STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

RatingsDirect®

Corporacion Nacional del Cobre de Chile

Primary Credit Analyst:
Diego H Ocampo, Buenos Aires (54) 114-891-2124; diego.ocampo@standardandpoors.com

Secondary Contact:
Alejandro Gomez Abente, Sao Paulo (55) 11-3039-9741;
alejandro.gomez.abente@standardandpoors.com

Table Of Contents

Table Of Contents (cont.)

Corporacion Nacional del Cobre de Chile

Corporate Credit Rating	AA-/Stable/--

Profile Assessments

BUSINESS RISK	SATISFACTORY	 Vulnerable – Excellent
FINANCIAL RISK	SIGNIFICANT	 Highly leveraged – Minimal

Initial Analytical Outcome ("Anchor") And Rating Result

Our 'AA-' foreign currency rating on Chile-based mining company Corporación Nacional del Cobre de Chile S.A. (Codelco) is based on:

- Our anchor of 'bbb-' due to its "satisfactory" business risk and "significant" financial risk profile.
- Modifiers have neutral impact on the ratings on Codelco.
- The ratings on Codelco are six notches above its stand-alone credit profile (SACP) due to our assessment of an "extremely high" likelihood of support from the Chilean government, if needed.

Rationale

Business Risk: Satisfactory	Financial Risk: Significant
• Largest copper producer and second-largest molybdenum producer, globally; • Relatively large reserve base with attractive ore content, although it needs significant investments to maintain output levels; • Efficient and vertically-integrated refining assets partially offset declining ore grades; • Heavy burden of ad-hoc taxes to finance the Chilean government limits EBITDA generation; and • Lack of material asset diversification as its four main mines in Chile account for over 80% of total production.	• Ample operating cash generation; • Substantial investment plan that may require up to $15 billion through 2016; • Debt levels expected to gradually rise due to investment plan; and • Positive record in global credit markets as the largest Chilean corporate issuer.

Outlook: Stable

The stable outlook on Codelco incorporates our expectation that the government will provide timely and sufficient support if needed.

Downside scenario

Given our assessment of an "extremely high" likelihood of government support, the ratings on Codelco will move in tandem with the ratings on Chile. We could lower the ratings if the company's SACP deteriorates by more than four notches, which we view as unlikely.

Upside scenario

The foreign currency ratings on Chile cap the ratings on Codelco.

Standard & Poor's Base-Case Scenario

Our base case indicates that Codelco will face annual discretionary cash flow deficits of $1.5 billion-$2 billion to through 2016 and possibly through 2017, as the company develops its mining base, and that the company will fund the deficit with debt, resulting in a gradual deterioration in its main credit ratios.

Assumptions

- Flat copper prices of $3.1 per pound through 2016;
- Copper production of about 1.76 million tons per year;
- About 200,000 tons of copper purchased from third parties refined and sold per year;
- Cash costs of about $1.5 per pound in 2014 falling to about $1.4 per pound in 2015 and 2016 thanks to increased molybdenum production and improving grades; and
- Capital spending of $4.5 billion-$5 billion through 2016.

Key Metrics

	2014E	2015E	2016E
EBITDA Margin	32%-34%	34%-36%	36%-37%
Debt/EBITDA	3.0x–3.2x	3.2x–3.4x	3.4x–3.6x
FFO/debt	20%-22%%	18%-20%	16%-18%

E--Estimate.

Company Description

The government of Chile established Codelco in 1976 by Decree Law No. 1,350. It is the largest mining company in Chile, which owns 100% of the company. The company's strategic importance to Chile and its very high contribution to the country's GDP, exports, and fiscal revenues are key issues when considering Codelco's overall credit strength.

Codelco operates seven mining divisions in Chile with a total annual production of 1.7 million metric tons of copper (mostly cathodes and concentrate). The company is the world's largest copper producer, accounting for about 10% of worldwide copper production, and 9% of proven and probable reserves. Codelco is also the second-largest global producer of molybdenum, with a total annual production of about 20,000 metric tons, which accounts for about 8% of worldwide production.

Business Risk: Satisfactory

Largest copper producer; adequate profitability

Codelco's business risk profile is "satisfactory" mainly due to its substantial business scale as the world largest copper producer. Its adequate asset diversification, large and profitable reserve base, and adequate --though weakening--cost position help buffer its exposure to copper price volatility. Its lack of asset diversification and the need to upgrade its geological deposits to maintain production levels offset the positives.

Codelco's substantial copper production capacity is highly concentrated in seven mines in Chile: El Teniente, Radomiro Tomic, Chuquicamata, Andina, Ministro Hales, Gabriela Mistral and Salvador; the first four account for over 80% of the company's total output.

Its industrial base is fairly efficient and vertically integrated up through refining, allowing it to charge the refining fee, which represents a premium beyond the concentrate price.

Even though Codelco's copper reserves are quite large (64 years at current production) and have meaningful, 0.68% copper content, its main mines had been in operation for decades and require significant investments to maintain current production levels. In the nine months ended Sept. 30, 2013, Codelco's cash cost totaled $1.65 per pound of copper produced, which lies in the middle of the cost curve.

S&P Base-Case Operating Scenario

We expect adjusted EBITDA to be about $5 billion in 2014 and $5.4 billion in 2015 and 2016, because copper output should be slightly higher, and cash costs will likely decline thanks to increasing volumes of molybdenum in the Chuquicamata mine and improving ore grades in El Teniente and Ministro Hales mines.

- Ministro Hales mine will boost production to 180,000 tons per year, more than compensating for expected lower volumes from Radomiro Tomic (40,000 tons per year) and Salvador mines (30,000 tons per year).
- Premium of about $0.07 per pound.
- Improved production volumes due to investments after 2017.
- Federal Law 13,196 that mandates a 10% tax rate on Codelco's exports to fund the Chilean army will be about $1.2 billion per year, which we deduct from EBITDA.

Peer comparison

Table 1

Corporacion Nacional del Cobre de Chile -- Peer Comparison

Industry Sector: Metal Mining

	Corporacion Nacional del Cobre de Chile	Southern Copper Corp.	Minera Escondida Ltda.	Freeport-McMoRan Copper & Gold Inc.	Vale S.A.
Rating as of Feb. 10, 2014	AA-/Stable/--	BBB/Stable/--	BBB+/Stable/--	BBB/Negative/--	A-/Negative/--
Stand-alone credit profile	bbb-				
	--Three Year Fiscal Average--				
(Mil. $)					
Revenues	16,480.6	6,212.5	8,485.0	19,937.0	51,889.7
EBITDA	5,729.0	3,430.7	5,041.9	8,711.8	26,496.2
Funds from operations (FFO)	5,672.2	2,207.1	5,010.6	6,959.0	19,675.0
Net income from continuous operations	2,600.7	1,941.7	3,427.1	3,419.7	15,814.7
Cash flow from operations	2,767.5	1,982.6	4,217.7	5,284.4	20,682.4
Capital expenditures	2,749.4	676.9	1,120.4	3,708.0	14,588.7
Free operating cash flow	18.0	1,305.6	3,097.3	1,576.4	6,093.7
Discretionary cash flow	(1,243.4)	(910.5)	492.1	632.0	93.7
Cash and short-term investments	294.1	519.4	292.6	852.7	1,582.2
Debt	9,613.7	1,804.3	1,088.2	7,640.6	24,979.4
Equity	7,159.6	4,242.1	6,417.6	21,937.0	76,306.0
Adjusted ratios					
EBITDA margin (%)	34.8	55.2	59.4	43.7	51.1
Return on capital (%)	27.8	55.0	58.0	23.6	22.4
EBITDA interest coverage (x)	18.8	18.2	133.2	18.3	8.7
FFO cash int. cov. (X)	16.2	168.3	419.0	38.1	19.1
Debt/EBITDA (x)	1.7	0.5	0.2	0.9	0.9
FFO/debt (%)	59.0	122.3	460.4	91.1	78.8
Cash flow from operations/debt (%)	28.8	109.9	387.6	69.2	82.8
Free operating cash flow/debt (%)	0.2	72.4	284.6	20.6	24.4
Discretionary cash flow/debt (%)	(12.9)	(50.5)	45.2	8.3	0.4

Financial Risk: Significant

Rising debt levels to finance investment program

We assess Codelco's financial risk profile as "significant" mainly because we expect the company's leverage metrics to gradually weaken through 2016, due to its need to invest in its mining portfolio to avoid a material reduction in copper outputs.

We expect annual capex to be $4.5 billion-$5 billion through 2016, which, according to our calculations, would result in discretionary cash flow deficits of $1.5 billion-$2 billion per year.

S&P Base-Case Cash Flow And Capital Structure Scenario

Under our base case, Codelco's financial leverage metrics would gradually weaken in the next three years.

- Dividends of 30% of net income;
- Expected adjusted debt-to-EBITDA ratio gradually weakening to 3.6x in 2016, from 3.3x in the 12 months ended Sept. 30, 2013; and
- Funds from operations will also drop to 17% in 2016, from 31% in the 12 months ended Sept. 30, 2013.

Financial summary

Table 2

Corporacion Nacional del Cobre de Chile -- Financial Summary

Industry Sector: Metal Mining

		--Fiscal year ended Dec. 31--				
	Last 12 Months As Of Sept. 30, 2013	**2012**	**2011**	**2010**	**2009**	**2008**
Rating history	AA-/Stable/--	A/Stable/--	A/Stable/--	A/Stable/--	A/Stable/--	A/Stable/--
(Mil. $)						
Revenues	15,237.7	15,860.4	17,515.3	16,065.9	12,379.1	14,424.8
EBITDA	3,884.2	4,607.9	6,569.8	6,009.3	4,534.8	6,138.5
Funds from operations (FFO)	4,063.9	4,784.2	6,609.9	5,622.6	4,343.1	5,900.4
Net income from continuing operations	952.2	3,868.0	2,056.4	1,877.7	1,176.2	1,566.8
Cash flow from operations	3,656.7	2,297.6	2,767.4	3,237.4	2,423.5	10.8
Capital expenditures	4,562.9	3,687.2	2,251.6	2,309.5	1,680.5	1,975.5
Free operating cash flow	(906.2)	(1,389.5)	515.7	927.9	743.0	(1,964.7)
Discretionary cash flow	(1,568.2)	(1,495.5)	(956.3)	(1,278.2)	(92.7)	(5,196.5)
Cash and short-term investments	940.7	318.1	345.7	218.5	193.3	96.7
Debt	12,997.2	11,421.3	8,221.5	9,198.3	7,723.4	5,150.5
Equity	11,802.3	11,708.8	5,602.7	4,167.2	4,133.8	3,878.4
Adjusted ratios						
EBITDA margin (%)	25.5	29.1	37.5	37.4	36.6	42.6
Return on capital (%)	8.4	15.1	36.4	37.9	32.2	42.6
EBITDA interest coverage (x)	10.9	11.5	25.5	23.4	18.9	25.8
FFO cash interest coverage (x)	11.6	9.6	21.1	24.7	18.2	N.M.

Table 2

Corporacion Nacional del Cobre de Chile -- Financial Summary (cont.)						
Debt/EBITDA (x)	3.3	2.5	1.3	1.5	1.7	0.8
FFO/debt (%)	31.3	41.9	80.4	61.1	56.2	114.6
Cash flow from operations/debt (%)	28.1	20.1	33.7	35.2	31.4	0.2
Free operating cash flow/debt (%)	(7.0)	(12.2)	6.3	10.1	9.6	(38.1)
Discretionary cash flow/debt (%)	(12.1)	(13.1)	(11.6)	(13.9)	(1.2)	(100.9)

N.M.--Not Meaningful.

Liquidity: Adequate

We view Codelco's liquidity as "adequate." Sources will likely exceed uses by about 20% in the next couple of years even if EBITDA were to decline by 30%. We also believe that the company has strong financial flexibility and access to credit markets thanks to its government ownership. These factors offset the risks inherent to the company's significant capex in the medium term. In assessing Codelco's liquidity, we've considered the following assumptions:

Principal Liquidity Sources	Principal Liquidity Uses
• Expected cash position of about $1 billion by year-end 2013; and • Funds from operations of about $2.8 billion in 2014	• Debt maturities of $634 million; and • Maintenance capex levels of $2.5 billion.

Debt maturities

2014: $634 million

2015: $688 million

2016: $950 million

2017-2020: $2.209 billion

2020+: $6.078 billion

Other Modifiers

Modifiers have no impact on the ratings.

Government Influence

The likelihood of the Chilean government to support Codelco in case of need is "extremely high," as defined by our criteria for rating government-related entities (GREs).

We view Codelco's importance for the Chilean economy as "very important" and its link with the Chilean government as "integral." Therefore, Codelco's annual revenues have represented more than 15% of the country's exports in the past five years and its contributions to the Chilean treasury have helped the country strengthen its foreign currency reserves. Also, the Chilean government is actively involved in Codelco's strategic and financial monitoring, coordination of debt issuances, and in fulfilling a public policy role.

Ratings Score Snapshot

Corporate Credit Rating: AA-/Stable/--

Business risk: Satisfactory

- Country risk: Moderately high
- Industry risk: Moderately high
- Competitive position: Satisfactory

Financial risk: Significant

- Cash flow/Leverage: Significant

Anchor: bbb-

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: bbb-

- Sovereign rating: AA-
- Likelihood of government support: Extremely high (6 notches from SACP)

Reconciliation

Table 3

Reconciliation Of Corporacion Nacional del Cobre de Chile Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)

	--Rolling 12 Months Ended Sept. 30, 2013--						
Corporacion Nacional del Cobre de Chile reported amounts.							
	Debt	**Shareholders' Equity**	**EBITDA**	**Operating Income**	**Interest Expense**	**EBITDA**	**Cash Flow From Operations**
Reported	11,406.0	10,247.3	3,342.7	1,799.7	208.2	3,342.7	2,851.3

Table 3

Reconciliation Of Corporacion Nacional del Cobre de Chile Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $) (cont.)

Standard & Poor's adjustments							
Interest expense (reported)	--	--	--	--	--	(208.2)	--
Interest income (reported)	--	--	--	--	--	47.3	--
Current tax expense (reported)	--	--	--	--	--	459.7	--
Operating leases	1,223.2	--	752.2	84.6	84.6	667.6	667.6
Postretirement benefit obligations/deferred compensation	487.7	(487.7)	63.5	63.5	63.5	29.0	(19.4)
Surplus cash	(705.5)	--	--	--	--	--	--
Asset retirement obligations	585.8	--	--	--	--	--	--
Non-operating income (expense)	--	--	--	554.8	--	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	--	--	157.2
Non-controlling Interest/Minority interest	--	2,042.7	--	--	--	--	--
EBITDA - Valuation gains/(losses)	--	--	(410.5)	(410.5)	--	(410.5)	--
EBITDA - Other income/(expense)	--	--	136.3	136.3	--	136.3	--
Total adjustments	1,591.2	1,555.0	541.4	428.7	148.1	721.2	805.4
	Debt	**Equity**	**EBITDA**	**EBIT**	**Interest Expense**	**Funds From Operations**	**Cash flow From Operations**
Adjusted	12,997.2	11,802.3	3,884.2	2,228.3	356.3	4,063.9	3,656.7

Related Criteria And Research

Related Criteria

- Industrials: Key Credit Factors For The Metals And Mining Upstream Industry, Dec. 20, 2013
- Corporate Methodology, Nov. 19 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010

Related Research

- Standard & Poor's Updates Its Metals Price Assumptions For 2014-2016, Jan. 30, 2014

Ratings Detail (As Of February 13, 2014)		
Corporacion Nacional del Cobre de Chile		
Corporate Credit Rating		
Foreign Currency		AA-/Stable/--
Senior Unsecured		AA-
Corporate Credit Ratings History		
05-Aug-2013	*Foreign Currency*	AA-/Stable/--

Ratings Detail (As Of February 13, 2014) (cont.)	
14-Jan-2004	A/Stable/--
16-Apr-2002	A-/Positive/--

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.