Antofagasta Railway Company plc

Registered Number: 27767

Annual Report and Financial Statements

31 December 2010

Antofagasta Railway Company plc

Directors' Report

The Directors present their Annual Report and the audited financial statements for the year ended 31 December 2010

Review of business and future developments

The principal activity of Antofagasta Railway Company plc ("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 operates through a branch in Chile, the Ferrocarril Antofagasta a Bolivia ("FCAB")

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 2010 Annual Report, available from the Group's website, www antofagasta co uk

		2010	2009
Turnover	US$'000	121,591	123,517
Operating profit	US$'000	38,345	35,992
Capital expenditure	US$'000	12,425	14,468
Rail tonnage transported	000 tons	5,137	5,264

Turnover decreased by US$1,926,000 or 2% to US$121,591,000 This decrease mainly reflected marginally reduced rail tonnage transported Operating profit increased by US$2,353,000 or 7% to US$38,345,000 Capital expenditure in the year was US$12,425,000 (2009 – US$14,468,000)

Results and Dividends

The profit before taxation was US$90,956,000 in 2010 compared with US$39,297,000 in 2009 This increase reflected substantially higher dividends paid by subsidiaries, as well as the higher operating profit and an increase in interest receivable Dividends received from subsidiaries were US$48,726,000 in 2010 compared with $3,959,000 in 2009 The external interest receivable was US$3,785,000 in 2010 compared with US$1,550,000 in 2009, partly reflecting an increase in the cash and term deposit balances held

The Directors do not recommend the payment of an ordinary dividend (2009 - 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$154,000 (2009 – US$156,000)

The retained profit of US$83,534,000 (2009 – US$30,504,000) has been transferred to reserves

Antofagasta Railway Company plc

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 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 copper cathodes from, and sulphuric acid to, 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

Antofagasta Railway Company plc

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 2010 or 2009 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 Company'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 invest cash at floating rates Fluctuations in interest rates may impact on the Company's net finance income, and to a lesser extent on the value of financial assets The Company's borrowings are generally at fixed interest rates or are non-interest bearing, and accordingly the Company is not exposed to significant risk from fluctuations in interest rates in respect of its borrowings

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

Directors' Report (Continued)

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

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 one year At the end of both 2010 and 2009, 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 54 - 57 in the Group's 2010 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 (retired 8 June 2011)
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 75 days (2009 – 77 days) Credit terms are agreed with individual suppliers and payment is made in accordance with terms agreed

Directors' Report (Continued)

Insurance

During the year the parent company, Antofagasta plc, purchased Directors' and Officers' liability insurance on behalf of the Group as permitted by s232 to s238 of the Companies Act 2006

Auditor

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 auditor is 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 auditor is aware of that information

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

This statement is made and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006

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

By Order of the Board

D R O'Conor
Director
Cleveland House
33 King Street, St James's
London SW1Y 6RJ

30 June 2011

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) Under company law the directors must not approve the financial statements unless they are satisfied that they 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 accounting 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, and
- 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 adequate accounting records that are sufficient to show and explain the company's transactions and 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 2006 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

Antofagasta Railway Company plc

Independent Auditor's 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 2010 which comprise the Profit and Loss Account, the Note of Historical Cost Profits and Losses, the Balance Sheet and the related notes 1 to 21 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 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 auditor's 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 auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Antofagasta Railway Company plc

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Christopher Thomas

Christopher Thomas ACA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

30 June 2011

Antofagasta Railway Company plc

Profit and Loss Account for the year ended 31 December 2010

	Notes	2010 US$'000	2009 US$'000
Turnover		121,591	123,517
Cost of sales		(63,165)	(68,226)
Gross profit		58,426	55,291
Administrative expenses		(17,832)	(15,513)
Other operating expense		(2,748)	(5,150)
Other operating income		499	1,364
Operating profit		38,345	35,992
Income from other fixed asset investments		48,726	3,959
Net finance income/ (expense)	2	3,885	(654)
Profit on ordinary activities before taxation	3	90,956	39,297
Tax on profit on ordinary activities	4	(7,422)	(8,793)
Profit on ordinary activities after taxation and retained profit for the year	6	83,534	30,504

No ordinary dividends were paid or proposed in either 2010 or 2009

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 2010

	2010 US$'000	2009 US$'000
Reported profit on ordinary activities before taxation	90,956	39,297
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	91,425	39,766
Retained profit for the financial year on an historical cost basis after taxation and dividends	84,003	30,973

Antofagasta Railway Company plc

Balance Sheet as at 31 December 2010

	Notes	2010 US$'000	2009 US$'000
Fixed assets			
Tangible fixed assets	7	137,058	132,481
Investments in subsidiary undertakings	8	252,346	88,449
Investments in associates	9	-	109,535
Available for sale investments	10	13	13
		389,417	330,478
Current assets			
Inventories		-	329
Debtors*	11	23,982	57,711
Derivative financial instruments	12	-	1,572
Current asset investments – term deposits*		393,959	336,968
Cash at bank and in hand*		826	542
		418,767	397,122
Creditors - amounts falling due within one year			
Loans	14	(168)	(168)
Trade and other creditors*	13	(11,396)	(13,104)
Deferred tax liability	4(b)	(2,730)	(2,280)
Amounts owed to parent undertaking		(140,107)	(139,877)
Amounts owed to fellow subsidiary undertakings		(49,278)	(52,869)
		(203,679)	(208,298)
Net current assets		215,088	188,824
Total assets less current liabilities		604,505	519,302
Loans due after more than one year	14	(3,081)	(3,212)
Provisions for liabilities	15	(13,024)	(11,224)
Net assets		588,400	504,866
Capital and reserves			
Share capital	16	11,372	11,372
Revaluation reserve	6	12,442	12,911
Profit and loss account	6	564,586	480,583
Total shareholders' funds	17	588,400	504,866

* Restated – see note 1(a)

The financial statements of Antofagasta Railway Company plc, registered number 27767 were approved by the Board and signed on its behalf on 30 June 2011

D R O'Conor, Director

Antofagasta Railway Company plc

Notes to the Financial Statements – 31 December 2010

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

(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, available for sale investments and the use of fair values to measure certain financial instruments The financial information has also been prepared on a going concern basis as explain in the Directors' Report

The prior year balance sheet reflects a US$26 1 million reclassification of certain balances between cash at bank and in hand to current assets – term deposits to better reflect the maturity terms of the underlying instruments Creditors due within one year have been also restated to properly present more appropriately a US$1 7 million corporate tax receivable within debtors due within one year These restatements have no impact on the net assets of the Company as at 31 December 2009 or the results for the period year then ended

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 400 of the Companies Act 2006 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) **Impairment of property, plant and equipment**

Property, plant and equipment 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 Company estimates the recoverable amount of the cash-generating unit to which the asset belongs

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

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

(vi) **Investments in subsidiaries**

Investments in subsidiaries represent equity holdings in subsidiaries and long-term amounts owed by subsidiaries Such investments are stated at cost less any provision for impairment 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

(vii) Investments in associates

Investments in associates are stated at cost less any provision for impairment

(viii) 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 tax rates that have been enacted or substantively enacted by the balance sheet date, 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

(ix) 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

(x) 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

(xi) 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

Notes to the Financial Statements – 31 December 2010 (Continued)

(xii) 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 in profit or loss

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

(xiii) 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) Impairment of tangible fixed assets

As explained in Note 1(b)(v), the Company reviews the carrying value of its tangible fixed assets 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 income generating unit ("IGU") The recoverable amount of those assets, or IGU, 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 IGUs, 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 Subsequent changes to IGU allocation or estimates and assumptions in the value in use calculation could impact the carrying value of the respective assets

(iii) Severance indemnities

As explained in Note 1(b)(ix), 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

Antofagasta Railway Company plc

Notes to the Financial Statements – 31 December 2010 (Continued)

2 Net finance income/ (expense)

	2010 US$'000	2009 US$'000
External interest receivable	3,785	1,550
Foreign exchange derivatives	(6,351)	(6,828)
Preference dividends	(154)	(156)
Foreign exchange gains	6,605	4,780
	3,885	(654)

3 Profit on ordinary activities before taxation

Profit on ordinary activities before tax is stated after charging

	2010 US$'000	2009 US$'000
Depreciation	7,754	7,496
Loss on disposal of tangible fixed assets	94	65
Auditor's remuneration - audit fees and expenses	167	158
Wages and salaries	20,044	17,707
Social security costs	566	500
Post employment benefits – severance charge in year	2,391	4,466

The amounts disclosed above in relation to auditor's remuneration include fees payable by the Company to Deloitte LLP and its associates Fees paid for audit services total US$167,000 (2009 – US$158,000) of which amounts paid to Deloitte LLP were US$85,000 (2009 – US$86,000) In addition, fees of US$234,000 and US$85,000 were paid by the Company for corporate finance and tax services respectively (2009 – US$6,000 for tax compliance services)

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

	2010 Number	2009 Number
Chile		
- Railway operations in Northern Chile	570	592
- Management and administration	170	177
	740	769

Directors' remuneration

Total directors' remuneration	2010 US$'000	2009 US$'000
Base salary and fees	1,414	1,308
Highest paid director		
Base salary and fees	1,255	1,157

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 was liable to Chilean corporation tax at the rate of 17% (2009 – 17%) on profits arising in Chile, with further tax payable of 35% less underlying tax already paid on such profits distributed overseas

The rate of first category (i e corporation) tax in Chile was 17 0% for both 2010 and 2009 A temporary increase in the corporate income tax rate for the 2011 and 2012 calendar years to 20 0% and 18 5% respectively was enacted into law in Chile on 31 July 2010

The Company's tax charge for the year comprises current and deferred tax as set out below

	2010 US$'000	2009 US$'000
Current tax charge for the year - Chilean corporation tax	6,972	6,764
Deferred tax charge for the year - origination and reversal of timing differences	450	2,029
Tax charge for the year	7,422	8,793

(b) Analysis of deferred tax liability

The net deferred tax liability at the end of the year is analysed below between its main components

	2010 US$'000	2009 US$'000
Accelerated capital allowances	(7,809)	(6,674)
Timing differences on severance provision and other balance sheet items	5,079	4,532
Short-term timing differences	-	(138)
Net deferred tax liability at end of year	(2,730)	(2,280)

The movement in the deferred tax balance during the year is analysed below

	Deferred tax liability US$'000
Balance at 1 January 2010	(2,280)
Charge to tax on profit for the year	(450)
Balance at 31 December 2010	(2,730)

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 2010 (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

	2010 US$'000	2009 US$'000
Profit on ordinary activities before tax	90,956	39,297
Profit on ordinary activities multiplied by the standard rate of corporation tax in Chile of 17%	15,463	6,680
Capital allowances in the year in excess of depreciation	(1,135)	(623)
Other timing differences reflected in deferred tax charge	685	(1,406)
Factors reflected in deferred tax charge for the year	(450)	(2,029)
Dividend income from other fixed asset investment not subject to further tax on receipt	(8,283)	(671)
Exchange differences on current tax	(238)	(49)
Other adjustments	480	2,833
Current tax charge for the year	6,972	6,764

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 (2009 - nil) No interim dividend per ordinary share was paid in either 2010 or 2009

Preference dividends have been included within interest expense (see Note 2) and amounted to US$154,000 (2009 – US$156,000)

Antofagasta Railway Company plc

Notes to the Financial Statements – 31 December 2010 (Continued)

6 Reserves

	Revaluation reserve US$'000	Profit and loss account US$'000	Total US$'000
Balance at 1 January 2010	12,911	480,583	493,494
Retained profit for the year	-	83,534	83,534
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 2010	12,442	564,586	577,028

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 2010	12,547	10,958	41,787	73,658	24,784	31,747	195,481
Reclassifications/transfers	-	1,799	15,203	5,677	-	(22,679)	-
Additions	-	38	-	1,312	3,424	7,651	12,425
Disposals	-	(15)	-	(186)	(26)	-	(227)
31 December 2010	12,547	12,780	56,990	80,461	28,182	16,719	207,679
Depreciation							
1 January 2010	-	(4,940)	(11,783)	(36,667)	(9,610)	-	(63,000)
Charge for the year	-	(592)	(1,662)	(4,358)	(1,142)	-	(7,754)
Disposals	-	2	-	117	14	-	133
31 December 2010	-	(5,530)	(13,445)	(40,908)	(10,738)	-	(70,621)
Net book value							
31 December 2010	12,547	7,250	43,545	39,553	17,444	16,719	137,058
31 December 2009	12,547	6,018	30,004	36,991	15,174	31,747	132,481

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

		2010 US$'000	2009 US$'000
Land	– cost	8,159	8,159
	– accumulated depreciation	-	-
	– net book value	8,159	8,159
Railway track	– cost	44,782	29,579
	– accumulated depreciation	(9,291)	(8,098)
	– net book value	35,491	21,481

At 31 December 2010, the Company had entered into contractual commitments for the acquisition of tangible fixed assets amounting to US$20,000 (2009 – US$20,000)

8 Investments in subsidiary undertakings

	Shares US$'000	Loans US$'000	Total US$'000
Investment at 1 January 2010	78,754	9,695	88,449
New loans made	-	163,074	163,074
Loans repaid	-	(44)	(44)
Foreign exchange	-	867	867
Investment at 31 December 2010	78,754	173,592	252,346

The Directors are of the opinion that the value of investments in subsidiary undertakings, not dealt with in the Group accounts by virtue of Chapter 46 of the Companies Act 2006, is not less than the aggregate amount at which they are shown above

The loan balances represent long-term funding loans to subsidiary undertakings As explained in note 9, during 2010 the Company disposed of its holding in its associate undertaking Inversiones Hornitos (US$52 3 million), along with related loan balances (US$101 1 million), to Inmobiliaria Punta de Rieles Ltda, a subsidiary of the Company, at their carrying value of US$153 3 million The consideration receivable from Inmobiliaria Punta de Rieles Ltda comprised an intercompany loan balance, which forms the majority of the new loans during the year shown above

	Country of incorporation and operation	Nature of business	Effective equity Shareholding
Direct subsidiary undertakings of parent company			
Inmobiliaria Punta de Rieles Ltda	Chile	Holding company and real estate	100%
Northern Mines SCM	Chile	Mining	100%
The Andes Trust (Chile) SA	Chile	Holding company	100%
Forestal SA	Chile	Forestry	100%
Servicios de Transportes Integrados Ltda	Chile	Transport	100%
FCAB Ingenieria y Servicios Ltda	Chile	Engineering services	100%
Indirect subsidiary undertakings			
Aguas de Antofagasta SA	Chile	Water distribution	100%
Atacama Aguas y Tecnologia Ltda	Chile	Water distribution	100%
Empresa Ferroviaria Andina SA	Bolivia	Transport	50%
FCAB Embarcadores Ltda	Chile	Transport	100%
Servicios Logisticos Capricornio Ltda	Chile	Transport	100%
Emisa Antofagasta SA	Chile	Engineering services	100%
Minera Santa Margarita de Astillas SCM	Chile	Mining	75%
Minera Penacho Blanco SA	Chile	Mining	66%
Bolivian Rail Investors Company Inc	United States	Holding company	100%
Blue Ocean Overseas Inc	British Virgin Is	Holding company	100%
Inversiones Ferrobal Ltda	Bolivia	Holding company	100%
Inversions Bolivian Railways SA	Bolivia	Holding company	100%
Chiguana Cargo SRL	Bolivia	Transport	100%
Tahona Anstalt	Liechtenstein	Holding company	100%

9 Investments in associates

	Inversiones Hornitos US$'000	Total US$'000
Investment at 1 January 2010	109,535	109,535
Capital restructuring	(57,212)	(57,212)
Sale of investment in associate to subsidiary company	(52,323)	(52,323)
Investment at 31 December 2010	-	-

During 2010 a capital restructuring of Inversiones Hornitos S A ("Inversiones Hornitos") took place, with the Company's previous capital contribution being reduced by US$57 2 million and replaced with a loan financing from the Company The Company contributed US$78 6 million of loan financing to Inversiones Hornitos during the year, including this capital restructuring The balance due from Inversiones Hornitos to the Company at the time of this transaction was US$101 1 million (2009 – US$22 5 million presented as other debtors and prepayments) Subsequent to this capital restructuring, during 2010 the Company disposed of its holding in Inversiones Hornitos, along with related loan balances to Inmobiliaria Punta de Rieles Ltda, a subsidiary of the Company, at their carrying value, recognising no gain or loss on disposal The consideration receivable from Inmobiliaria Punta de Rieles Ltda comprised an intercompany loan balance, which forms part of the investment in subsidiary undertakings (see note 8)

Investments in associates are stated at cost

10 Available for sale investments

	US$'000
Investment at 1 January 2010	13
Movement in fair value	-
Investment at 31 December 2010	13

11 Debtors

	2010 US$'000	2009* US$'000
Trade debtors	19,829	11,845
Amounts due from other group companies	1,737	17,157
Corporation tax	-	1,714
Other debtors and prepayments	2,416	26,995
	23,982	57,711

*Restated – see note 1(a)

There were no debtors due after more than one year in 2010 (2009 - nil)

12 Derivative financial instruments

	2010 US$'000	2009 US$'000
Derivative financial instruments	-	1,572

The Company 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 2010 a loss of US$6 4 million was recognised within other finance items in respect of such instruments (2009 – loss of US$6 8 million)

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

	2010 US$'000	2009* US$'000
Trade creditors	(2,572)	(4,316)
Other creditors and accruals	(8,774)	(8,788)
Other taxation and social security	(50)	-
	(11,396)	(13,104)

*Restated – see note 1(a)

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Notes to the Financial Statements – 31 December 2010 (Continued)

14 Loans

		2010 US$'000	2009 US$'000
Interest free loan to finance Railway expansion (unsecured)	(a)	(168)	(168)
5% Cumulative preference shares	(b)	(3,081)	(3,212)
		(3,249)	(3,380)

(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 one year

(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 2010 and 31 December 2009

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

The table below sets out an analysis of the loan maturities

	2010 US$'000	2009 US$'000
In less than one year	(168)	(168)
Over five years	(3,081)	(3,212)
	(3,249)	(3,380)

15 Provisions for liabilities

	2010 US$'000	2009 US$'000
Balance at 1 January	(11,224)	(6,554)
Charge to operating profit in year (other operating expense)	(2,391)	(4,466)
Utilised in year	992	235
Foreign exchange	(401)	(439)
Balance at 31 December	(13,024)	(11,224)

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

Notes to the Financial Statements – 31 December 2010 (Continued)

16 Called up share capital

	31 December 2010 & 2009	
	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

17 Reconciliation of movements in shareholders' funds

	2010 US$'000	2009 US$'000
Profit for the financial year	83,534	30,504
Opening shareholders' funds	504,866	474,362
Closing shareholders' funds	588,440	504,866

18 Exchange rates in US dollars

The principal exchange rates expressed in US dollars used in the preparation of the 2010 financial statements are as follows

	2010	2009
Year end rates	US$1 5406 = £1	US$1 6062 = £1
	US$1 = Ch$468	US$1 = Ch$507
Average rates	US$1 5442 = £1	US$1 5591 = £1
	US$1 = Ch$510	US$1 = Ch$559

19 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

20 Post balance sheet events

There have been no events subsequent to 31 December 2010 which require adjustment to be made to the results recorded within these financial statements, or additional disclosure to be made in respect of any such events

Antofagasta Railway Company plc

Notes to the Financial Statements – 31 December 2010 (Continued)

21 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 immediate 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 This is the largest and smallest group for which consolidated financial statements are prepared Copies of these group accounts are available from Antofagasta plc, Cleveland House, 33 King Street, St James's, London, SW1Y 6RJ