



Moody's Investors Service

Global Credit Research

Rating Action

6 OCT 2003

Rating Action: Corporacion Nacional del Cobre de Chile

**MOODY'S ASSIGNS A2 FOREIGN CURRENCY RATING TO CODELCO's SENIOR UNSECURED NOTE ISSUE;
OUTLOOK STABLE**

Approximately US\$500 million of Long-Term Debt Instruments Rated

New York, October 06, 2003 -- Moody's Investors Service assigned an A2 foreign currency rating to Corporacion Nacional del Cobre de Chile's (CODELCO) \$500 million private placement note issue due 2013. Net proceeds will be used to partially finance capital expenditures and to refinance approximately US\$200 million of debt. The rating outlook is stable. The A2 foreign currency rating is two notches above Chile's long-term foreign currency ceiling for bonds and notes.

CODELCO's A2 foreign currency senior unsecured rating acknowledges the company's multiple mine operating profile, which reduces the degree of operational risk, its vertical integration, which includes SX/EW and conventional smelting facilities, its competitive cost position and its productive capacity as the largest global copper producer. The rating also considers CODELCO's higher debt profile on increased capital investments. CODELCO's ownership by the Chilean government and the framework under which the company operates is also a factor in the rating.

The A2 foreign currency rating not only reflects the operating strengths of CODELCO but also incorporates the element of convertibility risk, or the likelihood that the Chilean government might declare a general debt moratorium to counter a foreign currency crisis. The foreign currency rating for CODELCO considers the probability of a sovereign foreign currency default implied by the government's Baa1 foreign currency rating and the small likelihood that, in the event of such a default, the government would impose a general foreign currency payments moratorium. In addition, the rating considers that CODELCO, as a strategically important issuer, major exporter and significant generator of US dollar based revenue might be exempt from a debt moratorium, if such a moratorium were to be imposed. In fiscal 2002, CODELCO generated approximately 15% of exports from Chile and accounted for about 3% of gross domestic product.

The stable outlook considers that CODELCO's favorable cost position and productive capacity should allow for acceptable performance, even during periods of weak copper prices. Further reflected in the outlook is the expectation that CODELCO will continue to prudently manage its resources and debt position, while pursuing strategic growth initiatives. Moody's notes that CODELCO has disclosed its strategic plan of doubling CODELCO's value over the 2001-2006 period. In conjunction with such objective, CODELCO estimates that approximately US\$ 6 billion in investments could be authorized. Given that earnings generated by CODELCO are remitted in full to the Chilean government, cash flow available to fund such investments is limited to non cash sources, such as depreciation, and proceeds from asset sales. To the extent CODELCO significantly increases the composition of debt in its capital structure to fund such investments, its A2 foreign currency rating could be negatively impacted.

CODELCO, the largest global copper producer and smelting company, as well as the second largest molybdenum producer, operates through 4 divisions. Performance in 2002 and to date in 2003 reflects the difficult copper market environment, which caused certain copper producers, including CODELCO, to curtail production, as well as cost pressures arising from higher energy prices and reduced ore grades. For 2003, CODELCO has increased its production level, but will withhold 200,000 tons from the market until exchange inventories reduce to 800,000 tons of copper. As a consequence, operating income for the period to June 30, 2003 declined 5% to \$296 million, despite a 3.2% year on year improvement in copper prices. Continued investment activity (\$447 million versus \$389 million for the six month period in 2002), particularly for expansion projects at Codelco Norte and Teniente has contributed to increased debt levels as reflected by the higher debt/capital ratio of 44% at June 30, 2003 compared to 42% at year end 2002 and 36% at year end 2001. While Moody's expects these projects to add value to the company over the medium to longer term, the possible reliance on increased debt levels in the near term is of concern.

Rating Assigned:

Corporacion Nacional del Cobre de Chile: A2: US\$500 million senior unsecured notes due 2013

These notes have been sold in privately negotiated transactions without registration under the Securities Act of 1933 (the Act) under circumstances reasonably designed to preclude a distribution thereof in violation of the Act.

CODELCO, a mining, industrial and commercial state-owned enterprise based in Santiago, Chile, had revenues of US\$3.5 billion in 2002.

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