

# Directors' Remuneration Policy

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The following is an excerpt from pages 91–95 of Antofagasta plc's 2013 Annual Report setting out the Directors' Remuneration Policy for the Company. This Policy was approved by shareholders at the Annual General Meeting held on 21 May 2014.

The Remuneration and Talent Committee (the "Committee") presents the 2014 Directors' Remuneration Policy (the "Policy"), which will be put to shareholders as a binding vote at the Company's 2014 Annual General Meeting. Subject to shareholder approval, this Policy will take effect from the 2014 Annual General Meeting with the intention that it will remain in place for three years. If the Committee is required or wishes to change the Policy within this period, it will submit a revised Policy to shareholders for approval. Once the Policy is approved, the Company will only make remuneration payments to current or prospective Directors, or payments for loss of office, if the payment is in line with the Policy.

The policies that are summarised in this section are consistent with those that have been in place at the Company for a number of years. The Committee believes that they are effective, simple to understand and support the continued growth of the Company. The Policy is broken into a number of sections:

- a future policy table for Executive Directors, which sets out details of the remuneration elements;
- remuneration policies that relate solely to Non-Executive Directors;
- relevant policies relating to Executive Director remuneration, including recruitment, appointment letters, service contracts and terminations; and
- statements regarding the contextual information the Committee considers when reaching remuneration decisions in respect of the Executive and Non-Executive Directors.

The Company's approach to Directors' remuneration reflects the predominantly non-executive composition of the Board.

The Company's policy is to ensure that Directors are fairly rewarded with regard to the responsibilities undertaken, and to consider comparable pay levels and structures in the United Kingdom, Chile, and the international mining industry. Corporate and individual performance is taken into account in setting the pay level for the Chairman as an Executive Director and this is reviewed annually in comparison with companies of a similar nature, size and complexity. Remuneration levels for Non-Executive Directors are also reviewed in this way, and take into account the specific responsibilities undertaken and the structure of the Board.

## Directors' Remuneration Policy

Purpose	Operation	Maximum opportunity
<b>Executive Chairman</b>		
<p><b>Fees</b></p> <p>To provide appropriate compensation to reflect the responsibilities of this role and to execute the Group's strategic objectives at an appropriate level of cost.</p> <p>To act as the sole element of compensation. The Committee feels that this is appropriate given the Executive Chairman's interest in the Company's shares (both via a company controlled by him and as a member of the Luksic family), which provides alignment with other shareholders.</p>	<p>Fees are the only element of compensation that the Executive Chairman is eligible to receive.</p> <p>Fees are reviewed annually, with increases, if any, typically taking effect from 1 January each year.</p> <p>The Committee considers the following factors when reviewing fee levels:</p> <ul style="list-style-type: none"> <li>corporate and individual performance; and</li> <li>the competitiveness of total remuneration assessed against appropriate peers in terms of nature, size and complexity.</li> </ul> <p>The Executive Chairman receives a base fee for services to Antofagasta plc's Board as well as additional fees for chairing or serving as a member of any of the Board's Committees.</p> <p>Separate base fees are paid for chairing the Antofagasta Minerals Board and for being a Director or for chairing certain strategic subsidiary companies within the Group. The Executive Chairman is currently Chairman of Antofagasta Railway Company plc and Aguas de Antofagasta.</p> <p>The Executive Chairman also receives a base fee for services provided to Antofagasta Railway Company plc and Antofagasta Minerals (pursuant to separate service contracts).</p> <p>Fees are determined and paid in a combination of US dollars and Chilean pesos. The Committee may determine fee levels and/or pay fees in any other currency if deemed necessary. For comparison purposes, all compensation is in US dollars in this report.</p>	<p>In normal circumstances, the maximum annual fee increase will be 7%. However, the Committee has discretion to exceed this in exceptional circumstances, for example:</p> <ul style="list-style-type: none"> <li>if there is a sustained period of high inflation;</li> <li>if the Executive Chairman's fees are out of line with the market; and/or</li> <li>if fees for chairing or serving as a member of any of the Board's Committees is out of line with the market.</li> </ul> <p>Any increases will take into account the factors described under "Operation" and will not be excessive.</p> <p>Fee levels for additional roles within the Antofagasta Group are set based on the needs and time commitment expected and may be determined and/or paid in a combination of currencies including US dollars and Chilean pesos.</p> <p>Fees will also be increased to take account of Chilean inflation and may be reported as an increase or decrease as a result of the exchange rate impact of Chilean peso denominated fees, given all amounts in this report are reported in US dollars.</p>
<p><b>Variable remuneration</b></p>	<p>The Committee does not consider it appropriate to make performance-related pay awards, such as bonuses, to the Executive Chairman given his role as Chairman of the Board and his interest in the Company's shares (both via a company controlled by him and as a member of the Luksic family).</p>	
<p><b>Benefits</b></p>	<p>To provide appropriate benefits and reimburse expenses that are incurred in the performance of duties of the Executive Chairman.</p> <p>Benefits include the provision of life, accident and health insurance.</p> <p>The Committee retains the discretion to provide additional insurance benefits in accordance with Company policy, should this be deemed necessary.</p>	<p>In normal circumstances, the maximum value of benefits will be \$22,000. However, the Committee has discretion to exceed this should the underlying cost of providing the pre-existing benefits increase, or if additional benefits are provided and are deemed appropriate.</p>
<p><b>Pension</b></p>	<p>The Executive Chairman does not receive pension contributions nor is he entitled to receive pension contributions under this policy.</p>	
<b>Non-Executive Directors</b>		
<p><b>Fees</b></p>	<p>To attract and retain high-calibre, experienced Non-Executive Directors by offering globally competitive fee levels.</p> <p>Fees are reviewed annually and the competitiveness of total fees is assessed against companies of a similar nature, size and complexity.</p> <p>Non-Executive Directors receive a base fee for services to Antofagasta plc's Board as well as additional fees for chairing or serving as members of any of the Board's Committees.</p> <p>Separate base fees are paid for services to the Antofagasta Minerals Board (all Non-Executive Directors are members of both Boards), and for being Directors of subsidiary companies and joint venture companies within the Group.</p> <p>Ramón Jara also receives a base fee for services provided to Antofagasta Railway Company plc and Antofagasta Minerals (pursuant to a separate service contract).</p> <p>Fee levels are denominated in US dollars. The Committee may determine fee levels and/or pay fees in any other currency if deemed necessary.</p>	<p>Non-Executive Directors' fee levels follow the same policy for increases as the Executive Chairman's fees (see above).</p>
<p><b>Variable remuneration</b></p>	<p>Given the predominantly non-executive composition of the Board, there are no arrangements for Directors to acquire benefits through the acquisition of shares in the Company or any of its subsidiary undertakings, to benefit through performance-related pay or to participate in long-term incentive schemes. The Code states that remuneration for Non-Executive Directors should not include share options or other performance-related elements.</p>	
<p><b>Benefits</b></p>	<p>To provide appropriate benefits required in the performance of duties of the Non-Executive Directors.</p> <p>Benefits may be provided to Non-Executive Directors following the same policy as for the Executive Chairman (see above).</p>	
<p><b>Pension</b></p>	<p>No Director receives pension contributions. The Code considers that the participation by a Non-Executive Director in a company's pension scheme could potentially impact on the independence of that Non-Executive Director.</p>	

As Directors do not receive variable remuneration, there are no provisions in place to recover sums paid or withhold payments made to Directors.

## Executive Chairman – illustrative remuneration outcomes

The Committee does not consider it appropriate to make regular performance-related pay awards to the only Executive Director, Jean-Paul Luksic, given his role as Chairman of the Board and his interest in the Company's shares (both via a company controlled by him and as a member of the Luksic family). Therefore, the Executive Chairman's pay levels do not vary with performance and the same amount of fees and benefits are received under the threshold, target and maximum performance scenarios as follows.

Executive Chairman's total fixed pay (base salary and benefits)		
Maximum	100% of remuneration	\$3.615m
Target	100% of remuneration	\$3.615m
Threshold	100% of remuneration	\$3.615m
		\$0      \$1m      \$2m      \$3m      \$4m

The chart shows the expected total remuneration receivable by the Executive Chairman in 2014. This chart does not take into account adjustments for Chilean inflation which will occur under the terms of the Executive Chairman's service contracts or the exchange rate impact of Chilean peso denominated fees given all amounts in this report are reported in US dollars. Each bar represents remuneration receivable over a financial year plus the expected value of benefits provided.

## Recruitment policy

It is not currently expected that the Board structure at Antofagasta will change during the period of the Policy. If a new Executive Chairman is appointed or additional Executive Directors are appointed, base salary levels will be set taking into account a range of factors including market levels, experience, internal salaries, interest in Antofagasta shares and cost.

Other elements of annual remuneration will be set in line with the policy set out in the future policy table. The following exceptions will apply:

- In the event that an internal appointment is made, the Committee retains the discretion to continue with existing remuneration provisions relating to pension and benefits;
- As deemed necessary and appropriate to secure an appointment, the Committee retains the discretion to provide variable remuneration in line with the structure of variable remuneration provided to the Executive Committee (as described on page 99 of this Remuneration report) and in a quantum up to 500% of base salary, or where this is not sufficient to secure an appointment, to provide variable remuneration in line with companies of a similar size, nature and complexity; and
- As deemed necessary and appropriate to secure an appointment, the Committee retains the discretion to make additional payments linked to relocation.

Letters of appointment and/or service contracts will be entered into on terms similar to those for the Executive Chairman, as summarised in the Service contracts and letters of appointment policy section on page 94.

In addition to the elements noted above, if additional Executive Directors are appointed, the Committee retains the discretion to make further cash or share awards on a one-off basis to new Executive Directors on appointment in accordance with the UKLA Listing Rules and, in exercising this discretion, will take into account the specific circumstances of the new Executive Director, including whether the Executive Director has had to forfeit existing incentive awards when accepting the appointment. There is no prescribed maximum for awards in respect of forfeited existing arrangements as it will depend on the individual circumstances of the appointee and the value of forfeited awards. Any awards made in excess of those made to "buy-out" forfeited awards on appointment will not exceed 500% of salary.

With respect to the appointment of a new Non-Executive Director, terms of appointment will be consistent with those currently adopted for the Non-Executive Directors as summarised in the service contracts and letters of appointment policy on page 94. Variable pay will not be considered and, as such, no maximum applies. Fees will be consistent with the Policy at the time of appointment.

In the unlikely event that a Non-Executive Chairman is appointed to the Board, the same considerations that apply to the appointment of new Non-Executive Directors will apply taking into account the additional responsibilities of the Chairman.

A timely announcement with respect to any Director appointment will be made to the regulatory news services and posted on Antofagasta's website.

## Termination policy

It is the Company's policy that the Executive Chairman has letters of appointment and/or service contracts terminable on one month's notice by either party at any time, and by payment of one month's fees in lieu of notice.

The letters of appointment for the Non-Executive Directors do not provide for any compensation for loss of office beyond payments in lieu of notice, and therefore the maximum amount payable upon termination of these letters is limited to one month's payment.

## Service contracts and letters of appointment

All Directors' service contracts and letters of appointment are available for inspection at the Company's registered office during normal business hours and at the Annual General Meeting (for 15 minutes prior to and during the meeting).

A summary of the key terms of the letters of appointment for all Directors are set out below:

## Executive Chairman

Jean-Paul Luksic	
<b>Date of letter of appointment</b>	12 June 2013
<b>Notice period</b>	One month's written notice
<b>Remuneration</b>	<ul style="list-style-type: none"> <li>Annual base salary for role as Chairman of the Board</li> <li>Reimbursement of expenses</li> <li>Entitled to receive additional fees for chairing or serving as a member of any Board Committee</li> </ul>
<b>Termination</b>	Termination can occur at any time and at the discretion of either party upon one month's written notice

Jean-Paul Luksic also has a contract for services with both the Antofagasta Railway Company plc dated 1 April 2008 and Antofagasta Minerals dated 2 November 2004. Neither contract has an expiry date, but each of them can be terminated by either party on one month's notice. The amounts payable under these contracts for services are denominated in Chilean pesos and, as is typical for employment contracts or contracts for services in Chile, are adjusted in line with Chilean inflation, and are also reviewed periodically in line with the Company's policy on Directors' pay.

## Non-Executive Directors

Each Non-Executive Director has a letter of appointment with the Company. The Company has a policy of putting all Directors forward for re-election at each Annual General Meeting in accordance with the Code. Under the terms of the letters, if shareholders do not confirm a Non-Executive Director's appointment, the appointment will terminate with immediate effect. In other circumstances, the appointment may be terminated by either party on one month's prior written notice. These letters require the Non-Executive Directors to undertake that they will have sufficient time to discharge their responsibilities.

Name	Remuneration	Date of last re-appointment	Notice period
William Hayes	The letters of appointment do not provide for any compensation for loss of office beyond payments in lieu of notice, and therefore the maximum amount payable upon termination of these appointments is limited to one month's fees.	12 June 2013	One month's written notice
Gonzalo Menéndez		12 June 2013	One month's written notice
Ramón Jara		12 June 2013	One month's written notice
Juan Claro		12 June 2013	One month's written notice
Hugo Dryland		12 June 2013	One month's written notice
Tim Baker		12 June 2013	One month's written notice
Manuel Lino Silva De Sousa-Oliveira (Ollie Oliveira)		12 June 2013	One month's written notice
Nelson Pizarro		12 June 2013	One month's written notice
Andrónico Luksic		12 June 2013	One month's written notice

There is also a contract between Antofagasta Minerals and Asesorías Ramón F Jara Ltda (formerly E.I.R.L.) dated 2 November 2004 for the provision of advisory services by Ramón Jara which does not have an expiry date but can be terminated by either party on one month's notice. The amounts payable under this contract for services

are denominated in Chilean pesos and, as is typical for employment contracts or contracts for services in Chile, are adjusted in line with Chilean inflation, and are also reviewed periodically in line with the Company's policy on Directors' pay.

## Consideration of employment conditions elsewhere in the Company

When the Committee reviews the Executive Chairman's salary annually, it also reviews pay conditions across the rest of the Group. This is set in the context of very different working environments and geographies and is therefore not a mechanical process. However, this acts as one input into the pay review process. The Committee does not currently use any other remuneration comparison metrics when determining the quantum and structure of the Executive Chairman's remuneration.

The Committee does not consult with employees in connection with the policy on the Executive Chairman's remuneration.

## Remuneration Policy for other employees

Remuneration arrangements are determined throughout the Group based on the principle that reward should be achieved for delivery of the business strategy. A significant proportion of the Executive Committee members' remuneration is in the form of variable pay. The Executive Committee is eligible to participate in the Long-Term Incentive Plan and Annual Bonus Plan, which are both subject to performance criteria aligned with the Group's strategy. The remuneration structure for other Group employees varies according to their role, location and working environment.

## Consideration of shareholder views

The Company maintains a dialogue with institutional shareholders and sell-side analysts as well as potential shareholders. This communication is managed by the investor relations team, and includes a formal programme of presentations to update institutional shareholders and analysts on developments in the Group following the announcement of the half-year and full-year results. The Board receives regular summaries and feedback in respect of the meetings held as part of the investor relations programme as well as receiving analysts' reports on the Company. The Company's Annual General Meeting is also used as an opportunity to communicate with both institutional and private shareholders. This ongoing dialogue allows us to respond to the needs and concerns of all shareholders throughout the year.

During 2013, the Company engaged in dialogue with shareholders and institutional shareholder advisory bodies in relation to a number of topics, including the quantum of the Executive Chairman's total remuneration and the absence of a performance-based component of his remuneration. The Committee continues to believe that the Executive Chairman's remuneration arrangements are significantly aligned with those of other shareholders and that they provide a strong link to the Group's strategic objectives and the long-term interests of the Group. Taking into account the Executive Chairman's role, when compared with companies of a similar size, nature and complexity, the Committee is satisfied that the Executive Chairman's remuneration is both fair and reasonable. The Executive Chairman's total pay level is towards the lower end of FTSE 100 Executive Director levels.

The Executive Chairman and Non-Executive Directors' pay arrangements will continue to be reviewed each year in line with the Policy, taking into account the views of all of the Company's shareholders.

# Clarification of Directors' Remuneration Policy

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The following is an excerpt from page 88 of the Antofagasta plc's 2014 Annual Report, which clarifies the way in which the Recruitment Policy, which forms part of the Directors' Remuneration Policy, would be applied by the Remuneration and Talent Management Committee if an Executive Director is appointed to the Board.

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## Clarification of Recruitment Policy

- Under the Remuneration Policy, a new Executive Director's annual variable remuneration is capped at 500% of base salary, unless the level of variable remuneration is not sufficient to secure an appointment, in which case variable remuneration may be paid outside this cap provided that it is in line with that provided by companies of a similar size, nature and complexity. **To clarify**, the Committee has decided that it will not provide any variable remuneration above the 500% cap during the Remuneration Policy period.
- Under the Remuneration Policy, the Committee also retains discretion to make awards on a one-off basis to new Executive Directors on appointment, taking into account the specific circumstances of the new Executive Director, such as whether the Executive Director has had to forfeit existing incentive awards when accepting the appointment. **To clarify**, in practice any compensation provided to a new Executive Director as compensation for the forfeiture of any award will be reviewed, on a like-for-like fair value basis, taking into account the value of such forfeited awards, any performance conditions and the time basis of any vesting. The Committee's intention is that buy-out compensation should reflect the nature of the award foregone and include, where appropriate, performance-tested awards over an appropriate time period reflecting the fair value of any award foregone. Such compensation for the forfeiture of an award would not exceed 500% of base salary.

There is no intention to offer any other awards, such as a sign-on award, outside the annual cap on variable remuneration described above.