FitchRatings

Corporates

Natural Resources / Chile

Codelco

Corporacion Nacional del Cobre
Full Rating Report

Ratings

Foreign Currency

Long-Term IDR	A+
Senior Unsecured	A+

Local Currency

Long-Term IDR	AA–
National Long Term Rating	AAA(cl)
Senior Unsecured	AAA(cl)

IDR – Issuer Default Rating

Rating Outlooks

Long-Term Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable
National Long-Term Rating	Stable

Financial Data

Corporacion Nacional del Cobre de Chile (Codelco)

USD Mil.	LTM 6/30/13	12/31/12
Revenue	15,453	15,860
EBITDA	7,645	7,911
EBITDA Margin (%)	49	50
Funds from Operations	2,194	3,676
Free Cash Flow (FCF)	(195)	(252)
Cash and Mkt. Securities	778	1,264
Total Adj. Debt	10,746	10,127
Total Adj. Debt/EBITDA	1.4	1.3
FFO Adjusted Leverage	4.2	2.5
EBITDA/Gross Interest Expense	20.6	19.5

Related Research

Updating Fitch's Mid-Cycle Commodity Price Assumptions (September 2013)

Related Criteria

Corporate Rating Methodology (August 2013)

Parent and Subsidiary Rating Linkage (August 2013)

Evaluating Corporate Governance (December 2012)

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Key Rating Drivers

Sovereign Ownership: The ratings reflect Codelco's 100% ownership by the government of Chile and its strategic importance to the country. Due to its status as a state-owned enterprise, Codelco is subject to a law that stipulates its entire net income is transferred to the Chilean Treasury, in addition to taxes and dividends paid. The Ministry of Finance and Mining, in their annual joint decree, announced recently that USD1 billion may be retained by Codelco during 2013 to help finance its ambitious capex program of around USD4 billion each year to 2020. The capex program is essential to maintain current copper volume output levels in light of declining ore grades at its aging mines, with a long-term aim of increasing annual output to above 2 million metric tons.

Key Strategic Asset for Chile: Codelco possesses immense copper deposits, accounting for 9% of the world's known proven and probable reserves and 10% of the world's annual copper output with 1.8 million metric tons of production. This includes output from its El Abra and Anglo American Sur proportional shares during 2012. Fitch Ratings views Codelco's long-life reserves as a strategic asset, because it should allow the company to remain an important contributor to government revenues in the future. Fitch has witnessed financial support from the government in the form of lower dividends and the permitting of larger allocations of capital so that the company can enhance its capital structure to fund its investment program.

Standalone Credit Profile Remains Strong: Notwithstanding its 100% government ownership, Codelco also benefits from a strong standalone investment-grade credit profile. Codelco has low leverage and robust cash flows before capex and dividends. As of June 30, 2013, the company had USD10.7 billion of debt with USD1.5 billion due in the short term. Codelco's total debt-to-latest 12 months (LTM) EBITDA ratio for the same period was 1.4x, and net debt-to EBITDA ratio was 1.3x. Leverage is expected to remain low and consistent with the rating category, as reflected by Fitch's projected net debt/EBITDA ratio below 2.0x and funds from operations (FFO) adjusted net leverage ratio of 1.8x for the year.

Second-Quartile Cost Position: The company's position as a second quartile cash-cost producer of copper also provides a cushion against future volatility in copper price fluctuations. Codelco's cash cost of production including by-products for 2012 was USD1.64 per pound, a deterioration on USD1.16 per pound during 2011, mainly as a result of CPI effects, exchange rate fluctuation and increase in operating costs. Copper prices currently remain above USD3.00 per pound. As a result, Codelco's financial performance is resilient for the LTM to June 30, 2013, with USD15.5 billion of revenues. However, LTM EBITDA of USD7.6 billion is subject to large tax obligations, pressuring FFO.

Rating Sensitivities

Sovereign Support is Key: Codelco's operational and financial challenges mainly concern its ambitious capital expenditure plans to 2020. Should Fitch witness a change in the levels of financial support from the Chilean government during this critical period, a downgrade could take place. Because of its 100% ownership by the government of Chile, sovereign rating actions on the country, in the form of an Outlook revision, or upgrade or downgrade, will also be reflected in Codelco's ratings.

Financial Overview

Liquidity and Debt Structure

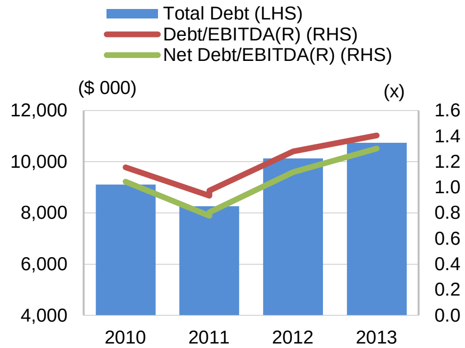
Manageable Cash Position

Due to the nature of Codelco's government ownership, the company historically held an adequate cash and marketable securities balance in relation to its short-term debt. As of June 30, 2013, cash and marketable securities was USD778 million and the company's liquidity position was solid with cash, marketable securities and CFFO to short-term debt coverage at 2.4x. The company has also successfully issued two securities in 2013 — USD750mm notes due in September 2023 and USD950mm bonds due in October 2043. Fitch expects Codelco to regularly access the international capital markets to refinance short term maturities and to aid capex spending, and to have no issues doing so.

Low Leverage

Codelco exhibits low leverage ratios and has strong cash flow generation prior to capex and dividends. As of June 30, 2013, the company had USD10.7 billion of debt with USD1.5 billion due in the short term. Codelco's total debt-to-LTM EBITDA ratio for the same period was 1.4x, and net debt-to-LTM EBITDA ratio was 1.3x. Leverage is expected to remain low and consistent with the rating category, as reflected by Fitch's projected net debt/LTM EBITDA ratio below 2.0x and FFO adjusted net leverage ratio of 1.8x for the year.

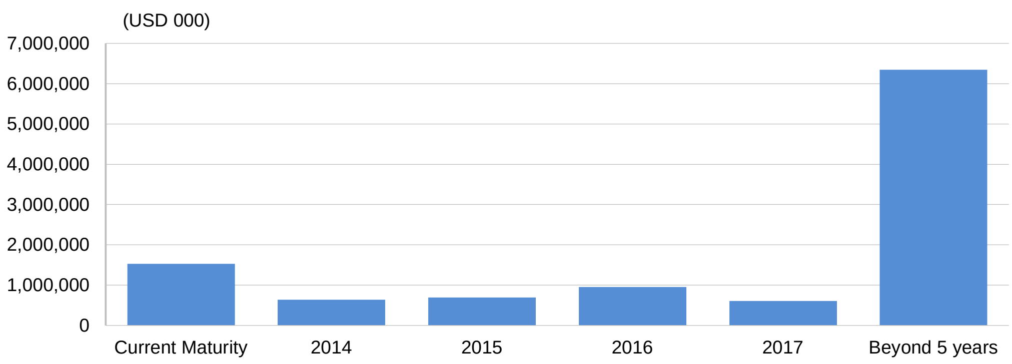
Total Debt and Leverage Ratios



Source: Codelco.

Codelco has debt maturities of USD633 million due in 2013 and USD634 million due in 2014 and USD688 million due in 2015. Fitch considers these amounts comfortably manageable for Codelco in relation to its intensive investment program.

Debt Maturity Schedule



Source: Codelco.

Cash Flow Analysis

Intensive Capex Program

The company's main challenge is to implement its ambitious capex project to maintain existing copper volume output and improve ore grades by 2020. Codelco has publicly announced that it intends to spend approximately USD4 billion on average annually during 2013 to 2016 as part of this program.

Codelco's annual financing is at the discretion of the Chilean Government with respect to dividends, royalties and taxes paid. The company's scope to tap the capital markets to fund shortfalls and refinance pending maturities has been a key strategy during these investments.

Free Cash Flow Expected to Remain Negative

For the LTM ended June 30, 2013, CFFO increased to USD4.4 billion from USD3.5 billion in 2012 driven by a cash inflow from working capital accounts. FCF was negative USD194 million for LTM June 30, 2013 due to capex USD4.4 billion and dividends of USD246 million, an improvement on negative USD252 million in 2012. The company announced recently it will lower capex to around USD4 billion a year as opposed to USD4.5 billion a year, due to the decision by the Chilean government to leave USD1 billion in the company, as opposed to the USD3 billion requested.

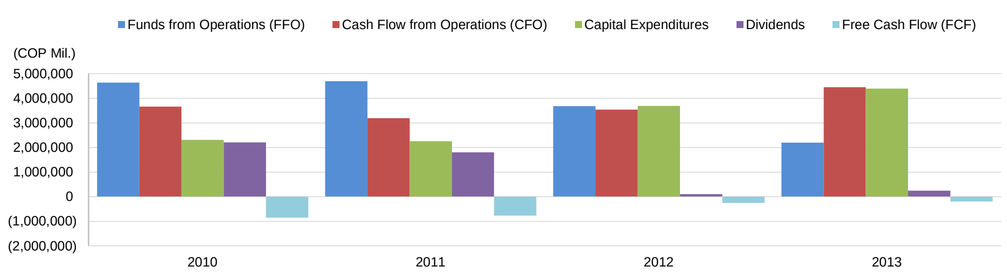
Net cash flow from operating activities increased to USD1.5 billion for six months ended June 30, 2013 from USD587 million for the same period in 2012. This increase in net cash flow from operating activities resulted primarily from the increase in dividends received from the acquisition of Anglo America Sur and the decrease in income taxes paid.

Cost Increases

Codelco's financial performance is significantly affected by the market prices of copper. These prices have been historically subject to wide fluctuations and are affected by numerous factors beyond the control of Codelco, including international economic and political conditions, levels of supply and demand, the availability and costs of substitutes, inventory levels maintained by producers and others, and actions of participants in the commodities markets. In the second quarter of 2013, copper prices averaged 324.22 cents per pound, down from 360.59 cents per pound in 2012.

China has been the main driver of copper consumption over the last few years, and in 2010, 2011 and 2012, 42.8%, 36.6% and 40.8%, respectively, of Codelco's sales were made to China. If economic conditions deteriorate in China, the market price of copper could fall. A decline in copper prices would have an adverse impact on Codelco's revenues and financial results.

Cash Flow Performance



Source: Codelco.

Key Rating Issues

- Large capex program of around USD3–4 billion per year required to maintain current copper output levels due to declining ore grades. Fitch expects production to increase to above 2 million metric tons per year by 2017.
- Funding dependent on combination of capital increases from Chile's government and debt.
- Project execution risks, high energy and personnel costs, issues with labor strikes by unions.

Peer Group

Issuer	Country
A+	
BHP Billiton Limited	Australia
Corporacion Nacional del Cobre de Chile (Codelco)	Chile
A–	
Rio Tinto Ltd	Australia
BBB+	
Vale S.A.	Brazil

Source: Fitch.

Issuer Rating History

Date	LT IDR (FC)	Outlook/ Watch
Oct. 22, 2012	A+	Stable
Oct. 25, 2011	A+	Stable
Feb. 4, 2011	A+	Stable
Nov. 29, 2010	A	Stable
Nov. 16, 2009	A	Stable
Nov. 17, 2008	A	Stable
Nov. 10, 2008	A	Stable
Nov. 5, 2007	A	Positive
Jun. 5, 2007	A	Positive
Oct. 18, 2006	A	Stable

Source: Fitch.

Peer and Sector Analysis

Peer Group Analysis

	BHP Billiton Limited	Anglo American	Rio Tinto Ltd	Southern Copper Corp (SCC)
Year-end as of	06/30/2012	12/31/12	12/31/2012	12/31/2012
Long-term IDR	A+	BBB+	A–	BBB+
Outlook	Rating Outlook Stable	Rating Outlook Stable	Rating Outlook Stable	Rating Outlook Stable
Financial Statistics (in USDm)				
Revenue	72,226	28,761	50,967	6,669
EBITDA	32,976	7,859	15,905	3,751
EBITDA Margin (%)	45.66	27.0	31.21	56.2
Free Cash Flow	1,258	(2,521)	(10,485)	(2,203)
Total Adjusted Debt	15,907	20,291	26,668	4,214
Cash and Cash Equivalents	4,781	9,094	7,082	2,460
Funds Flow from Operations	25,018	5,593	9,495	1,871
Credit Metrics (x)				
EBITDA/Interest Coverage	46.1	10.1	19.0	21.76
FFO Adjusted Leverage	1.3	3.2	2.6	2.1
Total Adjusted Debt/EBITDAR	1.1	2.5	1.7	1.1
FFO Interest Coverage	35.8	7.9	12.3	11.9
Capex/Revenues	0.3	0.2	0.3	0.2
FCF/Total Debt with Equity Credit	0.04	-0.1	-0.4	-0.5

YoY – Year over year. Source: Company data, Fitch.

Overview of Companies

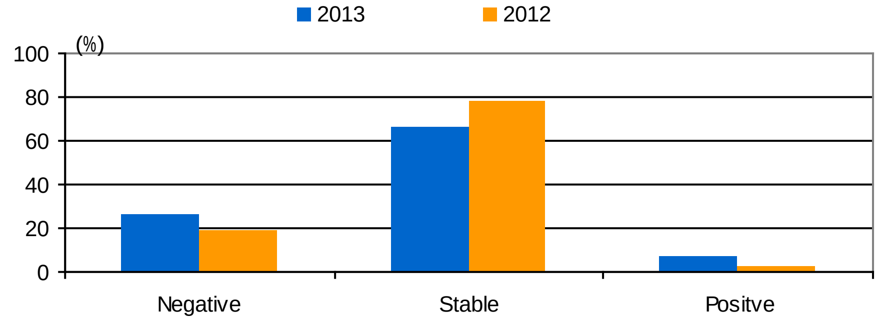
BHP Billiton Plc/Limited ('A+'/Stable): Viewed by Fitch as the strongest, most diversified mining company, both operationally and financially. Key revenue/profit drivers are its exposure to iron ore, copper and — uniquely in its diversified mining peer group — oil and gas operations.

Rio Tinto ('A−'/Stable): Anglo/Australian diversified mining company with a strong presence in iron ore and copper. Its financial profile is now fully recovered from the debt-funded USD38 billion acquisition of aluminium producer Alcan Inc. in late 2007. Debt reduction will be constrained by large capex related to its iron ore operations and challenging commodity price environment.

Anglo American ('BBB+'/Stable): Anglo American is also one of the world's largest mining companies with strong presence in platinum and diamonds. The company also mines a wide spectrum of bulk commodities and minerals.

Southern Copper Corp. (SCC ['BBB+'/Stable]): Diversified mid-size but growing copper mining company with operations in Peru and Mexico. SCC is one of the lowest cash cost producers of copper globally and has historically maintained a conservative capital structure. The company is currently investing in Brownfield and Greenfield projects with the aim of producing 1 million metric tons of copper per year by 2015.

Sector Outlook Distribution



Source: Company data, Fitch.

Key Metrics

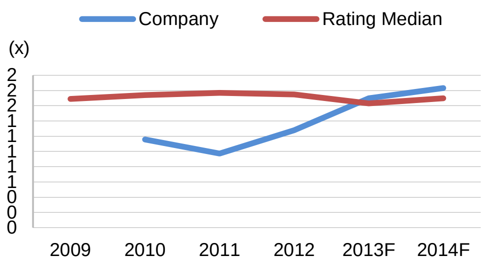
Definitions

- Leverage: Gross debt plus lease adjustment minus equity credit for hybrid instruments plus preferred stock divided by FFO plus gross interest paid plus preferred dividends plus rental expense.
- Interest Cover: FFO plus gross interest paid plus preferred dividends divided by gross interest paid plus preferred dividends.
- FCF/Revenue: FCF after dividends divided by revenue.
- FFO/Debt: FFO divided by gross debt plus lease adjustment minus equity credit for hybrid instruments plus preferred stock.

Fitch's expectations are based on the agency's internally produced, conservative rating case forecasts. They do not represent the forecasts of rated issuers individually or in aggregate. Key Fitch forecasts assumptions include.

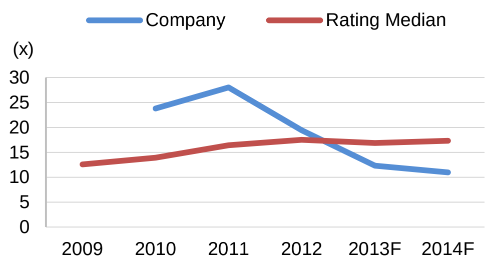
- Fitch Mid-Cycle copper price assumptions.
- Flat sales volumes to 2016.
- Higher average COGS.

Leverage: Total Adjusted Debt/ Operating EBITDAR



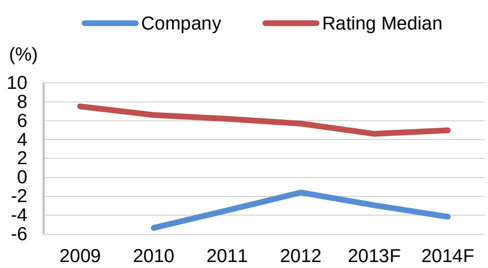
F — Forecast.
Source: Company data, Fitch.

Interest Coverage: Operating EBITDA/ Gross Interest Expense



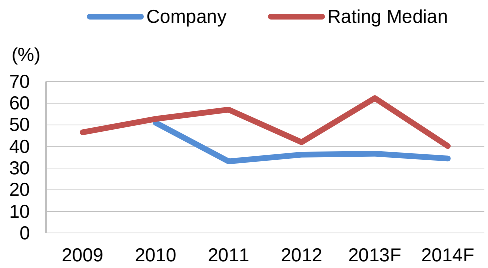
F — Forecast.
Source: Company data, Fitch.

FCF/Revenues



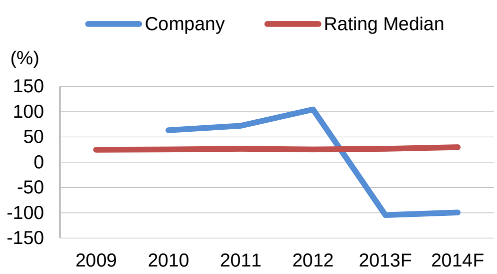
F — Forecast.
Source: Company data, Fitch.

FFO/Debt



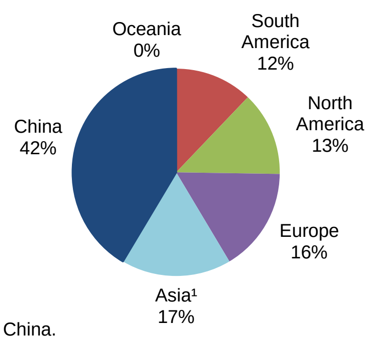
F — Forecast.
Source: Company data, Fitch.

Capex/CFO



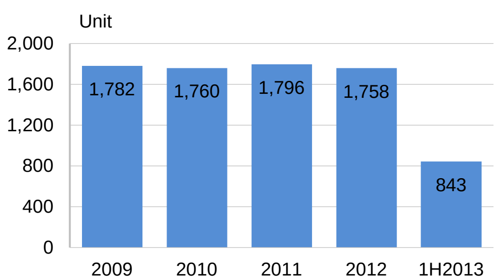
F — Forecast.
Source: Company data, Fitch.

Sales Breakdown by Region
(As of June 30, 2013)



[1]Excludes China.
Source: Codelco.

Copper Production



Source: Codelco.

Company Profile

Codelco is the world´s largest copper producer, headquartered in Chile. In 2012, Codelco produced 1,758,000 tons of copper, representing 10% of total world copper production (including its proportional shares in the El Abra mine and Anglo American Sur). Codelco produced 19,676 metric tons of molybdenum, representing 8% of total share of the world's production.

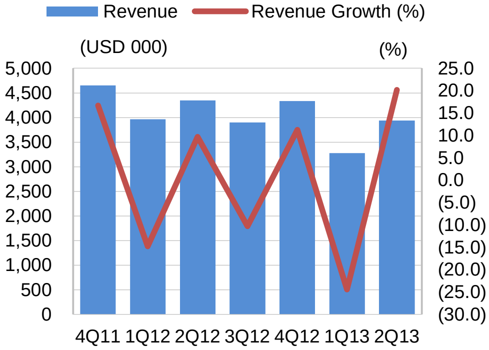
Codelco is a 100% state-owned company and it has the largest copper reserves and resources known in the world. Codelco is dedicated to the exploration, development and exploitation of copper and its by-products, such as molybdenum. The company's copper resources are refined and sold together in the international markets with their by-products.

Codelco conducts its operations through six mining divisions, plus the Ventanas Smelter and Refinery, owned by Codelco since May 2005. The Company also has ownership interest in several important mining companies, such as in Minera Gaby S.A., where it holds 100%, and El Abra, with a 49% stake, and other mining partnerships in geological operations both in Chile and abroad

Its key commercial product is Grade A copper cathodes. The company is a strategically important asset to the Chilean government, and as part of its mandate, the company contributes significantly to the state's revenues. As can be seen in the table below, Codelco's combined dividends, royalties and taxes paid to the Chilean government amounted to 13% of general government revenue and 3% of GDP on average for the last five years.

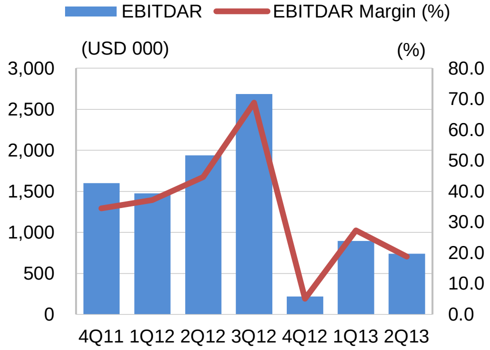
Codelco benefits from its long life copper deposits. The company's total mineral deposits amounted to 131.2 million metric tons in second quarter 2013 with a weighted average ore grade of 0.67%. This equates to 75 years of supply at current production levels, taking into account the successful completion of the investment program.

Revenue Dynamics
(As of June 30, 2013)



Source: Codelco.

EBITDA Dynamics
(As of June 30, 2013)



Source: Codelco.

Financial Summary — Corporacion Nacional del Cobre de Chile (Codelco)

USD 000, Year Ending Dec. 31	LTM				
Profitability	**Jun. 30, 2013**	**2012**	**2011**	**2011**	**2010**
EBITDA	7,645,292	7,910,517	8,254,296	8,852,154	7,876,578
EBITDAR	7,645,292	7,910,517	8,254,296	8,852,154	7,876,578
EBITDA Margin (%)	49.5	49.9	47.1	49.7	49.0
EBITDAR Margin (%)	49.5	49.9	47.1	49.7	49.0
FFO Return on Adjusted Capital (%)	11.0	20.2	21.0	35.9	36.4
Free Cash Flow Margin (%)	(1.3)	(1.6)	(3.5)	(4.3)	(5.3)
Return on Average Equity (%)	38.1	48.0	38.8	79.0	38.1
Coverage (x)					
FFO Interest Coverage	6.9	10.0	10.1	17.2	15.0
EBITDA/Gross Interest Expense	20.6	19.5	28.0	30.5	23.8
EBITDAR/Interest Expense + Rents	20.6	19.5	28.0	30.5	23.8
EBITDA/Debt-Service Coverage	4.0	6.2	4.3	4.4	3.5
EBITDAR/Debt-Service Coverage	4.0	6.2	4.3	4.4	3.5
FFO Fixed Charge Coverage	6.9	10.0	10.1	17.2	15.0
FCF Debt Service Coverage	0.1	0.1	(0.2)	(0.2)	(0.2)
(FCF+Cash and Marketable Securities)/Debt-Service Coverage	0.5	1.1	0.6	0.4	0.2
Cash Flow from Operations/Capital Expenditures	1.0	1.0	1.4	1.5	1.6
Leverage (x)					
FFO Adjusted Leverage	4.2	2.5	2.7	1.7	1.8
Total Debt with Equity Credit/EBITDA	1.4	1.3	1.0	0.9	1.2
Total Net Debt with Equity Credit/EBITDA	1.3	1.1	0.8	0.8	1.0
Total Adjusted Debt/EBITDAR	1.4	1.3	1.0	0.9	1.2
Total Adjusted Net Debt/EBITDAR	1.3	1.1	0.8	0.8	1.0
Implied Cost of Funds (%)	3.9	4.5	3.4	7.0	4.8
Secured Debt/Total Debt	—	—	—	—	—
Short-term Debt/Total Debt	0.1	0.1	0.2	0.2	0.2
Balance Sheet					
Total Assets	31,695,130	31,645,033	20,834,944	20,010,371	20,279,041
Cash and Marketable Securities	778,389	1,263,823	1,382,876	1,369,552	874,039
Short-Term Debt	1,526,101	864,779	1,643,424	1,703,930	1,918,908
Long-term Debt	9,219,608	9,262,324	6,395,154	6,562,137	7,189,482
Total Debt	10,745,709	10,127,103	8,038,578	8,266,067	9,108,390
Total Equity	12,480,969	10,078,374	6,065,030	5,630,033	4,531,212
Total Adjusted Capital	23,226,678	20,205,477	14,103,608	13,896,100	13,639,602
Cash Flow					
Funds from Operations	2,193,759	3,676,229	2,667,597	4,698,730	4,639,591
Change in Working Capital	2,255,253	(134,828)	447,873	(1,508,399)	(982,186)
Cash Flow from Operations	4,449,012	3,541,401	3,115,470	3,190,331	3,657,405
Total Non-Operating/Non-Recurring Cash Flow	—	—	—	—	—
Capital Expenditures	(4,395,072)	(3,687,182)	(2,251,630)	(2,151,956)	(2,309,484)
Common Dividends	(248,576)	(106,000)	(1,472,048)	(1,805,259)	(2,206,124)
Free Cash Flow (FCF)	(194,636)	(251,781)	(608,208)	(766,884)	(858,203)
Net Acquisitions and Divestitures	—	—	—	—	—
Other Investments, Net	(2,692,880)	(2,643,845)	1,192,506	991,515	5,926
Net Debt Proceeds	4,137,836	3,975,732	714,515	864,007	1,586,526
Net Equity Proceeds	1,100,000	1,100,000	—	—	—
Other (Investments and Financings)	(789,770)	(812,047)	(324,737)	(298,906)	(237,686)
Total Change in Cash	1,560,550	1,368,059	974,076	789,732	496,563
Income Statement					
Revenue	15,452,610	15,860,432	17,515,296	17,804,750	16,065,946
Revenue Growth (%)	(2.6)	(9.4)	9.0	—	32.3
EBIT	6,117,677	6,304,352	6,768,939	8,381,154	6,571,978
Gross Interest Expense	370,546	406,278	294,496	290,183	331,132
Rental Expense	—	—	—	—	—
Net Income	3,681,005	3,875,320	2,055,352	2,223,878	1,876,321

Source: Company Report.

The ratings above were unsolicited and have been provided by Fitch as a service to investors.