MANAGEMENT'S ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2013

1. Report under International Financial Reporting Standards (IFRS)

The year 2013 in the fourth in which the company's accounts and financial statements are prepared and reported to the SVS, stock exchanges and public in general under IFRS (International Financial Reporting Standards). The Group adopted these standards on January 1, 2010.

2. Comparative analysis and principal trends noted

Ratios and other indicators are shown in the attached appendix.

The consolidated earnings of the CAP Group as of December 2013 amounted to ThUS$ 241,674, comparing favorably (+3.4%) compared to the ThUS$ 233,699 reported for 2012. However, a net deduction of ThUS$ 58,148, net of deferred taxes, has to be made from that figure followig the special reorganization of the steel making activities this year. With this adjustment, the net earnings were ThUS$ 183,526 for the year 2013 (-21.5% compared to 2012).

Revenue and EBITDA

The revenue and EBITDA of the CAP Group for the year 2013 were ThUS$ 2,296,562 and ThUS$ 708,254 respectively, representing decreases of 7.0% and 7.7% compared to ThUS$ 2,470,003 and ThUS$ 767,572 obtained in 2012.

In CAP Mining, the respective revenue and EBITDA for 2013 were ThUS$ 1,430,557 and ThUS$ 678,524, being variations of 1.8% and -5.9% compared to the ThUS$ 1,405,931 and ThUS$ 720,899 in 2012.

CAP Steel and the steel processing group (SPG) together produced revenue and EBITDA of ThUS$ 1,118,262 and ThUS$ 16,226, showing reductions of ThUS$ 268,768 and ThUS$ 8,236 respectively compared to the ThUS$ 1,387,030 and ThUS$ 24,462 obtained in 2012. The reduction in revenue is mainly due to the above-mentioned restructuring of CAP Steel.

Net income

The net income in CAP Mining for 2013 was ThUS$ 402,332, 13.2% more than the ThUS$ 355,317 produced in 2012.

In the steel business, the net loss for 2013 was ThUS$ (117,679), which includes a provision of ThUS$ (58,148) net of deferred taxes, with no cash effect, to reflect the financial impact of the interruption of the use of operational assets for the production of flat products and the consequent re-focusing of the business in order to enable CAP Steel to return to operational profitability in the shortest period of time.

The processing business for its part produced earnings of ThUS$ 1,142, affected by lower margins on certain products and the sharp appreciation of the US dollar.

As a result, the consolidated earnings of the CAP Group as of December 2013, after deducting the provision in the steel-making business, amounted to ThUS$ 183,526.

Analysis of the businesses:

Our subsidiary CMP (CAP Mining) produced revenue in 2013 of ThUS$ 1,430,557, 1.8% more than in 2012, mainly as a result of a 1.7% increase to US$ 115.16 in the average price for ton of its shipments.

Mining sales in 4Q13 rose to ThUS$ 457,862, which reflects an increase of 8.9% compared to 4Q12, mainly the result of a 10.1% rise in the average price of the products shipped, to US$ 113.02 per MT, demonstrating the good times being experienced by the global iron market. Reflecting operational excellence, the month of December produced a record volume of shipments of 2.1 million tons. This resulted in the best monthly EBITDA of this subsidiary in the last two years and a total for 4Q13 of ThUS$ 229,866.

In the steel business, the revenue of our subsidiary CAP Steel of ThUS$ 657,521 for 2013 reflects a fall of 28.5% compared to 2012, due to a reduction of 23.5% in the tonnage dispatched, to 859,479 MT, mainly caused by the reorganization of the plant towards the production of long products, gradually leaving the production of flat products, and a 9.1% reduction, to US$ 737.31 per MT, in the average price of these deliveries, in line with variations that occurred in the international prices for steel products.

The corresponding figures for 4Q13 of CAP Steel also show reductions: of 35.3% in the tonnage dispatched to 161,171 MT, and of 2.9% to US$ 724.47 per MT in the average price of the deliveries, compared to 4Q12. It should be pointed out however that EBITDA for 4Q13 was ThUS$ 1,652.

In the steel-processing activities, the year 2013 shows a decline in revenue to ThUS$ 460,741, 1.3% less than in the year before due to the combined effect of a 3% increase in the volume sold, to 402 thousand tons, and a 4.2% fall in the average price per ton, to US$ 1,118.78.

The figures for 4Q13, as compared to 4Q12, show a decrease of 6.0% in revenue to ThUS$ 119,117, following a 5.6% fall in volumes to 106 thousand tons and a 0.5% decline in the average price per ton, to US$ 1,127.8.

The Group's gross financial debt amounted to ThUS$ 931,531 as of December 31, 2013, 29.6% higher than the ThUS$ 718,685 as of December 31, 2012, reflecting (1) progress in the construction of the desalination plant in the region of Atacama, whose financing comes 66.7% from bank loans according to the project financing structure followed, and (2) the purchases of mobile mining equipment for the works to extend the useful life, by 14 years, of the El Romeral Mine, and the operation of Los Colorados Mine, financed by leasing transactions.

As of December 31, 2013, the CAP Group has a cash position of ThUS$ 309,025, 56.6% lower than the sum of ThUS$ 711,333 at the end of 2012, reflecting the progress of the company's investments which are mainly financed from own resources.

The amount of cash available enables the CAP Group to continue showing a net financial debt level of 0.85 times consolidated EBITDA.

3. Summary of the year 2013

Looking at the events of 2013, it can be seen more clearly that the American economy showed signs of recovery, with improved but still unstable activity figures and reduced levels of unemployment. In the euro zone, the process of adjustment continues to progress in several of its member states, and others are still very far from coming out of the recession. In Asia, Japan showed some dynamism thanks to the liquidity injected into the economy, while China was focused mainly on seeking improvements in domestic consumption and reducing its contamination levels, while maintaining GDP growth rate of around 7.7%.

Regarding Chile, some signs of deceleration were seen at the end of the year even though the economy shows good levels of employment. Consumption continued to push domestic economic activity.

Reviewing the businesses of the CAP Group, a stable demand remains for iron products especially by the Chinese steel producers, but also by buyers in Japan and the Middle East, in a pricing scenario that today continues to be firmer than projected for 2013.

A concept that began to take shape more clearly in 2013 is related to the competitive advantages of CAP Mining's products, particularly their high grade of concentration and their magnetic quality. Each of these two characteristics provides these products with a value added that appears as more relevant in harmony with the global trend toward sustainable industrial activities.

Specifically, both qualities contribute to the sustainability of steel making: the high concentration permits a reduced consumption of raw materials while the exothermic (heat emission) characteristic of the magnetite is directly related to a reduced energy demand in the processes.

Moreover, the pelletization process on which a large part of CAP Mining's exports act produces a fraction of the nitrogen and sulphur dioxides, as well as of carbon monoxide, compared to the alternative of sintering for which low-grade fines have to be introduced. For example, the blast furnaces of Hebei, China (which produce 40% of that country's steel) have changed to a mix that it is presumed already to contain twice the pellets compared to a year before.

Over and above the social contribution, the importance for the company is the signs of the start of an important recognition of these advantages through highly-differentiated prices for its products.

In its development efforts, CAP Mining is in the final stage of its investment program, having begun in August the start-up of the expansion of production in Huasco Valley (of an additional 2 million tons annually). The success of this start-up is notable as, in just the month of December, its design capacity was exceeded by 8%. The start-up of the Cerro Negro Norte mine (of 4 million tons annually of capacity) is planned to start up at the end of May 2014, thus raising the annual sales tonnage to around 15 million tons of iron in 2014, before reaching 18 million tons in 2015.

In steel production, CAP Steel is showing the effects of the difficult moment that the global steel industry is passing through, caused by excess steel production capacity which has generated a deterioration in margins and a loss of profitability in all markets. Information reported in specialized publications indicates that, as a result of this, a growing number of countries have taken antidumping measures in 2013, supported by the WTO, in order to protect their domestic markets from unfair competition.

In the first half of the year, the steel-making subsidiary carried out re-lining work on the No.1 blast furnace and began a deep reorganization, directing production to the manufacture of long products for the crushing of minerals and construction, and discontinuing the manufacture of flat products. In the second half of the year, the operation has been adjusting to a reduced annual production volume, using just one blast furnace for making long products, forcing the company to adjust its executive team and personnel to the reduced level of

planned activity. The implementation of these measures is designed to optimize conditions for a return to profitability.

Sales of the steel-processing business have adjusted to the rate of growth of the Chilean economy and the competitiveness of the Cintac group in the construction business and infrastructure development, although with margins that have fallen in line with what is occurring with the price of its raw material.

4. Market analysis

Iron:

The average price in 2013 increased by 1.7% to US$ 115.16 per MT, compared to the average for 2012 of US$ 113.21.

In terms of volumes dispatched, these reached 12,036 ThMT in 2013, 1.3% less than the 12,246 ThMT in 2012, with export shipments of 10,700 ThMT, 2.4% more than the 10,451 ThMT of the year before, and deliveries to the domestic market of 1,386 ThMT, a reduction of 22.8% with respect to the 1,795 ThMT delivered in 2012.

As a result, the sales of CAP Mining during 2013 were ThUS$ 1,430,557, 1.8% more than in 2012.

Steel:

The average price for 2013 was US$ 737.31, 9.1% lower than the US$ 811.05 per ton in 2012.

Deliveries reached 859,479 MT, 23.5% less than in 2012. This time, all these deliveries were to the domestic market, and were 23.4% down on those to this market in 2012.

Regarding the product mix, CSH has progessively reoriented its production to long products whose margins have been seen to be greater than for flat products.

As a result, the revenues of CAP Steel reached ThUS$ 657,521 in 2013, a reduction of 28.5% compared to the year before.

Steel processing:

The average price per ton in 2013 was US$ 1,118.78, 4.2% lower than the average of US$ 1,167.45 in 2012. Delivers amounted to 412 thousand tons, 3.0% more than the 400 thousand tons in 2012.

The revenues of Novacero S.A. and Intasa S.A., including the subsidiary Argentina Intasa S.A., companies that consolidate the steel-processing business, thus amounted to ThUS$ 460,741, 1.3% less than the ThUS$ 466,852 in 2012.

Activity

At the end of 2013, the inventory turnover indicator shows an increase of 7.6% in the number of times products turn over, being 3.82 in 2013 and 3.55 in 2012. There is therefore a reduction of 2 days in the permanence of inventories, falling from 98 to 96 days between 2012 and 2013. This improvement in both indicators reflects the sustained reduction in the average volume of stocks and their average value in 2013, amounting to ThUS$ 417,330 in 2013 against ThUS$ 496,974 in 2012, this reflecting the strong demand for mined products, the effects of the reorganization of the steel-making business and the carrying out of operational efficiency programs.

Cost of Sales

Comparing consolidated costs (measured as a percentage of revenue), there was a decrease from 71.3% in 2013 to 69.3% in 2013, mainly due to reduced costs in the steel business as a consequence of its reduction in scale.

Administrative and selling expenses

Administrative and selling expenses as a percentage of sales were 6.3% and 5.8% in 2013 and 2012 respectively. These costs in absolute terms amounted to ThUS$ 145,016 and ThUS$ 144,439 in the respective years.

Financial expenses and exchange differences

CAP's consolidated financial expenses declined from ThUS$ (49,529) in 2012 to ThUS$ (40,560) in 2013.

Financial income declined from ThUS$ 51,846 in 2012 to ThUS$ 13,444 in 2013.

Both the financial expenses and income in 2012 included the booking of investments in time deposits with derivatives which, booked in accordance with IFRS, have to made separately, i.e. the result of the derivative as financial expenses and the result of the time deposit as financial income. Therefore, in the financial expenses and income 2012 there is ThUS$ 16,521 which should be deducted in making a correct comparison with 2013.

With respect to the net financial result, this moved from income of ThUS$ 2,317 in 2012 to an expense of ThUS$ (27,116) in 2012.

Exchange rate fluctuations produced a negative result of ThUS$ (7,305) in 2013, compared to ThUS$ (1,128) in 2012. In both cases, this exchange difference is produced by variations in the value of the dollar applied to temporary mismatches in asset and liability accounts in pesos, which on this occasion mainly affected the steel-processing companies.

Business trends

The perception of a relatively more stable international economic scenario due to the incipient improvement in the performance of the United States has not helped to reduce volatility in the global markets. Greater global connectivity and the speed with which news spreads mean that we are living in a greatly change environment of increased complexity. However, as we approach 2014, we do so with an evaluation of greater normality compared to the difficult years that the world has had to face since the start of the financial crisis in September 2008.

In this scenario, our mining subsidiary has programmed an increase in its deliveries for 2014 to reach an annual tonnage of close to 15 million tons.

Weaknesses still persist in the international steel market, in a sector that is using around 75% of its installed capacity. While Chinese production is for internal economic development, there have been growing exports over the years whose magnitude has seriously affected the international steel price.

Regarding the Chilean economy, and that concerning the industries linked to steel, less dynamism is foreseen in general for the next twelve months. However, the focus of the production efforts of our subsidiary toward long products to supply specific sectors of the mining and construction industries, plus the reorganization of the operative, labor and commercial structure, will permit the optimization of its resources, within the macroeconomic context provided by the country's reality and direction and its relations with the global industry.

5. Analysis of the statement of cash flows and liquidity

Operating activities

In operating activities, the positive balance of ThUS$ 776,791 is the result of goods and services sales proceeds of ThUS$ 2,542,272 plus other receipts of ThUS$ 25,192, partially compensated by payments to suppliers of ThUS$ (1,334,318), personnel of ThUS$ (284,202), tax payments of ThUS$ (141,329) and other payments of ThUS$ (30,824).

Investment activities

Investment activities generated a negative flow of ThUS$ (810,138), mainly produced by the incorporation of property, plant and equipment of ThUS$ (974,791); 77.2% corresponding to investments of CAP Mining, 2.9% to CAP Steel, 1.1% to the steel-processing business and 18.8% to investments in the desalination plant, the electricity transmission line to connect the Cerro Negro Norte Mine and Punta Totoralillo Port and the corresponding aqueducts. There were also investments in debt instruments of ThUS$ (20,889), the acquisition of participations in companies of ThUS$ (15,065) and other outgoings of ThUS$ (5,376). The total is partially compensated by the proceeds of time deposits at their maturity of ThUS$ 205,983.

Financing activities

Cash flows from financing activities show a negative balance of ThUS$ (151,342) due to loan repayments ThUS$ (175,102), dividend payments of ThUS$ (229,794) and interest payments of ThUS$ (23,115), partially compensated by the drawing of loans for ThUS$ 252,184 and share issues of ThUS$ 25,223.

This all resulted in a net total cash flow for the period of ThUS$ (184,689).

The Company's current ratio is 1.55:1 as of December 31, 2013, which compares with 1.99:1 at the end of December 2012. This decline is explained by the progress Company's investment program from own resources, and reflects a stabilization at a long-term sustainable level.

6. Book and economic values of the principal assets

Regarding the market or economic value of the assets of the CAP Group, inventories are valued by including direct acquisition costs, total fixed or variable direct production costs and the corresponding depreciation of the property, plant and equipment used in processing, plus other indirect production costs.

Under the IFRS convergence process, the land of the CAP Group was valued at its fair value according to an appraisal booked at January 1, 2009 for the determination of its attributed cost at that date.

7. Market risks

Accounting in dollars and exchange rate

CAP S.A. and its Chilean subsidiaries have the dollar as their functional currency. They therefore keep their books in that currency which enables them to value a large part of their assets, liabilities and equity in that currency.

The same occurs with the results accounts, where revenue and expenses are credited and charged respectively in that currency when they accrue or occur.

This frees these companies from carrying out monetary correction, as occurs with entities that keep their accounts in pesos, thus avoiding the distortions this creates, while allowing a comparison of figures from one year to another without having to make restatements in line with changes in the consumer price index.

In CAP therefore, assets and liabilities booked and controlled in pesos and currencies other than the US dollar generate an exchange difference at the date of the statement of financial position if the value of the US dollar (the exchange rate) changes with respect to those currencies. This exchange difference is credited/charged to the result for the period.

The Company therefore aims to maintain its assets and liabilities in different currencies matched or satisfactorily balanced according to the state of international and domestic foreign exchange markets and thus prevent its results from being adversely affected for this reason. It therefore occasionally carries out currency swap transactions or purchases of currency forward contracts.

Commodities

CAP's businesses, all traded internationally, reflect in their prices the cyclical variations in global and domestic supply and demand.

However, neither iron nor steel are commodities, except in a very limited sense, as the specific chemical composition of each kind of iron or steel, an essential element in the buying decisions of a large number of customers, generates a wide variety of types. This is why, even though there has recently been a growing importance in iron futures trading, there are no exchanges with sufficient liquidity for trading these products and there are only some markets with little depth where futures are traded in limited types of products. The CAP Group has not used these hedging instruments to date.

Sensitivity analysis

CAP's operations are mainly exposed to variations in the prices of iron and steel, whose levels are determined by global supply and demand.

The Group believes that, at the production and delivery levels during the period, an increase/(decrease) of 10% in the average steel price would have increased/(decreased) the Group's revenue by ThUS$ 75,370. With respect to iron, an increase/(decrease) of 10% in the average price for this period would have increased/(decreased) the Group's revenue by ThUS$ 121.395.

Debt in other currencies and interest rates

In addition to the cyclical nature of its revenues, CAP's statement of results is exposed to the effects of its financial policies which determine the proportion of debt to be held in different currencies and the applicable fixed or floating interest rates.

CAP has historically preferred to borrow in US dollars, with the exception of its bond placements in UF on the domestic market. These instruments are covered by cross-currency swaps to dollars preferably from the same date as their placement.

Assets and liabilities under hedge transactions are shown at their fair value on the respective dates of the financial statements.

CAP S.A. and subsidiaries

Financial indicators
Apendix to management´s analysis as of 31.12.2013

		As of 31.12.2013	As of 31.12.2012
Solvency			
Current ratio	times	1,55	1,99
Current assets/Current liabilities			
Acid test	times	0,35	0,83
(Cash & cash equivalents + Other current financial assets)/Current liabilities			
Cash Generation			
EBITDA last 12 months	ThUS$	708.254	767.572
Gross earnings – Administrative Expenses + Depreciation – Distribution expenses+ Amortization			
Debt			
Total Financial Debt	ThUS$	931.531	718.685
Other current financial liabilities + Other non-current financial liabilities			
Net Financial Debt	ThUS$	601.619	7.352
Total Financial Debt - (Cash & cash equivalents + Other current financial assets)			
Net Financial Debt to EBITDA	times	0,85	0,01
Net Financial Debt/EBITDA last 12 months			
Net Financial Debt to Equity	times	0,19	-
Net Financial Debt /Equity			
Net Financial Expense Coverage	times	22,54	573,24
EBITDA last 12 months/(Financial expenses last 12 months – Financial income last 12 months)			
Short-Term to Total Debt	%	36	42
Current liabilities/Total liabilities			
Long-Term to Total Debt	%	64	58
Non-current liabilities/Total liabilities			
Activity			
Inventory Turnover	times	3,82	3,55 (**)
Cost of sales/Inventories			
Permanence of Inventories	days	96	98 (**)
(Inventories/Cost of sales)*days of the period			
Profitability			
Return on Equity	%	8,73	10,64
Earnings (Loss) / Equity			
Return on Assets	%	4,97	6,41
Earnings (Loss)/ Total assets			
Earnings per Share	US$	1,23	1,56
Earnings (Loss) attributable to owners of the controller/Number of issued shares			
Dividend Yield*	%	6,15	3,63
Dividends last 12 months / closing share price			

* Considers only dividends distributed by CAP S.A.
(**) Reclasification of Inventories to fixed assets is not included.

Analysis of the principal changes between the periods reported

Indicator	Explanation
Solvency	The reduction in the current and acid test ratios reflects progress in the Company's investments program, which has mainly been financed from own resources. (Further detail is given in point 5 to the Management's Analysis).
Cash generation (EBITDA)	(See point 2 to the Management's Analysis).
Debt	The increase in net financial debt reflects the reduction in cash balances and the increase in the Group's debt. (Further detail is given in point 2 to the Management's Analysis).
Activity	The increased inventory turnover and associated decrease in the days of permanence indicator are due to a reduction in the average level of stocks in 2013, compared to 2012. (Further detail is given in point 4 to the Management's Analysis).
Profitability	The reduction in the profitability indicators is explained by the reduced earnings, after the write-off and impairment of the assets of CAP Steel, obtained by the Group during the year, compared to 2012. Points 2 and 4 to the Management's Analysis provide an explanation of the comparative results and by segments. The rise in the dividend yield reflects the maintenance of the CAP Group's dividend policy and a reduction in the share price at the close of the financial statements for 2013.