

Summary:

Corporacion Nacional del Cobre de Chile

Primary Credit Analyst:

Luciano Gremone, Buenos Aires (54) 11-4891-2143; luciano_gremone@standardandpoors.com

Secondary Contact:

Pablo Lutereau, Buenos Aires (54) 114-891-2125; pablo_lutereau@standardandpoors.com

Table Of Contents

Rationale

Outlook

Summary:

Corporacion Nacional del Cobre de Chile

Foreign Currency

Credit Rating: A/Stable/--

Rationale

Standard & Poor's Ratings Services' 'A' foreign currency rating on Chile-based, state-owned copper producer Corporación Nacional del Cobre de Chile (Codelco) reflects our opinion that the Republic of Chile is highly likely to provide timely and sufficient extraordinary support to Codelco in the event of financial distress. We also assess Codelco's stand-alone credit profile (SACP) to be 'bbb-'. The outlook is stable.

In accordance with our criteria for government-related entities, our view of a very high likelihood of extraordinary government support is based on:

- Codelco's very important role in the Chilean economy because it represents a large portion of the country's exports and fiscal revenues
- The very strong link with the Chilean government, based mainly on its 100% ownership of Codelco, which, in our view, should continue to influence the company's credit quality

Codelco's stand-alone credit profile reflects its strong business risk profile and significant financial risk profile. Codelco benefits from its strong market position as the world's largest integrated copper mining company and second-largest producer of molybdenum, with ample high-grade copper ore reserves, a globally competitive cost structure, and integrated operations including copper refining and smelting. However, somewhat offsetting these strengths are the industry's inherent cyclicality, resulting in volatile copper and molybdenum prices and cash flow generation, lack of geographic diversification for production because all operations are in Chile, heavy tax and dividend burden from the government, and an aggressive financial policy.

High capital expenditures and an aggressive dividend policy have resulted in a significant increase in debt in the past five years. Total adjusted debt to EBITDA, which reached about 1.3x for the last 12 months ended March 31, 2011, could increase to about 2.5x by fiscal 2013, mainly as a result of the strong projected capital expenditures (assuming long-term copper prices of \$2 per pound), while funds from operations (FFO) to total debt would likely be 20% to 30%, still commensurate with the company's stand-alone credit profile. Massive capital expenditures and an aggressive dividend policy could result in potentially large negative free cash flows, which, combined with the need to rely on refinancing of debt maturities, could strain the stand-alone credit profile in the medium term.

Liquidity

We assess Codelco's liquidity position as adequate based on the company's strong financial flexibility and good standing in credit markets, which government ownership enhances. These factors offset the expected recurring low-to-negative free operating cash flow generation and an aggressive dividend policy. As of March 31, 2011, the company had about \$2 billion in cash and cash equivalents and short-term principal maturities for about \$650 million.

Cash balances as of March 2011 are extraordinary and incorporate proceeds from Codelco's sale in February 2011

of its 40% stake in Chilean power generator E-CL S.A. We expect Codelco to use such proceeds mainly to partially finance its heavy capital expenditures that could reach up to \$3 billion in 2011.

Although the company does not have committed credit lines, it enjoys very strong access to banking and capital markets, enhanced by government ownership. Codelco's outstanding debt does not include financial covenants.

Outlook

The stable outlook incorporates our expectation that the Chilean government would provide timely and sufficient extraordinary support to Codelco in the event of financial distress. We could raise the ratings if there is a significant improvement in the company's financial profile, which in turn would depend on a more conservative financial policy. We could lower the ratings if Codelco's financial profile significantly deteriorates (for example, total debt to EBITDA exceeding 3x), the company's importance to the Chilean government diminishes, or the government privatizes the company.

Copyright © 2011 by Standard & Poors Financial Services LLC (S&P), a subsidiary of The McGraw-Hill Companies, Inc. All rights reserved.

No content (including ratings, credit-related analyses and data, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P. The Content shall not be used for any unlawful or unauthorized purposes. S&P, its affiliates, and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P's opinions and analyses do not address the suitability of any security. S&P does not act as a fiduciary or an investment advisor. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.