FitchRatings

FITCH RATES CODELCO'S PROPOSED SENIOR UNSECURED NOTES 'A+'; OUTLOOK STABLE

Fitch Ratings-Chicago/Santiago-10 July 2012: Fitch Ratings has assigned an 'A+' rating to Corporacion Nacional del Cobre's (Codelco) proposed senior unsecured notes due 2022 and 2042. Proceeds from these proposed notes will be used to partially finance capital expenditures during 2012, refinance short-term debt and for general corporate purposes.

The ratings reflect Codelco's 100% ownership by the government of Chile and its strategic importance to the country. As part of its mandate, the company contributes significantly to the country's revenues. Codelco's combined dividends and taxes paid to the Chilean government amounted to 15% of general government revenue and 4% of GDP on average for the last five years. In 2011, Codelco's net revenue of USD17.5 billion accounted for 7% of Chile's GDP and 33% of general government revenues, and EBITDA of USD7.8 billion accounted for 3% of GDP and 15% of general government revenues.

Codelco possesses immense copper deposits, accounting for 9% of the world's known proven and probable reserves and holds a leading global position in the copper mining industry, accounting for 11% of the world's annual copper output with 1.8 million metric tons of production including output from its share of the El Abra mine deposit during 2011.

Fitch views Codelco's long life reserves as a strategic asset for Chile, because it should allow the company to remain an important contributor to government revenues in the future. Fitch would expect to see forthcoming financial support from the government in the form of lower dividends should the company need to enhance its capital structure to fund its investment program.

Notwithstanding its 100% government ownership, Codelco also benefits from a strong standalone investment grade credit profile. Codelco has low leverage and strong cash flows before dividends. As of March 31, 2012, the company had USD8 billion of debt with USD1.6 billion due in the short term. Codelco's total debt to latest 12 months (LTM) EBITDA ratio for the same period was 1.1 times (x), and net debt to EBITDA ratio was 0.9x. Leverage is expected to remain low and consistent with the rating category, as reflected by Fitch's projected net debt/EBITDA ratio of around 1.0x and funds from operations (FFO) adjusted net leverage ratio of 1.9x for the year.

The company's position as a first and second quartile cash cost producer of copper also provides a cushion against future volatility in copper price fluctuations. Codelco's cash cost of production including by-products for 2011 was USD1.16 per pound, a deterioration on USD1.04 per pound during 2010, mainly as a result of CPI effects, exchange rate fluctuation and increase in operating costs.

Codelco's financial performance is strong for the LTM to March 31, 2012, with USD17.2 billion of revenues. However, the LTM EBITDA of USD7.4 billion is subject to large tax obligations, resulting in cash flow from operations (CFFO) of USD2.4 billion for the period. In 2011, Codelco had a negative free cash flow (FCF) of USD1.1 billion from CFFO of USD2.7 billion as a result of dividends paid to the government amounting to USD1.5 billion and capex of USD2.3 billion. To bolster its liquidity, Codelco issued USD1.15 billion 3.875% notes due November 2021 in October 2011. Proceeds from this issuance were used to refinance existing debt and capital expenditures for this year.

Due to the nature of Codelco's government ownership, the company historically held an adequate cash and marketable securities balance in relation to its short-term debt. As of March 31, 2012, cash and marketable securities was USD1.2 billion and the company's liquidity position was sufficient with cash + marketable securities + CFFO to short-term debt cover at 2.2x.

Operational and financial challenges to the company going forward mainly relate to its ambitious capital expenditure plans to 2020. The capex plan relates to maintaining and increasing on current volume output levels and improving average ore grades. Other systemic risks exist in the fundamentals of copper and molybdenum demand.

Fitch currently rates Codelco as follows:

--Foreign currency Issuer Default Rating (IDR) 'A+';
--Local currency IDR 'AA-';
--US$435 million 6.375% notes due Nov. 30, 2012 'A+';
--US$500 million 5.5% notes due Oct. 15, 2013 'A+';
--US$500 million 4.75% notes due Oct. 15, 2014 'A+';
--US$500 million 5.625% notes due Sept. 21, 2035 'A+';
--US$500 million 6.15% notes due Oct. 24, 2036 'A+';
--US$600 million 7.5% notes due Jan. 15, 2019 'A+';
--US$1 billion 3.75% notes due November 2020 'A+';
--US$1.15 billion 3.875% notes due November 2021 'A+';
--National scale rating 'AAA(cl)';
--UF7 million 4% notes due Sept. 1, 2012 'AAA(cl)';
--UF6.9 million 3.29% notes due April 1, 2025 'AAA(cl)';
--UF11 million Undrawn Line Program No. 608 'AAA(cl)'.

The Rating Outlook is Stable.

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Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable Criteria and Related Research:
--'Corporate Rating Methodology' (Aug. 12, 2011);
--'Parent and Subsidiary Rating Linkage' (Aug. 12, 2011);
--'National Ratings Criteria' (Jan. 19, 2011);
--'Evaluating Corporate Governance' (Dec. 16, 2010).

Applicable Criteria and Related Research:
Corporate Rating Methodology
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=647229
Parent and Subsidiary Rating Linkage
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=647210
National Ratings Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=595885
Evaluating Corporate Governance
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=581405