b>(300.4)</b>
<b>Net current assets</b>			
		<b>471.1</b>	<b>702.9</b>
<b>Total assets less current liabilities</b>			
		<b>1,137.3</b>	<b>1,368.6</b>
<b>Creditors – amounts falling due after more than one year</b>			
Preference shares	41E	(3.2)	(2.9)
<b>Total assets less total liabilities</b>			
		<b>1,134.1</b>	<b>1,365.7</b>
<b>Capital and reserves</b>			
Called up shares capital			
– Ordinary shares – equity	41F	89.8	89.8
<b>Reserves</b>			
– Share premium account	41F	199.2	199.2
– Profit and loss account	41F	845.1	1,076.7
<b>Shareholders' funds</b>			
		<b>1,134.1</b>	<b>1,365.7</b>

Approved by the Board and signed on its behalf on 8 March 2010.



J-P Luksic  
Chairman



CH Bailey  
Director

# Parent Company Financial Statements continued

## 41A Basis of Preparation of the Balance Sheet and Related Notes of the Parent Company

The Antofagasta plc Parent Company balance sheet and related notes have been prepared in accordance with United Kingdom generally accepted accounting principles ("UK GAAP") and in accordance with UK company law. The financial information has been prepared on a historical cost basis. The financial statements have been prepared on a going concern basis. The functional currency of the Company and the presentational currency adopted is US dollars.

A summary of the principal accounting policies is set out below. There were no changes in accounting policies in 2009.

The preparation of financial statements in conformity with UK GAAP requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Although these estimates are based on management's best knowledge of the amount, event or actions, following implementation of these standards, actual results may differ from those estimates.

As permitted by section 408 of the Companies Act 2006, the profit and loss account of the Parent Company is not presented as part of these financial statements. The profit after tax for the year of the Parent Company amounted to US\$330.3 million (2008 – US\$922.5 million).

## 41B Principal Accounting Policies of the Parent Company

### a) Currency translation

The Company's functional currency is the US dollar. Transactions denominated in other currencies, including the issue of shares, are translated at the rate of exchange ruling on the date of the transaction. Monetary assets and liabilities, including amounts due from or to subsidiaries, are translated at the rate of exchange ruling at the end of the financial year. Exchange differences are charged or credited to the profit and loss account in the year in which they arise.

### b) Revenue recognition

Interest is accounted for on an accruals basis. Dividends proposed by subsidiaries are recognised as income by the Company when they represent a present obligation of the subsidiaries, i.e. in the period in which they are formally approved for payment.

### c) Dividends payable

Dividends proposed are recognised when they represent a present obligation, i.e. in the period in which they are formally approved for payment. Accordingly, an interim dividend is recognised when paid and a final dividend is recognised when approved by shareholders.

### d) Investments in subsidiaries

Investments in subsidiaries represent equity holdings in subsidiaries and long-term amounts owed by subsidiaries. Such investments are valued at cost less any impairment provisions. Investments are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is assessed by reference to the net present value of expected future cash flows of the relevant income-generating unit or disposal value if higher.

As explained in Note 41D, amounts owed by subsidiaries due in foreign currencies are translated at year end rates of exchange with any exchange differences taken to the profit and loss account.

### e) Current asset investments and cash at bank and in hand

Current asset investments comprise highly liquid investments that are readily convertible into known amounts of cash and which are subject to insignificant risks of changes in value, typically maturing within 12 months.

Cash at bank and in hand comprise cash in hand and deposits repayable on demand.

### f) Borrowings – preference shares

The sterling-denominated preference shares issued by the Company carry a fixed rate of return without the right to participate in any surplus. They are accordingly classified as borrowings and translated into US dollars at period end rates of exchange. Preference share dividends are included within finance costs.

### g) Equity instruments – ordinary share capital and share premium

Equity instruments issued are recorded at the proceeds received, net of direct issue costs. Equity instruments of the Company comprise its sterling-denominated issued ordinary share capital and related share premium.

As explained above, the presentational and the functional currency of the Company is US dollars, and ordinary share capital and share premium are translated into US dollars at historical rates of exchange based on dates of issue.

### h) Cash flow statement

The Company's individual financial statements are outside the scope of FRS 1 "Cash Flow Statements" because the Company prepares publicly available consolidated financial statements which include a consolidated cash flow statement. Accordingly, the Company does not present an individual company cash flow statement.

### i) Related party disclosures

The Company's individual financial statements are exempt from the requirements of FRS 8 "Related Party Disclosures" because its individual financial statements are presented together with its consolidated financial statements. Accordingly, the individual financial statements do not include related party disclosures.

## 41C Employee Benefit Expense

### a) Average number of employees

The average number of employees was 8 (2008 – 7).

### b) Aggregate remuneration

The aggregate remuneration of the employees mentioned above was as follows:

	2009 US\$m	2008 US\$m
Wages and salaries	1.6	1.8
Social security costs	0.2	0.2
Post-employment benefits – severance charge in the year	0.1	0.1
	1.9	2.1

The above employee figures exclude Directors who receive Directors' fees from Antofagasta plc. Details of fees payable to Directors are set out in the Remuneration Report.

**41D Subsidiaries****a) Investment in subsidiaries**

	2009 US\$m	2008 US\$m	
Shares in subsidiaries at cost	57.6	57.6	
Amounts owed by subsidiaries due after more than one year	608.6	608.1	
	<b>666.2</b>	<b>665.7</b>	
	Shares US\$m	Loans US\$m	Total US\$m
1 January 2009	57.6	608.1	665.7
Loans made	–	0.5	0.5
<b>31 December 2009</b>	<b>57.6</b>	<b>608.6</b>	<b>666.2</b>

**b) Amounts owed by subsidiaries due within one year**

At 31 December 2009, amounts owed by subsidiaries due within one year were US\$760.1 million (2008 – US\$993.6 million).

**41E Borrowings – Preference Shares**

The authorised, issued and fully paid preference share capital of the Company comprised 2,000,000 5% cumulative preference shares of £1 each at both 31 December 2009 and 31 December 2008. As explained in Note 41B(f), the preference shares are measured in the balance sheet in US dollars at period end rates of exchange.

The preference shares are non-redeemable and are entitled to a fixed 5% cumulative dividend, payable in equal instalments in June and December of each year. On a winding up, the preference shares are entitled to repayment and any arrears of dividend in priority to ordinary shareholders, but are not entitled to participate further in any surplus. Each preference share carries 100 votes (see Note 23(x)) at any general meeting.

**41F Reconciliation of Movement in Shareholders' Funds**

	Called up ordinary share capital US\$m	Share premium account US\$m	Profit and loss account US\$m	Total US\$m
At 1 January 2008 (equity)	89.8	199.2	645.2	934.2
Profit for the financial year	–	–	922.5	922.5
Dividends paid	–	–	(491.0)	(491.0)
At 31 December 2008 and 1 January 2009	89.8	199.2	1,076.7	1,365.7
Profit for the financial year	–	–	330.3	330.3
Dividends paid	–	–	(561.9)	(561.9)
<b>31 December 2009 (equity)</b>	<b>89.8</b>	<b>199.2</b>	<b>845.1</b>	<b>1,134.1</b>

The ordinary shares rank after the preference shares in entitlement to dividend and on a winding up. Each ordinary share carries one vote at any general meeting.