

Credit Opinion: Corporacion Nacional del Cobre de Chile

Corporación Nacional del Cobre de Chile

Santiago, Chile

Ratings

Category	Moody's Rating
Outlook	Stable
Senior Unsecured	Aa3

Contacts

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Key Indicators

Corporación Nacional del Cobre de Chile

(fye December 31)	2001	2002	2003	2004
EBIT/GROSS INTEREST	5.3x	7.1x	7.9x	24.6x
EBIT MARGIN	14.7%	15.6%	22.0%	42.8%
GROSS CASH FLOW / CAPEX	1.2x	0.7x	0.8x	2.0x
CASH FROM OPERATIONS / DEBT	47%	29%	5%	66%
DEBT / CAPITALIZATION	30%	36%	43%	43%
DEBT / EBITDA	1.5x	2.0x	2.2x	0.7x

Note: For definitions of Moody's most common ratio terms please see the accompanying [User's Guide](#).

Opinion

Recent Developments

The ratings of CODELCO reflect the application of Moody's new rating methodology for government-related issuers ("GRIs"). Please refer to Moody's Rating Methodology entitled "The Application of Joint Default Analysis to Government-Related Issuers", published in April 2005, and its accompanying press release.

Please also refer to Moody's Special Comment entitled "Rating Government-Related Issuers in the Americas Corporate Finance" for a detailed discussion of the application of the GRI rating methodology to corporate issuers in the Americas.

Credit Strengths

Largest copper producer globally, significant molybdenum production

Multiple mine operating profile, involved in mining, smelting and refining

Competitive cost position

Long-lived reserve base

Credit Challenges

Management of debt levels and funding of strategic growth objectives net income paid out in full to the Chilean

government

Maintaining cost competitive position in rising input cost environment

Currency exposure of revenues versus cost base

Rating Rationale

In accordance with Moody's GRI rating methodology, the ratings of CODELCO reflect the combination of the following inputs:

Baseline credit assessment of 2 (on a scale of 1 to 6, where 1 represents low credit risk)

A1 local currency rating of the Chilean government

Medium dependence

High support

The baseline credit assessment of 2 reflects Codelco's position as the world's largest copper producer, its good debt protection measures through the copper cycle, its competitive cost position and longevity of reserves. Codelco's multiple mine operating profile, which reduces the degree of operational risk, and vertical integration, including SX/EW and conventional smelting facilities, are further favorable factors. Other rating factors include the company's vulnerability to copper price volatility, its potential aggressive capital spending program to 2006 and beyond and increasing leverage position. Although the company transfers 100% of net income to the Chilean Treasury, pays substantial amounts in export and income taxes and cash flow is limited to depreciation and other non-cash add backs, the baseline credit assessment considers the level of earnings and cash flow generation that the asset base and cost position of CODELCO can generate.

The Medium dependence considers the moderate correlation of default risk between the company and the Chilean government and the ability of CODELCO to manage through the copper cycles. The medium dependence also considers the importance of copper to the Chilean economy and the fact that CODELCO's accounts for approximately 10% of government total revenues

The High support reflects the importance of CODELCO to Chile given the company's position as a strategically important exporter and significant generator of US dollar based revenue. Under Decree Law 1.350, CODELCO is required to submit its proposed annual budget to the Ministries of Mining and Finance for approval. As part of the annual budget, CODELCO must include a debt amortization budget, inclusive of interest and principal. In addition, CODELCO can propose to retain a portion of its earnings, although there is no assurance that such a request would be approved. Given the budget submission process and the strong cash generating ability of CODELCO, Moody's would expect funds to be available to meet debt obligations.

Rating Outlook

Codelco's stable outlook reflects its competitive cost position and productive capacity, which should allow for improving performance as copper prices strengthen and production and sales volumes increase. The outlook considers that CODELCO will continue to prudently manage its overall debt levels while pursuing strategic growth initiatives.

What Could Change the Rating - UP

Upside rating potential is limited due to the company's ongoing reinvestment requirements and increasing debt position in an industry that will continue to exhibit cyclicalities.

What Could Change the Rating - DOWN

Given that cash flow available to fund investments is limited to non cash sources, such as depreciation, and proceeds from asset sales continued large debt financed capital expenditures could negatively impact the rating.

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