Moody's Investors Service

Global Credit Research
Credit Opinion
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Credit Opinion: Corporacion Nacional del Cobre de Chile

Corporación Nacional del Cobre de Chile

Santiago, Chile

Ratings

Category	Moody's Rating
Outlook	Stable
Senior Unsecured	Aa3

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Key Indicators

Corporación Nacional del Cobre de Chile

	2003	2004	2005	2006
EBIT / INTEREST	4.4x	19.9x	22.5x	34.5x
EBIT MARGIN	12%	35%	41%	48%
(CFO - DIVIDENDS) / DEBT	3%	32%	27%	44%
FREE CASH FLOW / DEBT	-28%	3%	-22%	13%
DEBT / CAPITALIZATION	43%	43%	49%	41%
DEBT / EBITDA	3.1x	0.9x	0.8x	0.5x

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Company Profile

Headquartered in Santiago, Chile, Corporacion Nacional del Cobre de Chile is 100% owned by the Chilean State and is the largest producer of copper globally, holding an approximate 15% share of western world production. The company also ranks as one of the top two global molybdenum producers (as a by-product of copper production) with a market share of approximately 14%. Operating through five divisions, Codelco Norte, Andina, El Teniente, Salvador and Ventanas, CODELCO's operations include several world class mines from a reserve, production capacity and cost perspective, as well as smelting and refining capability. In addition, CODELCO owns 49% of the El Abra mining operation in Chile.

Rating Rationale

In accordance with Moody's government-related issuer rating methodology, CODELCO's Aa3 rating on its foreign currency senior unsecured notes reflects the combination of the following inputs:

Baseline credit assessment (BCA) tracking between 5-7 range on a scale of 1 to 21

A1 local currency rating of the Chilean government

Medium dependence

High support

CODELCO's BCA range of 5-7 recognizes the company's position as the world's largest copper producer (1.8 million metric tons in 2006 including its share of El Abra), its good debt protection measures through the copper cycle, its competitive cost position and the longevity of its reserves, approximately 70 years at current production levels. The company's multiple mine operating profile, which reduces the degree of operational risk, together with its vertical integration, which encompasses SX/EW and conventional smelting facilities further support BCA ranking. This footprint contributes to robust operating performance in a strong copper market and acceptable performance during cyclical downturns.

CODELCO's ownership by the Chilean State and the framework in which it operates are important considerations in the rating. As a state owned entity, CODELCO is required to pay 100% of its income to the Chilean Treasury and pays significant amounts in export, royalty and income taxes. As a consequence, its cash flow available to cover capital expenditures and debt repayments is limited to depreciation and other non cash-add backs. The ratings consider the substantial capital expenditure program possible over the next several years and the continued incremental increases in debt to fund. However, the BCA contemplates the level of earnings and cash flow generation that the asset base and cost position of CODELCO can generate, the strong coverage metrics provided by earnings levels, and the importance of CODELCO within the Chilean economy. Moody's believes that CODELCO's cash generation capacity on a "normalized basis" is capable of supporting its capital spending requirements and debt obligations and that given CODELCO's budget approval process within Chile, sufficient funds will continue available to the company to meet debt obligations.

As a state-owned mining company, CODELCO operates under Decree Law 1.350 and is required to submit its proposed annual budget to the Ministries of Mining and Finance for approval. As part of the annual budget, CODELCO must include a debt amortization budget, inclusive of interest and principal. In addition, CODELCO can propose to retain a portion of its earnings, although there is no assurance that such a request would be approved. However, in 2006 CODELCO and the Ministry of Finance entered into an agreement whereby CODELCO was able to retain approximately $714 million of net profits toward financing capital projects in its pipeline, which has reduced the funding required in 2007.

The medium dependence and high support factors consider the moderate correlation of default risk between the company and the Chilean government and the importance of the company to Chile respectively. In 2006, CODELCO contributed US$8.3 billion to the Chilean treasury ($4.4 billion in 2005) and accounted for roughly 25% of exports (23% in 2005) from Chile.

Key Rating Drivers

CODELCO's ownership by the Chilean State and the required 100% payout of net income, together with the export, royalty and income taxes paid results in the company's financial profile not being directly applicable to Moody's rating methodology for the global mining industry. However, its performance in certain key rating factors (based upon the three years through 2006 performance) is illustrative of the company's operating strength and world-class operating mines.

Largest global producer with long lived reserve base: With proven, probable and inferred reserves of approximately 60 million tons of copper - representing roughly 20% of reserves globally- CODELCO has about 70 years of productive capacity at current levels and maps to an A rating category. The level of reserves is seen as an important determinant in a company's ongoing operating profile and ability to continue to perform. With the reserve position held and the various projects in process and under evaluation, CODELCO is expected to maintain and increase production going forward offsetting the impact of declining grades currently being experienced.

Competitive cost position but challenges exist: CODELCO continues to evidence a competitive cost position although cash costs have been increasing over recent periods and were $0.43/lb for the nine months to September 2007, up from $0.31/lb for the comparable 2006 period and $0.37/lb for fiscal 2006. CODELCO's cost position benefits from its substantive molybdenum production (27,204 metric tons in 2006), which provides byproduct offsets to its gross cost base. While moly prices continue strong in 2007 (averaging 63.4/kg through September 2007, the company continues to be challenged by increased input costs, particularly energy, lower grades and recovery rates, and exchange rate movement. In addition cost performance (and production) through September was negatively impacted by contractor protests.

Recently, new requirements regarding contract workers have been issued by Chile's labor department, recommending that CODELCO and other copper producers in Chile hire significant numbers of contractors as full time employees under a new subcontracting law. While CODELCO has appealed, the potential for further cost increases exists.

Moody's expects net cash costs to continue at the levels experienced through September 2007 or slightly higher and to be more the norm over the next twelve to fifteen months with ongoing pressure from energy and labor costs. Despite the expectation for softening in copper prices from the high levels seen in 2007, continued still favorable copper fundamentals are expected contribute to CODELCO generating strong operating earnings despite the higher cost platform.

Substantive expansion pipeline - additional debt likely: CODELCO has increased its capital spending in recent years and has relatively aggressive spending plans over the next several years to maintain and improve is production profile. These include the Gaby project with an approximate $900 million capital cost and a roughly

$580 million investment at the Andina division to increased capacity to 92,000tpd from currently 72,000tpd. Gaby is expected to commence production in early 2008 and at full production levels in 2009 is expected to produce 150,000 metric tons. Given that CODELCO's cash flow available for investment is limited to depreciation and other non cash add backs, (roughly $770 million in 2006), further increases in debt are likely, absent further retention of profits being allowed for investment purposes.

Limited free cash flow for debt reduction: CODELCO's free cash flow is limited to negative reflective of the high dividend payout required to the Chilean Treasury and the relatively high level of capital expenditures in recent years to fund strategic growth initiatives and the acquisition of the Ventanas smelter in 2005. On a free cash flow to debt basis CODELCO maps in the Caa range under Moody's global mining methodology and Moody's expects this to continue over the near term but improve as major projects are completed and production and recovery rates increase. The importance of CODELCO to the Chilean economy and the requirement that the annual budget presented include interest and debt payment requirements as well as the 2006 agreement to allow a portion of profits to be retained to support capital investments are key elements in mitigating the mapping in these two metrics.

Liquidity

CODELCO's liquidity is supported by internal generation of funds. It has no committed revolving credit facilities that would provide alternative liquidity. This is seen as mitigated by the budget process previously mentioned.

Rating Outlook

The stable outlook reflects Moody's expectation that copper market fundamentals and prices will remain favorable over the next twelve to fifteen months although prices are anticipated to retreat from the high levels experienced in 2007. This will translate into continued strong earnings performance for CODELCO despite expected continued cost pressure. The outlook also incorporates Moody's view that CODELCO will continue to prudently manage its overall debt levels while pursuing its strategic growth objectives

What Could Change the Rating - Up

Upside rating potential is limited due to the company's ongoing reinvestment requirements and increasing debt position in an industry that will continue to exhibit variability in copper supply and demand balances, copper price volatility and input cost challenges. These considerations will continue to constrain upward movement in the BCA.

What Could Change the Rating - Down

The BCA and CODELCO's foreign currency ratings could be negatively impacted should the EBIT margin fall below 22% and remain at that level, the interest coverage ratio track at 9x or less, or the debt/EBITDA ratio exceed 2.5x. In addition, ratings could be negatively impacted by increases in royalties, environmental compliance costs or other regulatory requirements.

Rating Factors

Corporación Nacional del Cobre de Chile

Mining Industry	Aaa	Aa	A	Baa	Ba	B	Caa
Factor 1: Reserves							
a) Reserves (Years)			X				
Factor 2: Cost Efficiency & Profitability							
a) EBIT Margin	41%						
b) Return on Assets	48%						
c) Other Liabilities / Equity	5%						
Factor 3: Financial Policies							
a) Debt / Capital				41%			
b) Debt / EBITDA	1.0x						
Factor 4: Financial Strength							
a) Interest Coverage	25x						
b) (CFO - Dividends) / Debt			34%				
c) Free Cash Flow / Debt							-2%
Factor 5: Business Diversity & Size							

a) Business Diversity Score			5					
b) Size		$17.1B						
Rating:								
a) Indicated Rating from Methodology		A						