FitchRatings

Corporates

Metals and Mining
Chile
Full Rating Report

CAP S.A.

Ratings

Security Class	Current Rating
FC and LC IDR	BBB–
Yankee Bonds due 2036	BBB–
National Scale Rating	A+(cl)
Local Bonds No. 434 (series E and F)	A+(cl)
Local Bonds No. 435 (series D)	A+(cl)
Local Bonds No. 591	A+(cl)
Local Bonds No. 592	A+(cl)

IDR — Issuer default rating. FC – Foreign currency. LC – Local currency.

Rating Outlook

Stable

Financial Data

CAP S.A. (USD Mil.)	12/31/10	12/31/09
Net Revenue	1,994	1,386
EBITDA	740	187
Cash and Marketable Securities	981	387
Total Debt	1,001	870
Total Debt/ EBITDA (x)	1.4	4.6
Net Debt/EBITDA (x)	0.0	2.6
FFO Adjusted Leverage (x)	1.1	6.2
CFFO + Cash/Short-Term Debt (x)	6.8	15.3
Short-Term Debt/Total Debt (x)	0.2	0.1

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Related Research

Applicable Criteria

- *Corporate Rating Methodology, Aug. 16, 2010*
- *Parent and Subsidiary Rating Linkage, July 14, 2010*

Other Research

- *2011 Outlook: Latin American Metals and Mining, Jan. 4, 2011*
- *2011 Outlook: Steel Producers, Dec. 17, 2010*
- *2011 Outlook: Mining and Base Metals Producers, Dec.14, 2010*

Rating Rationale

- The investment-grade ratings of CAP S.A. (CAP) are supported by its conservative capital structure, vertical integration, and leading market position. The company benefits from a 60% domestic market share in steel and dominant position in Chilean iron ore mining. CAP's solid financial performance during 2010 was mainly due to high prices for iron ore, averaging around USD140 per metric ton. Compañía Minera del Pacifico S.A. (CMP), the company's mining subsidiary, accounted for 97% of the company's EBITDA of USD740 million in 2010 from revenues of USD2 billion. These figures represent improvements from USD187 million of EBITDA and USD1.4 billion of revenues during 2009. Cash flow from operations (CFFO) grew to USD508 million from USD287 million during this time period, while funds from operations (FFO) increased to USD848 million from USD83 million.
- CAP's liquidity is strong. During 2010, the company sold Mitsubishi Corporation a 25% stake in CMP in exchange for Mitsubishi's 50% stake in CMP's subsidiary, Compañía Minera Huasco S.A. (CMH), and USD401 million of cash. As a result, the company held cash and marketable securities of USD981 million as of Dec. 31, 2010. CAP has USD219 million of debt maturities during 2011. The company's debt maturity profile is equally manageable during 2012 and 2013, as the company faces debt amortizations of USD90 million and USD192 million, respectively. In addition, CAP has access to additional credit lines with local banks, should they be required.
- CAP has maintained a conservative leverage profile historically, with an average net debt-to-EBITDA ratio of 1.6x from 2006 to 2009. For 2010, this ratio was just 0.03x. Fitch's financial projections for CAP indicate that the company will continue to meet its covenant requirements comfortably during the next four years. CAP has debt covenant requirements for its bank debt facilities and comfortably met the quarterly test requirements over the past year, with net financial debt to EBITDA below the threshold of 4.0x, and EBITDA to net financial expenses over 2.5x. CAP's leverage should remain manageable during this period of investment, with the company's net debt-to-EBITDA ratio expected to remain at around or below 1.0x, while the FFO adjusted leverage ratio should remain around 1.2x to 1.3x.
- CAP is the market leader for both steel and iron ore production in Chile, verified by public data disclosed by the Chilean Steel Institute (ICHA) and the Latin America Iron and Steel Institute (ILAFA). Through its steel subsidiary, Compañía Siderúrgica Huachipato S.A. (CSH), and in turn CAP Acero, CAP produces both flat steel products (46%) and long steel products (54%). CMP has a current iron ore production capacity of 11.5 million metric tons per year and produced 10.2 million metric tons in 2010, of which only 10% was destined for Chile with the majority of the rest of production mostly exported to China (62%) and Japan (15%).

What Could Trigger a Rating Action

- A positive rating action, in either the form of an upgrade, Positive Outlook, or both, could result from a geographical diversification on a larger scale. A move into raw materials other than iron ore could also cushion revenues against the cyclicality related to the iron ore and related steel sectors and could lead to a positive rating action, as could the sustained strong performance by the company.

- A negative rating action, in either the form of a downgrade, Negative Outlook, or both, could result from a deterioration in the company's capital structure that is not addressed in the short term. A sustained period of depressed steel and iron ore prices and/or a loss of sales volumes could also result in a negative rating action, as could a significant and prolonged deterioration in the company's liquidity position.

Liquidity and Debt Structure

CAP has maintained a comfortable liquidity position historically, with the company's average cash balance at around USD300 million from 2006–2009. At the end of 2010, CAP held USD429 million in cash and equivalents and USD552 million in marketable securities, with short-term debt of USD219 million, translating to cash and marketable securities-to-short-term debt coverage of almost 4.5x. Approximately 88% of the company's 2010 cash and marketable securities were held in time deposits, 7% in banks, and 5% in mutual funds. CAP's liquidity for 2010 benefited from the transaction with Mitsubishi Corporation, which resulted in a payment of USD401 million.

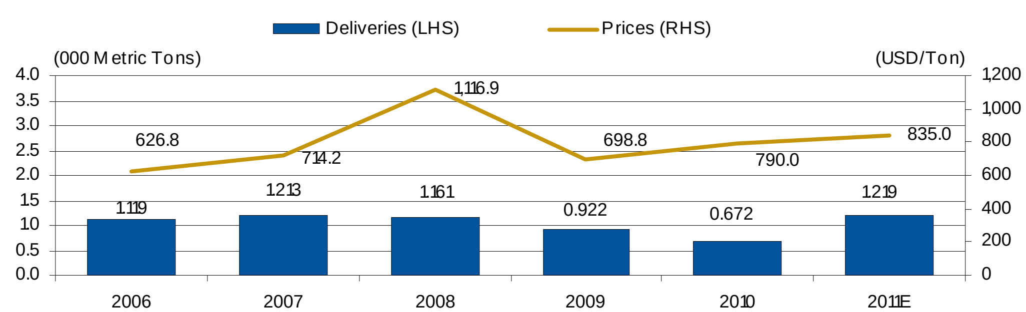
CAP's cash and marketable securities plus CFFO-to-short-term debt coverage ratio was healthy at 6.8x for the period. In addition, CAP has access to additional credit lines with local banks, should they be required. The company's debt maturity profile is manageable with USD90 million due in 2012 and USD192 million due in 2013.

CAP is active in the local and international bond markets. Access to funding through the local and international capital markets is expected to continue to be available to CAP. The company's debt has an average maturity of 12 years. About 86% of the company's debt was at the level of CAP, 11.4% of it was located at the company's steel processing group (SPG), while 1.3% was at CSH and 0.6% was at CMP.

2010's total debt of USD1 billion was composed primarily of the instruments listed below:

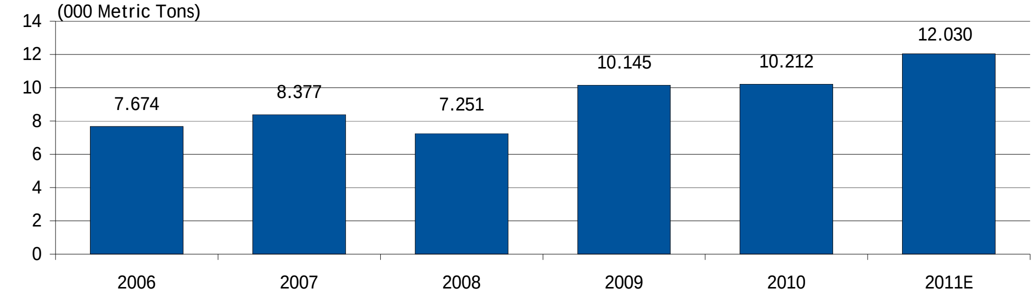
- Series D Bond: 10-year local bond issue for UF4 million (equivalent to USD168 million) that amortizes between 2009 and 2020.
- USD204 million Yankee bond bullet due in 2036.
- Series E Bond local issue for UF2 million (equivalent to USD92 million) with a bullet repayment due in 2013.
- Series F Bond local issue for USD172 million bullet due in 2018.
- USD150 million syndicated term loan facility from the Bank of Tokyo, which began amortizing in October 2009 in semi-annual installments of USD25 million to be repaid by mid-2011.
- USD30 million bank loan from Santander that amortizes between 2010 and 2013.
- Other bank loans of USD213 million, of which USD145 million are short term.

Steel Deliveries and Prices — CAP S.A.



E – Estimated.
Source: CAP S.A.

Iron Ore Deliveries — CAP S.A.



Source: CAP S.A.

Recent Events

CAP consolidated its position as Chile's leading iron ore and steel producer in 2010 by formally merging CMH into CMP. This transaction involved the transfer of 25% of CMP to Mitsubishi Corporation in exchange for its 50% stake in CMH and a capital contribution of USD401 million.

The company has an ambitious capital expenditure program totaling approximately USD900 million. This program should increase CAP's iron ore production capacity from 11.5 million metric tons in 2010 to 17.5 million metric tons in 2014. Fitch expects CAP to generate negative free cash flow in 2011 and 2012 as a result of these investments, returning to positive free cash flow in 2013 and 2014.

CMP's iron ore export volumes are not expected to suffer materially following the recent earthquake in Japan. Fitch anticipates that CAP's iron ore exports to Japan will decline in the short term and be redirected to other markets. CMP produced 10.2 million metric tons of iron ore in 2010, of which only 10% was destined for Chile with the majority of the rest of production mostly exported to China (62%) and Japan (15%).

The earthquake and tsunami in the south of Chile severely affected operations at CAP Acero, during which time operations were offline from February to June. The company's insurance policies are expected to substantially cover most, if not all, of the damages and loss of business incurred during 2010. As a result of the business interruption at CAP Acero, CSH contributed a negative EBITDA of USD22 million to the CAP group in 2010. For 2011, Fitch expects CSH to continue to face challenges to its profit margins as a result of higher coal and other input costs. The company is 100% self-sufficient in iron ore, shielding it from the volatility from the quarterly pricing mechanism of that raw material.

CMP's Iron Ore Resources and Reserves

(As of Dec 31, 2010)

	Total Mineral Resources		Reserves	
Mine/Deposit	**Mil. MT**	**Grade (% Fe)**	**Mil. MT**	**Grade (% Fe)**
El Laco	733.9	49.2	376.3	56.7
Pleito Cristales	586.0	28.4	0.4	58.6
El Algarrobo — District	536.0	33.2	4.8	5.53
Cerro Negro Norte	456.7	34.6	176.5	39.0
Los Colorados	410.7	45.0	256.4	43.6
Candelaria	302.0	10.0	302.0	10.0
Romeral	282.3	33.9	86.2	39.7
El Algarrobo	143.2	41.3	46.6	47.8
Los Colorados — District	26.0	43.3	—	—
El Tofo	1.4	39.2	1.4	40.1
Total	**3,478.2**	**35.8**	**1,364.2**	—

Fe – Iron. MT – Metric Tons.
Source: CAP S.A.

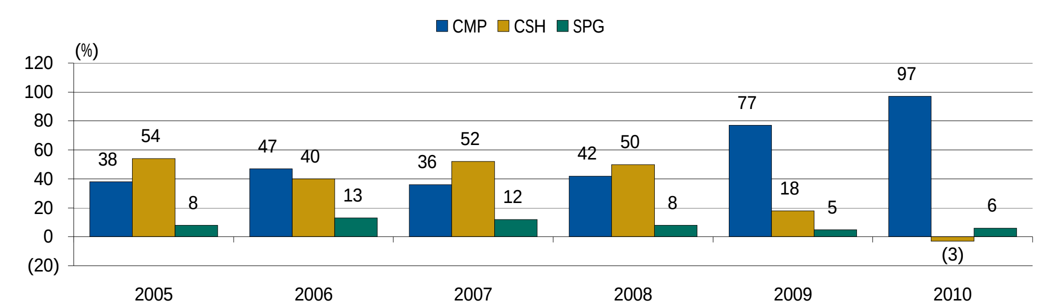
Recent Financial Performance

CAP exhibited a record year of financial performance for 2010 despite the negative impact from the company's steel operations as a result of the earthquake and tsunami. CMP accounted for 97% of the company's EBITDA of USD740 million in 2010 from revenues of USD2 billion. SPG accounted for 6% of EBITDA and CSH accounted for –3% in 2010. This compares to EBITDA of USD187 million in 2009 from revenues of USD1.4 billion, with the company's EBITDA margin improving as a result of high iron ore prices to 37.1% in 2010 from 13.5% in 2009.

The company's FFO generation in 2010 was extremely strong at USD848 million, fuelled by high prices and sales volumes of iron ore by CMP, compared to just USD83 million in 2009. Average iron ore prices during 2010 were around USD140 per metric ton compared to around USD60 per metric ton in 2009. CFFO was USD508 million for the period after working capital payments of USD340 million, compared to CFFO of USD287 million in 2009, which benefited from a working capital inflow as a result of cost reduction measures and sales from inventories during the downturn. FCF generation during 2010 was USD146 million after capital expenditure of USD207 million and dividend payments of USD155 million. This compares to FCF of USD51 million during 2009, after capital expenditures of USD142 million and dividend payments of USD94 million.

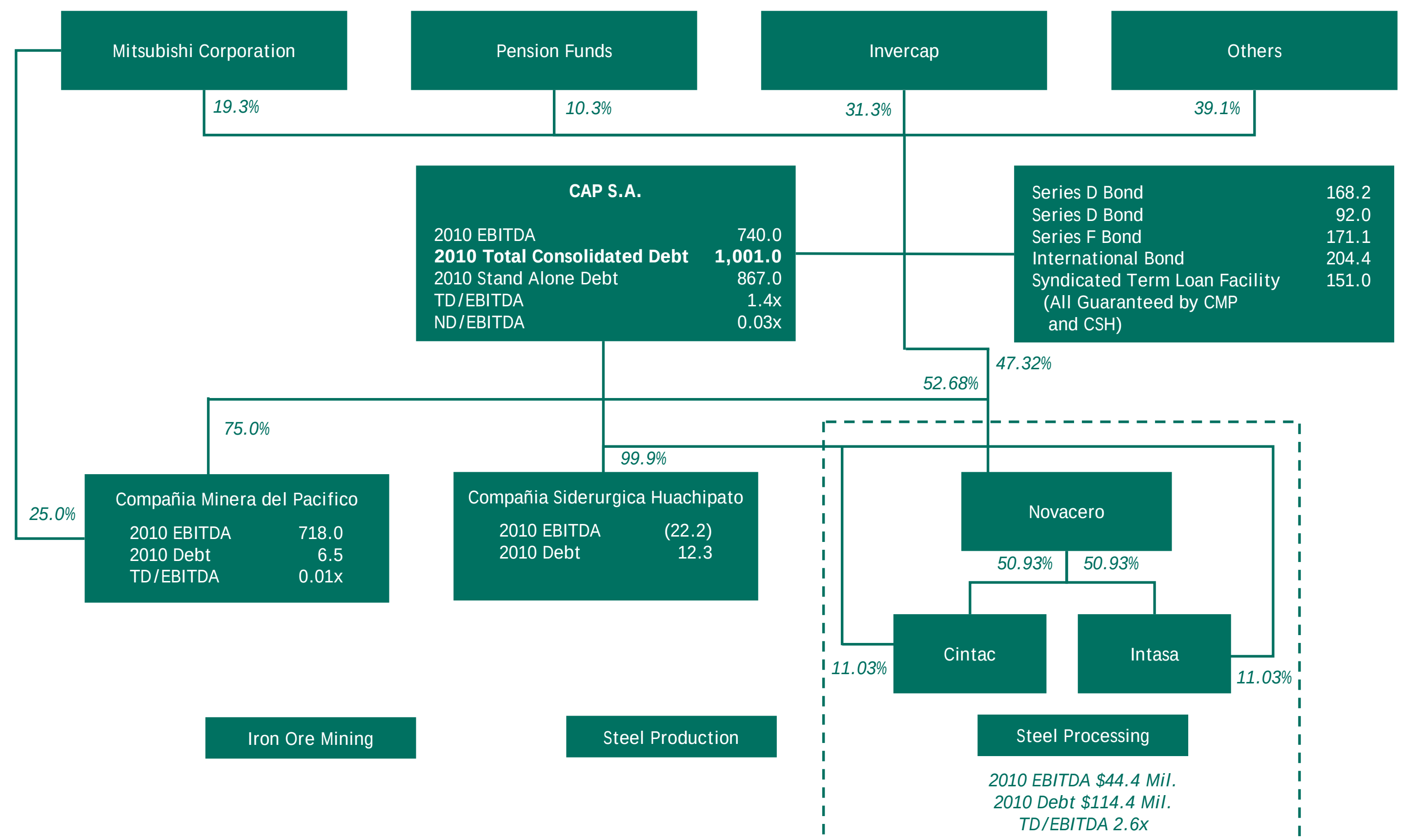
CAP's credit profile improved considerably compared to the bottom of the cycle in 2009. For 2010, the company's total debt-to-EBITDA ratio stood at 1.4x, net debt-to-EBITDA ratio stood at 0.03x, and FFO adjusted leverage was just 1.1x. These credit protection measures compare with ratios of 4.6x, 2.6x, and 6.2x, respectively, during 2009. CAP should continue to sustain similar credit metrics during the period of its ambitious capital expenditure plan of USD900 million by 2014. Fitch projects that the company's net debt-to-EBITDA ratio will remain at or below 1.0x and that the FFO adjusted leverage ratio will hover around 1.2x–1.3x over the next four years.

EBITDA Contribution by Subsidiary



Source: CAP S.A.

Organizational Structure — CAP
(USD Mil., As of Dec. 31, 2010)



TD – Total Debt. ND – Net Debt.
Source: Fitch and CAP financial statements.

Financial Summary — CAP S.A.

(IFRS, USD Mil., Years Ended Dec. 31)

	2010	2009	2008	2007	2006
Profitability					
Operating EBITDA	740	187	532	333	251
Operating EBITDAR	740	187	532	333	251
Operating EBITDA Margin (%)	37.1	13.5	27.0	21.1	25.2
Operating EBITDAR Margin (%)	37.1	13.5	27.0	21.1	25.2
FFO Return on Adjusted Capital (%)	24.8	7.3	22.1	18.1	15.3
Free Cash Flow Margin (%)	7.3	3.7	(1.2)	(7.5)	(2.3)
Return on Average Equity (%)	43.9	(1.4)	27.6	26.2	22.6
Coverage (x)					
FFO Interest Coverage	14.1	2.4	7.7	6.2	7.3
Operating EBITDA/Gross Interest Expense	11.4	3.3	9.2	7.1	8.3
Operating EBITDAR/(Interest Expense + Rental Expenses)	11.4	3.3	9.2	7.1	8.3
Operating EBITDA/Debt Service Coverage	2.6	1.8	3.1	2.6	2.0
Operating EBITDAR/Debt Service Coverage	2.6	1.8	3.1	2.6	2.0
FFO Fixed Charge Coverage	14.1	2.4	7.7	6.2	7.3
FCF Debt Service Coverage	0.7	1.1	0.2	(0.6)	0.1
(Free Cash Flow + Cash and Marketable Securities)/Debt Service Coverage	2.2	4.9	2.4	0.9	2.0
Cash Flow from Operations/Capital Expenditures	2.5	2.0	1.7	0.9	1.5
Capital Structure and Leverage (x)					
FFO Adjusted Leverage	1.1	6.2	2.0	2.1	2.9
Total Debt with Equity Credit/Operating EBITDA	1.4	4.6	1.7	1.9	2.5
Total Net Debt with Equity Credit/Operating EBITDA	0.0	2.6	0.9	1.3	1.6
Total Adjusted Debt/Operating EBITDAR	1.4	4.6	1.7	1.9	2.5
Total Adjusted Net Debt/Operating EBITDAR	0.0	2.6	0.9	1.3	1.6
Implied Cost of Funds	6.9	6.6	7.7	7.4	5.8
Secured Debt/Total Debt	—	—	—	—	—
Short-Term Debt/Total Debt	0.2	0.1	0.1	0.1	0.2
Balance Sheet					
Total Assets	4,870	2,414	2,485	2,050	1,772
Cash and Marketable Securities	981	387	379	184	242
Short-Term Debt	219	44	111	80	97
Long-Term Debt	782	826	769	541	539
Total Debt	**1,001**	**870**	**880**	**622**	**636**
Equity Credit	0	0	0	0	0
Total Debt with Equity Credit	**1,001**	**870**	**880**	**622**	**636**
Off-Balance Sheet Debt	0	0	0	0	0
Total Adjusted Debt with Equity Credit	**1,001**	**870**	**880**	**622**	**636**
Total Equity	2,686	1,060	1,134	987	815
Total Adjusted Capital	3,687	1,930	2,014	1,609	1,451
Cash Flow					
Funds from Operations	848	83	387	244	192
Change in Working Capital	(340)	204	(120)	45	(12)
Cash Flow from Operations	**508**	**287**	**267**	**289**	**180**
Total Non-Operating/Non-Recurring Cash Flow	0	0	0	0	0
Capital Expenditures	(207)	(142)	(161)	(309)	(119)
Dividends	(155)	(94)	(130)	(98)	(84)
Free Cash Flow	**146**	**51**	**(25)**	**(118)**	**(23)**
Net Acquisitions and Divestitures	4	106	(238)	252	(23)
Other Investments, Net	(363)	(3)	(6)	0	(1)
Net Debt Proceeds	65	(90)	257	(51)	133
Net Equity Proceeds	401	0	0	1	0
Other, Financing Activities	(24)	27	(7)	4	1
Total Change in Cash	**229**	**91**	**(19)**	**88**	**88**
Income Statement					
Net Revenue	1,994	1,386	1,972	1,580	997
Revenue Growth (%)	43.8	(29.7)	24.8	58.4	13.4
Operating EBIT	638	54	347	210	135
Gross Interest Expense	65	57	58	47	30
Rental Expense	0	0	0	0	0
Net Income	822	(15)	293	236	165

Source: Fitch calculations using CAP S.A. Consolidated financial statements.