

## **FITCH RATINGS AFFIRMS CODELCO'S LT FOREIGN IDR AT 'A'; OUTLOOK STABLE**

Fitch Ratings-Santiago-17 November 2008: Fitch Ratings has affirmed the following ratings on Corporacion Nacional del Cobre de Chile (Codelco):

- Long-term foreign currency Issuer Default Rating (IDR) at 'A', Outlook Stable;
- Long-term local currency IDR at 'A+', Outlook Stable;
- Long-term national scale rating at 'AAA'(chl).

Codelco's ratings are directly linked to those of the Republic of Chile, which has a foreign currency IDR of 'A', a local currency IDR of 'A+' and a Rating Outlook of Stable. Codelco's credit ratings incorporate the state's ownership of the company and its strategic importance to Chile, illustrated by the company's contribution to 16% of government revenues in 2007. The strategic importance of Codelco to Chile is further underpinned by Codelco's immense copper reserves (70 years at current production levels) and its leading position in the industry globally. The former factor is crucial because it allows the company to remain an important contributor of government revenues in the future, while the latter factor enables the company to manage global supply in a way that supports prices during periods of low demand.

For the latest twelve months (LTM) ended Sept. 30, 2008, Codelco generated USD3.2 billion of funds from operations (FFO) and USD7.5 billion of EBITDA. These figures represent declines from 2007, when the company's FFO was USD4.2 billion and its EBITDA was USD9.4 billion. The most important factor in the drop in operating profits was lower production and sales volumes. At the end of September, Codelco had USD4.6 billion of debt and USD530 million of cash and marketable securities. These financial figures translate to a total debt-to-EBITDA ratio of 0.6 times (x) and an FFO adjusted leverage ratio of 1.3x.

Codelco has adequate liquidity, backed by a track record of accessing debt in the local and international markets and a well-diversified debt maturity profile. Short-term maturities of USD1.3 billion at the end of September are expected to be refinanced with short-term bank loans from undrawn facilities and cash flow from operations.

The global financial crisis has impacted the price of copper dramatically. As of Nov. 11, 2008, the LME copper price dropped to USD1.62 per pound from USD\$4.07 per pound in July 2008. Codelco's revenues are projected to drop sharply in 2009 due to lower copper and molybdenum prices. With about 50% of the production costs denominated in Chilean pesos, the company's cost structure should decline due to the devaluation of the peso versus the U.S. dollar. The decrease in the company's cost structure will not be enough to offset the decline in revenues. Consequently, operating profits should fall significantly.

The standalone financial profile of Codelco is projected to remain relatively strong even with low copper prices due to manageable debt levels and the company's position as a low cost producer in the industry. Future challenges for Codelco include declining ore grades, which will require large capital investments and could increase debt levels.

Codelco, Chile's state copper company, is engaged in the mining, smelting and refining of copper, molybdenum and other sub-products. Codelco is the largest copper and molybdenum producer in the world, with approximately 1,665 million tons per year of copper (including Codelco's share in El Abra) and 30,000 tons per year of molybdenum. The company's diversified operations are distributed in four mining divisions (Codelco Norte, Salvador, Andina, and El Teniente) and the Ventana's smelter and refinery division, as well as a 49% share in El Abra mine.

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