Antofagasta Railway Company plc

(Registered Number: 27767)

Annual Report and Financial Statements

31 December 2008

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Antofagasta Railway Company plc

Directors' Report

The Directors present their Annual Report and the audited financial statements for the year ended 31 December 2008.

Review of business and future developments

The principal activity of the Company during the year was and will continue to be the transport of freight by rail. This activity is based in Chile.

The Company uses a number of financial and non-financial key performance indicators in order to measure performance, which are set out below. Other key performance indicators relating to the Antofagasta plc group as a whole, including information relating to employees, health and safety and the environment, are contained within the Group's Annual Report, available from the Group's website.

		2008	2007
Turnover	US$'000	128,695	103,390
Operating profit	US$'000	43,450	29,438
Capital expenditure	US$'000	29,644	26,148
Rail tonnage transported	000 tons	4,620	4,333

Turnover increased by US$25,305,000 or 24% to US$128,695,000 mainly due to increased rail volumes, longer haulage distances, normal tariff adjustments under contracts in line with costs and guaranteed payments under certain contracts. As a result, operating profit increased by US$14,012,000 or 48% to US$43,450,000. Capital expenditure in the year was US$29,644,000 (2007 – US$26,148,000).

Rail tonnages in Chile rose to 4.6 million tons in 2008, compared with 4.3 million tons in 2008. This was driven by the continued ramp-up of Apex Silver's San Cristobal mine where shipments through Chile reached nearly 0.5 million tons and the start-up of Coldeco's Gaby mine which contributed 0.3 million tons in 2008. These helped offset minor variations from existing customers as a result of continuing production disruptions at mines in the early part of the year, and the loss of tonnages from some smaller contracts which ended in 2007.

In 2009, rail tonnages are expected to increase as the network benefits from a full year's production at both San Cristobal and Gaby, together with marginal increases as other customers recover from disruptions and shortfalls experienced in 2008. The weaker commodity price environment has nevertheless increased pricing pressures as mining customers seek to control costs and consider production cuts.

Results and Dividends

The profit before taxation was US$57,631,000 in 2008 compared with US$55,264,000 in 2007. The increase reflected the higher operating profit, although this was largely offset by the reduction in the level of external interest receivable. In 2008 the external interest receivable was US$8,179,000 compared with US$18,652,000 in 2007, partly reflecting a general reduction in market interest rates.

The Directors do not recommend the payment of an ordinary dividend (2007 - nil).

Preference shares carry the right to a fixed cumulative dividend of 5 per cent per annum. The preference shares are classified within borrowings, and preference dividends are included within finance costs. The total cost of preference dividends paid and recognised as an expense in the income statement was US$184,000 (2007 – US$200,000).

The retained profit of US$47,410,000 (2007 – US$47,435,000) has been transferred to reserves.

Directors' Report (Continued)

Fixed assets

Details of movements in tangible fixed assets during the year are given in Note 7 to the accounts.

Going Concern

The company's business activities, together with those factors likely to affect its future performance, are set out in the Review of business and future developments. Details of the key risks facing the company and financial risk management, including details on the management of liquidity and credit risk, are set out below.

In assessing the company's going concern status the Directors have taken into account the above factors, including the financial position of the company, in particular its net cash position, market expectations in the medium-term, and the company's capital expenditure and financing plans.

After making appropriate enquiries, the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future and that it is appropriate to adopt the going concern basis in preparing the financial statements.

Principal risks and uncertainties

Introduction

The Company is exposed to a range of risks and uncertainties which may affect it. These risks include strategic, commercial, operational, regulatory and financial risks. A summary of the key risks facing the Company is set out below. There may be additional risks unknown to the Company and other risks, currently believed to be insignificant, could turn out to be significant. These risks, whether they materialise individually or simultaneously, could significantly affect the Company's business and financial results. In addition to the Company-specific risks discussed below, the risks and uncertainties relating to the Antofagasta plc group as a whole are described in the Group's Annual Report, available from the Group's website.

Economic environment and customer demand

The Company's main business is the transportation of sulphuric acid to, and copper cathodes from, copper mines located in the Antofagasta region of Chile. As such, demand for the Company's services is affected by the performance of the copper mining industry, and the development of new mining projects in that region.

The financial performance of mining companies is directly related to commodity price levels, which are influenced strongly by world economic growth, and can fluctuate widely. Demand for supplies, equipment, skilled personnel and contractors could affect capital and operating costs, which may impact the development of new mining projects and the expansion of existing mining operations.

Mining operations and project developments are also subject to a number of circumstances not wholly within their control, including damage to or breakdown of equipment or infrastructure, natural disasters, unexpected geological variations and industrial actions. Increasing regulatory and environmental approvals and litigation could result in significant delays in construction and/or increases in construction costs. These events could materially and adversely affect a mining project's economics or its successful completion.

Operational risks

The costs of capital projects or on-going operating expenses could increase beyond current levels, due to changes in the general economic environment or project specific factors, resulting in a reduction in profitability.

Directors' Report (Continued)

Political environment

The Company could be affected by any political or regulatory developments in any of the areas in which it operates, including controls on imports, exports and prices, expropriation of assets, or new forms or rates of taxation and royalties.

Health, safety and environment

The Company operates in an industry that is subject to numerous health and safety laws and regulations. Developments in regulatory standards could result in increased costs and/or litigation, which could impact on earnings and cash flows.

Financial risk and risk management

The Company periodically uses derivative financial instruments to reduce exposure to foreign exchange movements. The Company does not use such derivative instruments for speculative trading purposes. The Company did not apply the hedge accounting provisions of FRS 26 "Financial Instruments: Recognition and Measurement" in either 2007 or 2008. Accordingly, any derivatives are measured at each balance sheet date at fair value. Gains and losses arising from changes in fair value of exchange derivatives are included in the profit and loss account for the year.

Foreign exchange risk

The Company is exposed to a variety of currencies. The US dollar, however, is the currency in which the majority of the Group's sales and operating costs are determined. In addition to 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 Company's operations, this is the functional and presentational currency of the Company for internal and external reporting. The US dollar is also the principal currency for borrowing and holding surplus cash, although a portion of this may be held in other currencies, notably Chilean pesos, to meet short-term operational and capital commitments.

When considered appropriate the Company uses forward exchange contracts and currency swaps to limit the effects of movements in exchange rates in foreign currency denominated assets and liabilities. The Company also uses these instruments to reduce currency exposure on future transactions and cash flows.

Interest rate risk

The Company's policy is generally to borrow and invest cash at floating rates. Fluctuations in interest rates may impact on the Company's net finance income or cost, and to a lesser extent on the value of financial assets and liabilities.

Price risk

The majority of the Company's sales are based on medium to long-term contracts with customers for which transport tariffs are adjusted for Chilean inflation, US inflation and fuel prices. Tariffs are also based on transport volumes and transport distances. Prices achieved by the Company may therefore vary with these factors.

Credit risk

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

Directors' Report (Continued)

Cash flow risk

The Company's future cash flows depend on a number of factors, including transport tariffs, transport volumes, operating costs, capital expenditure levels and financial income and costs. Its cash flows are therefore subject to the exchange rate, interest rate and price risks described above as well as operational factors and input costs.

Liquidity risk

The Company typically holds surplus cash balances either on demand deposits or short-term deposits. The majority of borrowings comprise customer advances for capital expenditure. The loans are repayable out of future customer receipts based on tonnages transported and are expected to be repaid within five years. At the end of both 2007 and 2008, the Company was in a net cash position.

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 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. Changes in judgements or the assumptions underlying estimates could result in a significant impact on the financial statements. Details of principal accounting policies are set out in Note 1(b) to the financial statements and details of critical accounting judgements and key sources of estimation uncertainty are set out in Note 1(c) to the financial statements.

Environment

The environmental policies and activities for the Antofagasta plc group as a whole are discussed on pages 44 – 51 in the Group's 2008 Annual Report, available from the Group's website.

Directors

The following were Directors throughout the year and subsequently unless otherwise stated:

J-P Luksic
CH Bailey
GS Menendez
RF Jara
DR O'Conor
J Lavin
CR Mladinic

Creditor days

The Company does not trade in the United Kingdom. Creditor days for the Company have been calculated at 61 days (2007 – 84 days). Credit terms are agreed with individual suppliers and payment is made in accordance with terms agreed.

Insurance

During the year the parent company, Antofagasta plc, purchased Directors' and Officers' liability insurance on behalf of the Group as permitted by Section 309A(5) of the Companies Act 1985.

Directors' Report (Continued)

Auditors

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

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

For these purposes, "relevant audit information" means information needed by the Company's auditors in connection with preparing their report.

This statement is made and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

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

By Order of the Board

D R O'Conor
Director
5 Princes Gate
London SW7 1QJ
7 July 2009

Antofagasta Railway Company plc

Statement of Directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditors' Report to the Members of Antofagasta Railway Company plc

We have audited the financial statements of Antofagasta Railway Company plc for the year ended 31 December 2008 which comprise the profit and loss account, the note of historical cost profits and losses, the balance sheet and the related notes 1 to 20. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985.

Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent Auditors' Report to the Members of Antofagasta Railway Company plc (continued)

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 and of its profit for the year then ended;

- the financial statements have been properly prepared in accordance with the Companies Act 1985; and

- the information given in the Directors' Report is consistent with the financial statements.

Deloitte LLP

Deloitte LLP
Chartered Accountants and Registered Auditors
London
7 July 2009

Antofagasta Railway Company plc

Profit and Loss Account for the year ended 31 December 2008

	Notes	2008 US$'000	2007 US$'000
Turnover		128,695	103,390
Cost of sales		(69,199)	(59,888)
Gross profit		59,496	43,502
Administrative expenses		(15,745)	(13,297)
Other operating expense		(530)	(1,541)
Other operating income		229	774
Operating profit		43,450	29,438
Income from other fixed asset investments		1,149	143
Net finance income	2	13,032	25,683
Profit on ordinary activities before taxation	3	57,631	55,264
Tax on profit on ordinary activities	4	(10,221)	(7,829)
Profit on ordinary activities after taxation and retained profit for the year		47,410	47,435

No ordinary dividends were paid or proposed in either 2008 or 2007.

The movements in Reserves for the year are analysed in Note 6. There were no operations other than continuing operations during the year.

There were no recognised gains or losses in either period other than as included within the profit and loss account above.

Antofagasta Railway Company plc

Note of Historical Cost Profits and Losses for the year ended 31 December 2008

	2008 US$'000	2007 US$'000
Reported profit on ordinary activities before tax	57,631	55,264
Difference between historical cost depreciation charge and actual depreciation charge in the year calculated on the revalued amount	469	469
Historical profit on ordinary activities before tax and dividends	58,100	55,733
Retained profit for the financial year on an historical cost basis	47,879	47,904

Antofagasta Railway Company plc

Balance Sheet as at 31 December 2008

	Notes	2008 US$'000	2007 US$'000
Fixed assets			
Tangible fixed assets	7	133,623	111,281
Investments in subsidiary undertakings	8	81,136	136,951
Available for sale investments	9	12	12
		214,771	248,244
Current assets			
Inventories		-	438
Debtors	10	376,484	24,568
Current asset investments – term deposits		91,696	373,056
Cash at bank and in hand		1,101	726
		469,281	398,788
Creditors - amounts falling due within one year			
Loans	13	(198)	(2,379)
Derivative financial instruments	11	(1,400)	-
Trade and other creditors	12	(18,993)	(13,940)
Amounts owed to parent undertaking		(139,557)	(139,247)
Amounts owed to fellow subsidiary undertakings		(40,102)	(47,345)
		(200,250)	(202,911)
Net current assets		269,031	195,877
Total assets less current liabilities		483,802	444,121
Loans due after more than one year	13	(2,886)	(9,719)
Provisions for liabilities	14	(6,554)	(7,450)
Net assets		474,362	426,952
Capital and reserves			
Share capital	15	11,372	11,372
Revaluation reserve	6	13,380	13,849
Profit and loss account	6	449,610	401,731
Total shareholders' funds	16	474,362	426,952

Approved by the Board and signed on its behalf on 7 July 2009

D R O'Conor, Director

Notes to the Financial Statements – 31 December 2008

1 Basis of Preparation, Principal Accounting Policies and Key Sources of Estimation Uncertainty

(a) Basis of Preparation

These financial statements have been prepared in accordance with United Kingdom generally accepted accounting practice ("UK GAAP") and in accordance with UK company law. The financial information has been prepared on an historical cost basis, as modified by the revaluation of certain tangible fixed assets and the use of fair values to measure certain financial instruments. The financial information has also been prepared on a going concern basis.

A reclassification has been made to the comparative profit and loss account figures, to reclassify a credit of US$774,000 from "other operating expense" into "other operating income". Previously this amount was shown as part of a net operating expense balance. The impact is to increase other operating expense by US$774,000 and separately disclose US$774,000 in other operating income. There is no impact on operating profit.

The functional currency of the Company and the presentational currency adopted is the US dollar.

A summary of the principal accounting policies is set out below.

(b) Principal Accounting Policies

(i) Exemption from preparing group accounts

The Company has taken advantage of the exemption from preparing consolidated accounts afforded by Section 228 of the Companies Act 1985 because it is a wholly-owned subsidiary of Antofagasta plc which prepares consolidated accounts which are publicly available, and as such these financial statements contain financial information about the Company as an individual undertaking and not about its Group.

(ii) Currency translation

The Company's functional currency and presentation 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.

(iii) Turnover and 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. The Company has only one business and geographical segment, relating to the transport of freight by rail in Chile.

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.

(iv) Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation or any provisions for impairment or, where previously revalued prior to the implementation of FRS 15, "Tangible Fixed Assets", at the revalued book amount as permitted under the transitional provisions of FRS 15. Cost comprises the purchase price and any costs directly attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended.

Depreciation is provided to write down the carrying value of fixed assets to their estimated residual value in equal instalments at the following rates based on their estimated useful lives:

a. *Freehold land* – freehold land is not depreciated.

b. *Buildings and infrastructure* – straight-line basis over 10 to 25 years.

c. *Railway track* – straight-line basis over 20 to 25 years.

d. *Wagons and rolling stock* – straight-line basis over 10 to 20 years.

e. *Machinery, equipment and other assets* – straight-line basis over 5 to 10 years.

f. *Assets under construction* – no depreciation until asset is available for use.

(v) 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 1(b)(ii), 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.

(vi) 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 which have been enacted or substantively enacted at the balance sheet date.

Deferred tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements.

Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset, or on unremitted earnings of subsidiaries and associates where there is no commitment to remit these earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Antofagasta Railway Company plc

Notes to the Financial Statements – 31 December 2008 (Continued)

(vii) **Retirement benefits and severance indemnities**

The Company 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 (and may be subject to a cap as to the number of qualifying years of service) and based on final salary level. The calculation of the severance indemnity obligation 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.

(viii) **Dividends payable**

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

(ix) **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 twelve months.

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

(x) **Other financial instruments**

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

a. *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. 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.

   Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in net profit or loss for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, 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 net profit or loss for the period.

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

b. *Trade and other receivables* - Trade and other receivables do not generally carry any interest and are normally stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

c. *Trade and other payables* - Trade and other payables are generally not interest bearing and are normally stated at their nominal value.

d. *Borrowings (loans and preference shares)* - Interest-bearing loans and bank overdrafts are recorded at the proceeds received, net of direct issue costs.

   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 recorded as financing costs in the income statement. 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.

e. *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 1(b)(ii), the presentational currency of the Company 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.

f. *Derivative financial instruments* - the Company occasionally uses derivative financial instruments to reduce exposure to foreign exchange movements. The Company does not use such derivative instruments for trading purposes. The Company has not presently applied the hedge accounting provisions of FRS 26 "Financial Instruments: Recognition and Measurement".

Accordingly, derivatives are initially measured at cost (which may be nil) including transaction costs, and are measured at subsequent reporting dates at fair value. Gains and losses arising from changes in fair value are included in the profit and loss account within net finance costs.

Any 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 profit and loss for the period.

The Company is a wholly-owned subsidiary of Antofagasta plc and has taken advantage of the exemption in Financial Reporting Standard 29 "Financial Instruments: Disclosures" from the detailed disclosure requirements of that standard.

(xi) Related party transactions

The Company is a wholly-owned subsidiary of Antofagasta plc and as permitted by Financial Reporting Standard 8 "Related Party disclosures" transactions with other wholly-owned subsidiaries in the Group are not disclosed.

(c) Key sources of estimation uncertainty and critical accounting judgements

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, actual results may differ from those estimates.

Information about such judgements and estimates is included in the principal accounting policies in Note 1 (b) or the other notes to the financial statements, and the key areas are set out below.

(i) Useful economic lives of tangible fixed assets

As explained in Note 1 (b)(iv), tangible fixed assets are depreciated on a straight-line basis over their useful economic lives. Management reviews the appropriateness of useful economic lives at least annually and any changes could affect prospective depreciation rates and asset carrying values.

(ii) Severance indemnities

As explained in Note 1 (b) (vii), 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 in the income statement within operating cost.

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 Company.

Notes to the Financial Statements – 31 December 2008 (Continued)

2 Net finance income

	2008 US$'000	2007 US$'000
External interest receivable	8,179	18,652
Foreign exchange derivatives	(1,398)	-
Preference dividends	(184)	(200)
Foreign exchange gains	6,435	7,231
	13,032	25,683

3 Profit on ordinary activities before taxation

Profit on ordinary activities before tax is stated after charging:

	2008 US$'000	2007 US$'000
Depreciation	6,962	6,105
Loss on disposal of tangible fixed assets	340	560
Auditors' remuneration - audit fees and expenses	153	214
Wages and salaries	17,761	13,877
Social security costs	416	427

The amounts disclosed above in relation to auditors' remuneration include fees payable by the Company to Deloitte LLP and its associates. Fees paid for audit services to Deloitte LLP were US$94,000 (2007 – US$101,000). There were no fees paid by the Company for non-audit services in the current or preceding year.

The average number of employees including directors by location and class of business during the year was:

	2008 Number	2007 Number
Chile		
- Railway operations in Northern Chile	584	492
- Management and administration	175	147
	759	639

Directors' remuneration

	2008 US$'000	2007 US$'000
Total directors' remuneration		
Base salary and fees	1,321	1,163
Highest paid director		
Base salary and fees	1,193	1,069

The highest paid director is Mr. J-P Luksic. Mr. Luksic has a contract for services with the Company which has a one month notice period.

4 Tax on profit on ordinary activities

(a) Analysis of tax charge for the year

The Company is resident outside the United Kingdom and accordingly is not liable to United Kingdom corporation tax. The Company is liable to Chilean corporation tax at the rate of 17% (2007 – 17%) on profits arising in Chile, with further tax payable of 35% less underlying tax already paid on such profits distributed overseas. The Company's tax charge for the year comprises current and deferred tax as set out below.

	2008 US$'000	2007 US$'000
Current tax charge for the year - Chilean corporation tax	9,733	7,622
Deferred tax charge for the year - origination and reversal of timing differences	488	207
Tax charge for the year	10,221	7,829

(b) Analysis of deferred tax (liability)/ asset

The net deferred tax (liability)/asset at the end of the year is analysed below between its main components.

	2008 US$'000	2007 US$'000
Accelerated capital allowances	(6,051)	(5,549)
Timing differences on severance provision and other balance sheet items	5,690	5,741
Short-term timing differences	110	45
Net deferred tax (liability)/asset at end of year	(251)	237

The deferred tax liability at the year-end is included within trade and other creditors – see note 12 (2007 - deferred tax assets included within debtors - see Note 10). The movement in the deferred tax balance during the year is analysed below.

	Deferred tax asset US$'000
Balance at 1 January 2008	237
Charge to tax on profit for the year	(488)
Balance at 31 December 2008	(251)

No deferred tax is recognised on the unremitted earnings from Chile. As such earnings are retained for current or future reinvestment, it is not expected that any withholding tax will become payable in the foreseeable future.

Antofagasta Railway Company plc

Notes to the Financial Statements – 31 December 2008 (Continued)

(c) Factors affecting the current tax charge for the year

The principal factors affecting the current tax charge for the year are set out below.

	2008 US$'000	2007 US$'000
Profit on ordinary activities before tax	57,631	55,264
Profit on ordinary activities multiplied by the standard rate of corporation tax in Chile of 17%	9,797	9,395
Capital allowances in the year in excess of depreciation	(502)	(273)
Other timing differences reflected in deferred tax charge	14	66
Factors reflected in deferred tax charge for the year	(488)	(207)
Dividend income from other fixed asset investment not subject to further tax on receipt	(195)	(24)
Effect of foreign exchange differences not subject to tax	(360)	11
Exchange differences on current tax	1,296	145
Other differences	(317)	(1,698)
Current tax charge for the year	9,733	7,622

Dividend income from investments in Chile is received out of the post-tax profits of the investments and is not subject to further tax on receipt.

5 Dividends

No final ordinary dividend has been either paid or proposed (2007 - nil). No interim dividend per ordinary share was paid in either 2007 or 2008.

Preference dividends have been included within interest expense (see Note 2) and amounted to US$184,000 (2007 – US$200,000).

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Notes to the Financial Statements – 31 December 2008 (Continued)

6 Reserves

	Revaluation reserve US$'000	Profit and loss account US$'000	Total US$'000
Balance at 1 January 2008	13,849	401,731	415,580
Retained profit for the year	-	47,410	47,410
Revaluation surplus realised as a result of the difference between historical cost depreciation and the actual depreciation charge in the year	(469)	469	-
Balance at 31 December 2008	13,380	449,610	462,990

7 Tangible fixed assets

	Freehold land US$'000	Buildings & infra-structure US$'000	Railway track US$'000	Wagons & rolling stock US$'000	Machinery equipment & others US$'000	Assets under construction US$'000	Total US$'000
Cost or valuation							
1 January 2008	12,547	6,550	38,642	56,799	22,855	22,727	160,120
Reclassifications	-	1,233	3,145	9,785	(8,381)	(5,782)	-
Additions	-	8,072	-	715	9,388	11,469	29,644
Disposals	-	-	-	(319)	(251)	-	(570)
31 December 2008	12,547	15,855	41,787	66,980	23,611	28,414	189,194
Depreciation							
1 January 2008	-	(4,137)	(8,566)	(29,394)	(6,742)	-	(48,839)
Charge for the year	-	(389)	(1,558)	(3,599)	(1,416)	-	(6,962)
Disposals	-	-	-	226	4	-	230
31 December 2008	-	(4,526)	(10,124)	(32,767)	(8,154)	-	(55,571)
Net book value							
31 December 2008	12,547	11,329	31,663	34,213	15,457	28,414	133,623
31 December 2007	12,547	2,413	30,076	27,405	16,113	22,727	111,281

Notes to the Financial Statements – 31 December 2008 (Continued)

The railway track (excluding lineside equipment) and the freehold land were both previously revalued. On the implementation of FRS 15 "Tangible Fixed Assets" the Company elected to retain the book amounts of this previous revaluation without adopting a policy of regular revaluation going forward.

The historical cost and related depreciation of total land and railway track are as follows:

		2008 US$'000	2007 US$'000
Land	– cost	8,159	8,159
	– accumulated depreciation	-	-
	– net book value	8,159	8,159
Railway track	– cost	29,579	26,434
	– accumulated depreciation	(6,908)	(5,819)
	– net book value	22,671	20,615

At 31 December 2007, the Company had entered into contractual commitments for the acquisition of tangible fixed assets amounting to US$2.1 million (2007 – US$1.3million).

8 Investments in subsidiary undertakings

	Shares US$'000	Loans US$'000	Total US$'000
Investment at 1 January 2008	67,186	69,765	136,951
Reclassification from loans to short term receivables	-	(55,424)	(55,424)
Capital increase	11,568	-	11,568
New loans made	-	1,182	1,182
Loans repaid	-	(12,680)	(12,680)
Foreign exchange	-	(461)	(461)
Investment at 31 December 2008	78,754	2,382	81,136

A reclassification of $55,424,000 has been made from long-term intercompany loans to short-term "amounts due from group undertakings" within debtors.

The Directors are of the opinion that the value of investments in subsidiary undertakings, not dealt with in the Group accounts by virtue of Section 228 of the Companies Act 1985, is not less than the aggregate amount at which they are shown above.

	Country of incorporation and operation	Nature of business	Effective equity Shareholding
Direct subsidiary undertakings of parent company			
Northern Mines SCM	Chile	Mining	100%
Andes Trust (Chile) SA	Chile	Holding company	100%
FCAB Ingenieria y Servicios Ltda	Chile	Engineering services	100%
FCAB Embarcadores Ltda	Chile	Transport	100%
Train Ltda	Chile	Transport	100%
Inmobiliaria Punta de Rieles Ltda	Chile	Real estate	100%
Bolivian Rail Investors Company Inc. (*)	United States	Holding company	100%
Blue Ocean Overseas Inc. (*)	British Virgin Is.	Holding company	100%
Indirect subsidiary undertakings			
Forestal SA	Chile	Forestry	100%
Aguas de Antofagasta SA	Chile	Water distribution	100%
Empresa Ferroviaria Andina SA	Bolivia	Rail transport	50%

* The effective shareholding in Bolivian Rail Investors Company Inc. and Blue Oceans Overseas Inc. comprise a direct holding by the Company of 88.48% and an indirect holding of 11.52%.

9 Available for sale investments

	US$'000
Investment at 1 January and 31 December 2008	12

10 Debtors

	2008 US$'000	2007 US$'000
Trade debtors	21,710	17,290
Amounts due from other group companies	344,531	1,369
Other debtors and prepayments	10,243	5,672
Deferred tax asset	-	237
	376,484	24,568

There were no debtors due after more than one year in 2008 (2007 - nil).

Further details of deferred tax are given in Note 4.

Notes to the Financial Statements – 31 December 2008 (Continued)

11 Derivative financial instruments

	2008 US$'000	2007 US$'000
Derivative financial instruments	(1,400)	-

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. During the year ended 31 December 2008 a loss of US$1.4 million was recognised within other finance items in respect of such instruments (2007 – nil).

At 31 December 2008 the Group had cross currency swaps with a principal value of US$35.1 million, to swap Chilean Pesos for US dollars, at an average rate of Ch$663.0 / US$1, covering a total period up to 12 February 2009. The weighted average remaining period covered by these hedges calculated with effect from 1 January 2009 is 1 month.

12 Trade and other creditors (amounts falling due within one year)

	2008 US$'000	2007 US$'000
Trade creditors	(1,615)	(2,960)
Other creditors and accruals	(8,404)	(9,315)
Corporation tax	(8,437)	(1,241)
Other taxation and social security	(286)	(424)
Deferred tax liability	(251)	-
	(18,993)	(13,940)

Further details of deferred tax are given in Note 4.

13 Loans

		2008 US$'000	2007 US$'000
Bank overdrafts		-	(2,181)
Interest free loan to finance Railway expansion (unsecured)	(a)	(198)	(198)
Loan to finance Railway expansion (Libor + 1.5% - unsecured)	(a)	-	(5,737)
5% Cumulative preference shares	(b)	(2,886)	(3,982)
		(3,084)	(12,098)

(a) These loans, which are US dollar denominated, represent customer advances for capital expenditure. The loans are repayable out of future customer sales receipts based on tonnages transported and are expected to be repaid within two years.

(b) The preference shares are sterling-denominated and issued by the Company. There were 2,000,000 £1 shares authorised, issued and fully paid at both 31 December 2007 and 31 December 2008.

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Notes to the Financial Statements – 31 December 2008 (Continued)

The preference shares are non-redeemable and are entitled to a fixed cumulative dividend of 5% per annum. On a 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 one vote in any general meeting of the Company.

	2008 US$'000	2007 US$'000
In less than one year	(198)	(2,379)
Between one and two years	-	(5,737)
Over five years	(2,886)	(3,982)
	(3,084)	(12,098)

14 Provisions for liabilities

	Severance indemnities US$'000
Balance at 1 January 2008	(7,450)
Charge to operating profit in year	(446)
Utilised in year	297
Foreign exchange	1,045
Balance at 31 December 2008	(6,554)

Provision is made for severance indemnities which are payable on termination of employment and are assessed on a discounted basis taking into account the expected service lives of employees.

15 Called up share capital

	31 December 2008 & 2007	
	Authorised US$'000	Alloted, issued and fully paid US$'000
6,415,344 Ordinary shares of £1 each	11,372	11,372

The £1 ordinary shares carry 1 vote each.

16 Reconciliation of movements in shareholders' funds

	2008 US$'000	2007 US$'000
Profit for the financial year	47,410	47,435
Opening shareholders' funds	426,952	379,517
Closing shareholders' funds	474,362	426,952

17 Exchange rates in US dollars

The principal exchange rates expressed in US dollars used in the preparation of the 2008 financial statements are as follows:

	2008	2007
Year end rates	US$1.4428 = £1	US$1.9912 = £1
	US$1 = Ch$636	US$1 = Ch$497
Average rates	US$1.8386 = £1	US$2.0004 = £1
	US$1 = Ch$522	US$1 = Ch$523

18 Cash flow statement

The directors have taken advantage of the exemption in paragraph 5(a) of FRS 1 (Revised 1996) from producing a cash flow statement.

19 Subsequent events

On 3 July 2009, the Company exercised an option to acquire a 40% interest in Inversiones Hornitos S.A. ("Inversiones Hornitos") from GDF SUEZ Energy International, which will continue to hold the remaining 60% interest. Inversiones Hornitos is the owner of the 150 MW Hornitos thermoelectric power station which is being constructed in Mejillones, in Chile's Antofagasta Region. The Hornitos thermoelectric power station, which is expected to begin commercial operation in 2011, will provide up to 150 MW to Esperanza copper-gold project to meet its energy requirements, under a long-term supply agreement signed at the end of 2007 between GDF SUEZ Energy International and Antofagasta Minerals S.A. ("Antofagasta Minerals"). The acquisition of the 40% interest in Inversiones Hornitos takes place under an option granted to Antofagasta Minerals when the long-term supply agreement was signed. The Esperanza copper-gold project is owned by Minera Esperanza, an indirect 70% subsidiary of the Company's immediate parent company, Antofagasta plc. Antofagasta Minerals S.A. is an indirect 100% subsidiary of Antofagasta plc.

Under the acquisition, the Company will be responsible for its 40% share of the estimated total US$0.4 billion development costs of the Hornitos thermoelectric power station. This includes an initial payment to GDF SUEZ Energy International, representing the Company's share of costs already incurred to date.

20 Ultimate parent company

The ultimate parent company is Metalinvest Establishment, a company incorporated in Liechtenstein and controlled by the E.Abaroa Foundation, in which members of the Luksic family are interested. This company does not produce group accounts. The United Kingdom parent company is Antofagasta plc, a company incorporated in Great Britain, registered in England and Wales and listed on the London Stock Exchange.

Antofagasta plc is the only parent undertaking to prepare group accounts. Copies of these group accounts are available from Antofagasta plc, 5 Princes Gate, London SW7 1QJ.