MOODY'S
INVESTORS SERVICE

Rating Action: Moody's changes CODELCO's outlook to negative; affirms A1 fgn. currency ratings.

Global Credit Research - 01 Aug 2013

New York, August 01, 2013 -- Moody's Investors Service changed the rating outlook for Corporacion Nacional del Cobre de Chile (CODELCO) to negative from stable and affirmed the A1 foreign currency rating. The base line credit assessment (BCA) under Moody's Government Related Issuer Rating Methodology (GRI) remains unchanged at a3.

Outlook Actions:

..Issuer: Corporacion Nacional del Cobre de Chile

....Outlook, Changed To Negative From Stable

Affirmations:

..Issuer: Corporacion Nacional del Cobre de Chile

....Senior Unsecured Regular Bond/Debenture Oct 15, 2013, Affirmed A1

....Senior Unsecured Regular Bond/Debenture Oct 15, 2014, Affirmed A1

....Senior Unsecured Regular Bond/Debenture Sep 21, 2035, Affirmed A1

....Senior Unsecured Regular Bond/Debenture Oct 24, 2036, Affirmed A1

....Senior Unsecured Regular Bond/Debenture Jan 15, 2019, Affirmed A1

....Senior Unsecured Regular Bond/Debenture Nov 4, 2020, Affirmed A1

....Senior Unsecured Regular Bond/Debenture Nov 3, 2021, Affirmed A1

....Senior Unsecured Regular Bond/Debenture Jul 17, 2042, Affirmed A1

....Senior Unsecured Regular Bond/Debenture Jul 17, 2022, Affirmed A1

The change in outlook to negative reflects our expectations for reduced earnings in 2013 as slowing growth rates in China, a major copper consumer, continued weakness in the European economy and softness in the US economy have exerted steady downward pressure on copper prices. From January 2013 through June 2013, average copper prices have fallen about 13%. We believe risk remains to the downside. We expect to see continued volatiliy as economic growth rates and expectations, particularly for China, will continue to impact market sentiment and hence price movement. The reduction in earnings on lower copper prices comes at a time when CODEICO's capital expenditures (capex) are increasing as the company implements its strategic plans to increase production and reverse its declining trend in ore grades. While the company has reduced spending expectations to about $4.5 billion from the roughly $5 billion 2013 levels indicated earlier in the year, capex is expected to remain at high levels over the next several years and will require increased debt to cover as the company essentially pays 100% of its income to the Chilean treasury through income and export taxes and royalties. For 2013 the government has approved a $1 billion earnings reinvestment, however, unlike prior years, this does not represent cash into the company but rather the retention of the unrealized profit on the exercise of the option in connection with the acquisition of an interest in Anglo American Sur.

RATINGS RATIONALE

As a government related Issuer ("GRI"), the A1 foreign currency rating on CODELCO's senior unsecured debt comprises the following inputs: the baseline credit assessment (BCA) at a3, the Chilean Government's Aa3 bond rating, high dependence and high support levels.

CODELCO's BCA reflects its position as the world's largest copper producer (approximately 1.76 million metric tons in 2012 including its share of El Abra and Anglo American Sur, which is only included for part of the year) and the second largest molybdenum producer, its competitive cost position and its substantial reserve base, approximately 75 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 its BCA ranking. This footprint contributes to robust operating performance in a strong copper market and acceptable performance during cyclical downturns.

The BCA incorporates the large investment requirements to increase production and improve ore grades, which we anticipate will require increased debt levels over the next several years. In addition, the potential for production disruptions, the impact of lower ore grades in the near term, ongoing industry wide cost challenges together with energy and water costs and challenges in Chile, are key considerations in the BCA. Nonetheless, the company's strategic growth investments, competitive cost position, and production levels support performance over the medium to longer-term although there is likely to be pressure in key metrics such as EBIT margin, EBIT/interest and debt/EBITDA in the near-term. At current copper prices, should they be maintained over the next twelve to eighteen months, and anticipated capital expenditure levels, we believe that CODELCO's leverage as measured by the debt/EBITDA ratio could approach 2.5x during this time frame (1.4x for the twelve months through March 31, 2013).

CODELCO's ownership by the Chilean State and the framework in which it operates are also important considerations in the rating. CODELCO's ownership structure requires the company to pay 100% of its income to the Chilean Treasury and the company pays significant amounts in export, royalty and income taxes. Under its present code of corporate governance, approved by the Chilean congress in late 2009, CODELCO can request that it be allowed to retain profits within the company, particularly to support strategic capital expenditures (CAPEX) for growth. The government has demonstrated its support of CODELCO through its $1 billion equity investment in 2009 to support strategic CAPEX and in 2011 approved the retention of $376 million of net profits (equivalent to 20% of 2010 net profits). In addition, the government in early 2011 authorized the sale of CODELCO's share in E-CL (fka Edelnor) and the retention by CODELCO of the sale proceeds (>$1.0 billion).

Consequently, the BCA contemplates the level of earnings and cash flow generation that the asset base and cost position of CODELCO can generate, and the importance of CODELCO within the Chilean economy. We believe 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 likely continue available to the company to meet debt obligations.

Upside adjustment to the BCA is unlikely due to the company's ongoing reinvestment requirements and the expectation for increased leverage in a business that will continue to exhibit variability in copper supply and demand balances, copper price volatility and input cost challenges.

The BCA and CODELCO's senior unsecured foreign currency ratings could be negatively impacted should earnings contract for a prolonged period, causing a sustainable period of EBIT margins below 22%, interest coverage below 9.0 times, or debt-to-EBITDA above 2.5 times. In addition, ratings could be negatively impacted by increases in royalties, environmental compliance costs or other regulatory requirements or significant cash copper hedging losses.

The principal methodology used in this rating was the Global Mining Industry Methodology published in May 2009. Other methodologies used include the Government-Related Issuers methodology published in July 2010. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

Headquartered in Santiago, Chile, CODELCO, a mining, industrial and commercial state-owned enterprise, active primarily in the production of copper, but also holding an important position in the molybdenum market, had revenues of $15.2 billion for the twelve months ended March 31, 2013.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

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