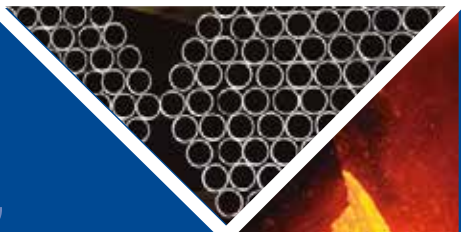


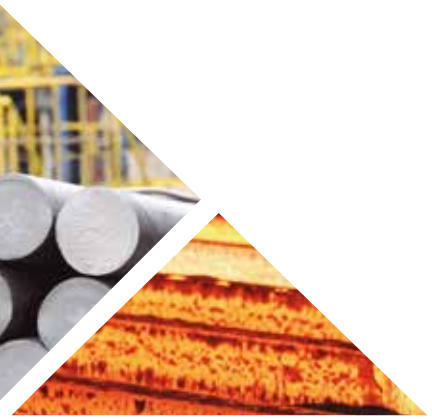
ANNUAL OPERATING SUMMARY 2012

CAP

CONTENTS

ANNUAL OPERATING SUMMARY 2012 ◆ **CAP**

CAP



CAP GROUP PROFILE

The CAP Group, since its formation in 1946, has been committed to the progress of Chile and the prestige of business activities. We form an extensive value chain that starts with iron ore mining, continues with steel production and ends with steel processing. We have different operations spread throughout the country, providing direct and indirect employment to close to 10,000 people.

We serve our customers on the domestic and export markets, adding value to their businesses through a range of excellent-quality products and services on competitive terms.

We give priority to human resources as a fundamental factor for success, we provide constant training in the search for working excellence, and we assign top importance to the strict compliance with safety and occupational health regulations.

In all our activities we strive to act always with responsibility, transparency and equity, respecting the preservation of the environment and relations with society, particularly in those communities where we carry out our operations.

We seek a long-term return for our shareholders, exercising leadership in our businesses through the incorporation of sustainable technologies, process innovation and the promotion of growth with a global perspective.

In our daily activities, both local and in the various destinations where we are present with our products, we make reality the slogan:

"CAP, EXCELLENCE IN OPERATIONS"

MISSION

To lead in the businesses in which we participate, creating sustainable value in iron ore mining, steel production and steel processing, and offering products and innovative solutions to our customers. We seek operational and environmental excellence, giving priority to personal development as a determining success factor.

VISION

We seek to be an important player at the regional level, capable of growing in order to respond quickly to changes in the requirements of the markets where we are present. We will continue to contribute to the development of the communities where our businesses are located and the progress of Chile.

LETTER TO SHAREHOLDERS

Dear Shareholders:

The effects of the international crisis that has hit the principal markets around the world since the end of 2008 continued to be felt during 2012. The difficulties in the European Union, deriving from the volume of debt of some of its members, have ended in damaging even the most solid economies of the region. The United States has still not achieved the rhythm of its recovery nor resolved its own debt problem, and Japan has now passed two decades of almost nil growth.

China, for its part, managed to reduce its growth rate in a controlled way, producing a suitable containment of the inflationary threat. Even growing more moderately, its economy continues to be a large buyer of raw materials and a large exporter of manufactured goods.

This complex international scenario, and the volatility it generated in the markets in which the CAP Group participates, were key for explaining the change shown in its results at the close of this year. Earnings amounted to US$ 230.8 million, 48% lower than in 2011 when the group obtained the highest profit in its history.

Despite these conditions, global steel production continued to grow, exceeding by 1.2% the level of the previous year to arrive at a new maximum of 1,548 million MT, principally due to the performance of China whose production grew by 3.1% to 717 million MT, which represented 46.3% of the total.

To better understand China's influence on the markets that interest CAP, it is sufficient to point out that in 2000 that Asian country produced just 129 million MT, representing 15% of global steel production. This unprecedented increase of 5.6 times its production in just twelve years has undoubtedly introduced a deep change in the structure of the steel market and that of its principal raw materials.

CAP Minería achieved a new record by shipping 12.2 million MT, 6.8% more than in 2011. China, with 7.9 million MT, continued to be the main export destination with 76% of the total shipped, a tonnage slightly more than 1% of the total imported by that country.

The prevailing international economic uncertainty mentioned above, added to the loss of profitability of the global steel industry, introduced heavy pressure and instability on iron ore prices. During the second half of the year, there was a pronounced fall in prices which recovered briskly toward the end of the year. This change in trend coincided with relief about the economic adjustments in China and the change in its main political leaders. The reference price, published by Platts fluctuated between a peak of US$ 151.25 per ton in April and a floor of US$ 88.50 per ton in September, averaging US$ 130 per ton for the year.

This market volatility once again forced a revision of the method for determining prices with customers, agreeing formulas that reduced buyers' exposure to fluctuations occurring during the period of the business, a trend already mentioned in the previous report.

As a result, the annual average sale price of iron delivered by CAP Minería fell by 26.1% with respect to the previous year which, together with a change in the product mix sold, explains how the mining subsidiary's revenues reached US$ 1,406 million, 20.6% lower than in the year before. Its EBITDA and post-tax earnings were US$ 720 million and US$ 354 million respectively, figures 35.5% and 49.4% down on the year 2011.

The subsidiary continued with exploration in its own ferrous mining districts, programming soundings in different areas of interest in order to increase its mining resources and to transform these into

reserves to make up the necessary support for future project developments.

Construction work continued during the year on three projects that will enable CAP Minería to increase its production of pellet feed by 6 million MT annually. The opening of the new Cerro Negro Norte deposit, the expansion of Los Colorados Mine and the processing facilities of the Pellets Plant, plus the seawater Desalination Plant near Caldera in Chile's 3rd Region, represent a total investment of around US$ 1,300 million.

In addition, the Romeral Phase V Project was approved in 2012, with an investment of US$ 198 million, which will extend the operation of that mine by 14 years, expecting it start-up in the first quarter of 2014.

The global steel business has suffered a deep structural change since the beginning of the growth of the Chinese steel industry, and worsened during the years following the crisis triggered by Lehman Brothers.

The gigantic growth in Chinese steel has pressured the principal raw materials markets, keeping prices high although with fluctuations, at the same time generating excesses in steel production which, placed on the weakened international market, have caused a sharp fall in global prices. Prevented therefore from reflecting the high production costs, given the low rate of utilization of global installed capacity, these have fallen to the point of generating the destruction of the operating margin to an extent never seen before in the steel business, especially for integrated plants, without there being any clear prospects of improvement in the future.

The seriousness of the situation is also reflected by the principal and best-known global players in the steel industry which are today facing fast-deteriorating results that are forcing them to reformulate their positioning in the markets and their productive structure. The existence of traditional companies in the business is threatened and they are having to resort to extreme measures for ensuring their viability.

The subsidiary Compañía Siderúrgica Huachipato S.A. ("CAP Acero") has not been able to escape from this reality.

Due to its size, its production plant has a limited capacity to achieve economies of scale. In addition, there is concern about the availability of electricity at a competitive cost in the medium and long term, plus a much-appreciated local currency, factors that make up a scenario of great complexity which forces the adoption of a strategy for facing the loss of value caused by this situation. Otherwise, the persistence of the steel industry in Chile is inconceivable

In line with the performance of the national economy, apparent steel consumption in Chile reached a total of 2,991,000 MT in 2012, representing growth of 16% over the year before and comfortably exceeding the consumption recorded in 2008, prior to the crisis. The most dynamic markets were once again construction (housing, industrial and infrastructure) and mineral crushing.

CAP Acero's shipments amounted to 1,123,641 MT, almost all sold on the domestic market, a figure slightly higher than in the year before. The subsidiary, which had to face an abundant supply of external production surpluses, often accompanied by credit on attractive conditions from importers, was able to obtain a market share of its objective market of 50%.

The average price of the product mix sold was 8.2% below that of 2011, much influenced by the sharp price fall on the international markets for flat products in the last quarter of the year. Revenue was negatively affected, falling by 7.5% to US$ 920.2 million. The company's final result was a loss of US$ 66.8 million, thus accumulating 4 consecutive years of negative figures.

The Steel Processing area of the CAP Group is represented in Chile and Peru by Cintac S.A., and in Argentina by Intasa S.A., and their respective subsidiaries, which consolidate their results through Novacero S.A. CAP S.A. is the controller of the last-named and also has direct shareholdings in Cintac and Intasa. These companies transform steel into construction products and solutions, both housing, and industrial and infrastructure, incorporating an important technological effort focused on innovation, which ensures them a solid participation in the market segments in which they operate.

In general, these sectors have shown strong growth, although with falling margins, in line with the behavior of their raw material prices. In the Chilean market, this situation was more acute due to the increase in imports at prices that often do not reflect effective production costs.

Shipments by the steel processing area during 2012 amounted to 400 thousand MT, 8.2% more than in 2011. However, the average price of the products mix was 6.8% lower than in the year before. For the year 2012, the companies Cintac S.A. and Intasa S.A. together generated revenue and earnings amounting to US$ 467 million and US$ 13.5 million respectively.

The CAP Group reported consolidated revenue and EBITDA of US$ 2,470 million and US$ 764 million respectively, with falls of 11.4% and 35.5% with respect to the previous year.

Another factor, outside the control of the Company, which impacted very negatively on the earnings for 2012 was the tax reform. The increase in the corporate income tax rate to 20% was added to

the accounting effect deriving from the need to recalculate the provision for deferred taxes. The two concepts together reduced consolidated earnings by a total of US$ 55.1 million.

The financial debt of the CAP Group was US$ 719 million as of December 31, 2012, 14.2% higher than at the close of 2011, due to bank loans contracted as part of the financing structure defined for the construction of the desalination plant and a greater working capital requirement in the steel processing business. This does not conflict with the corporate policy of maintaining reduced levels of debt and financial expenses.

The level of cash held at the end of 2012 was US$ 711 million, a figure achieved following investments during the year of US$ 777 million almost entirely financed with own-generated funds. This implies a consolidated net financial debt of less than US$ 9 million.

As of December 31, 2012 the CAP Group employed 5,454 workers, plus another 11,755 external workers, totaling a universe of 17,209 people, of which 4,877 are working temporarily in the construction of projects in the mining area.

In line with our tradition, relations with workers were carried on with complete normality and respect. The safety of the operations has continued to be a priority matter, reinforcing during the year the concept of leadership through the presence of the executive line and preventive tasks for having a better capacity to manage the risks to which its own personnel and external workers might possibly be exposed.

The accident frequency rate of the CAP Group was 3.4, representing a reduction of 35% compared to 2011. Despite this favorable change, a consistent trend over the last five years, there was a fatal accident in January 2012 to an external worker of CAP Acero, which prevented the achievement of the most important objective of having zero fatal accidents.

The Sustainability Report for 2011 was published in July, giving compliance with the corporate sustainability plan and adhesion to the United Nations Global Compact.

In April 2012, the board of CAP approved the text of the Ethics and Good Practices Code which formalizes policies applied over a long period of time in the group.

The commitment of the CAP Group with the sustainability of its operations is reflected in the variety of initiatives related to care for the environment and support for the communities neighboring its operations.

These include the construction of a seawater desalination plant to supply the group's operations in the basin of the river Copiapó without resorting to groundwater, and also facilitating the operation of other mining projects in the region. There was also the start-up of an electrostatic precipitator and gas absorber at the Pellets Plant which, with an investment of US$ 35 million, permitted compliance with a voluntary commitment with the municipality of Huasco and the positioning of the environmental performance of this installation at a level comparable with similar works in developed countries.

Equally notable are the development of the experimental garden of desert species alongside the port of Punta Totoralillo, in Caldera, and the successful experience of preservation of the flora and fauna of the wetlands within the premises of the Huachipato plant.

Despite the disturbances that still shake the international markets, a favorable future can be foreseen for the development of the CAP Group's mining business. The improvement in economic expectations in China enables us to visualize the end of the period of contractive adjustment, which has already been seen in an important recovery in the iron ore price. However, this will be limited while the depressed steel prices remain in the principal consumer markets.

It is within this scenario that CAP Minería will start up during 2013 its Cerro Negro Norte and Huasco Valley Production Expansion projects, which have been an important technical and management challenge. With their contribution, the demand can be satisfied of its current and potential customers, which have given clear signs of valuing the quality of the ore offered.

For its part, the domestic market for steel continues to grow at an attractive pace, which presents a favorable framework of activity for the steel products and those of the processing area. Unfortunately, this is not sufficient for this productive activity to develop properly.

In Chile, the steel industry has been developed in an absolutely open environment, free of all non-tariff restrictions or measures that restrict import activity, a situation that contrasts with what happens in almost the whole of the rest of the world. Domestic steel production represents scarcely 0.1% of global supply and has to compete in all its segments with companies of a global size, many of them established in countries that also protect and promote this industry.

CAP adheres without restriction to the current economic model on which the country's present prosperity is founded. However, to be consequent with the application of this model, it is assumed and expected that the national authorities ensure respect for the rules of free, just and fair international trade, without renouncing the application, when appropriate, of corrective measures against trade distortions available for this purpose under the WTO.

It is therefore imperative to overcome the prejudices that originated in times when the Chilean economy was closed to external competition. CAP today has to compete, as already mentioned, with immensely-larger companies, which makes it essential that CAP, without unjustified restrictions, has the possibility of expanding its share of the market, whether through acquisitions or through the search for a complementation of businesses. This would permit the national steel industry to forge the competitive strength required for responding effectively to the unequal challenge it faces, making its survival possible.

The authorities can see and recognize that today, as for many years past, the steel price in Chile fully reflects the conditions of international trade and that buyers have unrestricted freedom to obtain steel supplies from multiple origins, under the most complete exercise of free competition.

CAP decidedly supports the commitment and efforts of all levels of its steel subsidiary for ensuring an operation at sustainable costs that make possible a greater productive specialization, thus generating the conditions necessary for attenuating the effects of its limited industrial scale and permitting the justification of new and indispensable investments.

In addition, a favorable disposition of the authorities to facilitate the resolution of the situations presented, based on the recognition of their importance for the activity of vast national sectors, would mean a big incentive for the continuity of CAP Group's efforts in trying to strengthen future steel producing activities in Chile. This commitment is assumed with decision and faith in the future, convinced that no task currently has more priority than this.

In closing these words, I wish to thank our personnel, shareholders, customers and suppliers of goods and services, material, financial and any other kind of resources for their support in the results we report today.

Roberto de Andraca/
CHAIRMAN

COMPANY OVERVIEW


CAP

1.1 PRINCIPAL SHAREHOLDERS

The twelve largest shareholders of CAP S.A. as of December 31, 2012, by number of shares and percentage holdings, are as follows:

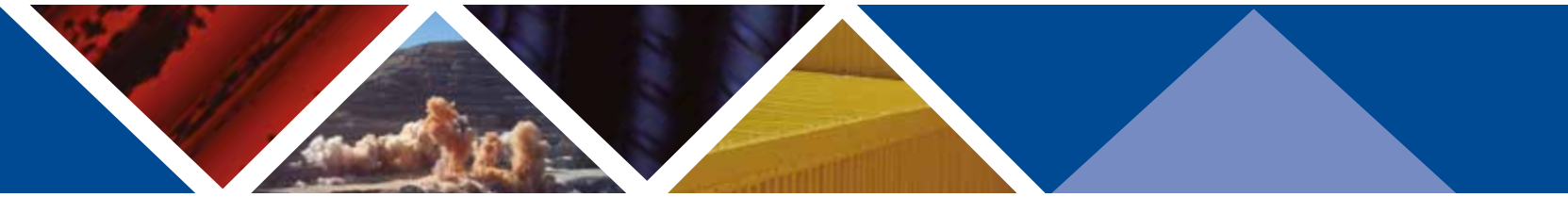
Shareholders	N° of Shares	Percentage
Invercap S.A.	46,807,364	31.32%
Mitsubishi Corporation	28,805,943	19.27%
Banco de Chile on behalf of third parties	8,833,710	5.91%
Banco Itaú on behalf of foreign investors	4,622,396	3.09%
Banco Santander Chile on behalf of foreign investors	3,613,990	2.42%
Fundación CAP	3,288,069	2.20%
Banchile Corredores de Bolsa S.A.	3,136,151	2.10%
Larraín Vial S.A. Corredores de Bolsa	2,572,961	1.72%
South Pacific Investments S.A.	1,317,580	0.88%
AFP Provida S.A. Type C fund	1,314,340	0.88%
AFP Santa María S.A. Type C fund	1,267,779	0.85%
Inversiones Rand Limitada	1,224,010	0.82%

The total number of shareholders of CAP S.A. at 12.31.2012 was 4,522

From the above, and according to the definition given in Section XV of Law 18,045, Invercap S.A. is the controller of CAP. At the same time, Invercap S.A., according to that definition, lacks a controller and none of its individual shareholders has a shareholding greater than 0.417%. Invercap S.A. has no joint management agreement with other parties.

There were no changes of importance during the year in the ownership of the Company.

1.2 HISTORICAL SUMMARY



1940s

1946

Under the chairmanship of Juan Antonio Ríos, Compañía de Acero del Pacífico S.A. was formed with 53% of its shares subscribed by the private sector, 33% by Corporación de Fomento de la Producción (CORFO) (state development corporation) and 14% by the Caja de Amortización de la Deuda Pública.

1950 - 1960

1950

Inauguration and start-up of the Huachipato steel plant.

1959

Addition of mining activities. The El Algarrobo deposits were acquired.

1970 - 1980

1971

Acquisition of the "El Romeral" iron-ore mine.

1972

The iron trading agency, Pacific Ores and Trading N.V., was created in Curaçao with an office in The Hague, Holland.

1978

Inauguration of the Huasco pellets plant.

1980 - 1990

1981
Reorganization of the Company and the formation of the CAP Group of companies. Creation of Compañía Siderúrgica Huachipato S.A., Compañía Minera del Pacífico S.A. and Abastecimientos CAP S.A.. The company changed its name to Compañía de Acero del Pacífico S.A. de Inversiones.

1985
Start of the re-privatization process of the Company.

1987
Re-privatization of 100% of the Company. The board decided to diversify the Company's business, formally creating the forestry sector through its investments in Andinos S.A. and in Sociedad Forestal Millalemu S.A.. As a manner for economically disposing of fixed assets, Inmobilaria y Constructora San Vicente Limitada was formed for their sale.

1988
Creation of Sociedad de Ingeniería y Movimientos de Tierra del Pacífico Limitada (Imopac Ltda.).

1989
Repayment of the balance of the restructured foreign debt at January 31, 1983.
Creation of Compañía Distribuidora de Petróleo del Pacífico Ltda. (Petropac Ltda.).

1990 - 2000

1990
Inauguration of the new coke plant and zinc-alum line of Compañía Siderúrgica Huachipato S.A. and the pellets feed plant of Compañía Minera del Pacífico S.A.

1991
The Company changed its name from Compañía de Acero del Pacífico S.A. de Inversiones to CAP S.A.

1993
For the first time in its history, the liquid steel production of the Huachipato plant exceeded one million tons in the year.

1994
The CAP group was divided into three companies: CAP S.A. with a capital of US$ 379.4 million grouping together the mining and steel producing activities, Forestal Terranova S.A. responsible for the forestry sector and Invercap S.A. concentrating the other Group investments.

1995
The Company, through its subsidiary Compañía Minera del Pacífico S.A., signed a joint venture agreement with MC Inversiones Limitada, a subsidiary of Mitsubishi Corporation, to develop and manage the expansion of the Los Colorados iron ore mine. The two companies formed Cía. Minera Huasco S.A. for this purpose, with equal shareholdings.
The subsidiary Compañía Minera del Pacífico S.A. exercised an option to buy shares in Sociedad Contractual Minera Carmen de Andacollo, giving it a 27% holding.

1996
Official start-up of the new flat-products laminating facilities of Compañía Siderúrgica Huachipato S.A.

1997
The total shipments of Compañía Siderúrgica Huachipato S.A. exceeded one million tons of finished steel a year for the first time.

1998
Inauguration and start-up of Los Colorados mine in Chile's 3rd Region.

1999
CAP placed bonds for US$100 million on the domestic market.

1.2 HISTORICAL SUMMARY

2000 - 2010

2000

Acquisition of approximately 26% of Cintac S.A.
Inauguration of the continuous billet-casting facilities at the Huachipato plant

2001

Placement of bonds for UF 3.8 million on the domestic market.

2002

CAP S.A. became the holder of 44% in Novacero S.A. which directly holds 51% of the share capital of Cintac S.A.
The division of Cintac S.A. was approved, the company itself remaining and creating a new company called Intasa S.A. to which were assigned its investments in Argentina.
CAP S.A., jointly with AZA S.A. and with equal holdings, acquires 100% of Acindar Chile Limitada, which company changed its name to Armacero Industrial y Comercial Limitada.

2003

A syndicated long-term loan agreement for a total of US$ 150 million was signed with ABN Amro Bank N.V. as agent.

2004

All the US dollar bonds issued in 1999 were prepaid on October 1.
Shipments of finished steel on the domestic market exceeded 1 million tons a year for the first time in the history of Compañía Siderúrgica Huachipato S.A.

2005

Placement of bonds for UF 4 million on the domestic market.
Inauguration of the expansion of the pellets feed plant of El Romeral Mine.

2006

Through a capital increase made by Novacero S.A. in December 2006, CAP S.A. acquired a 52.68% holding in that company, which directly owns 51% of the shares of Cintac and Intasa and their respective subsidiaries (Cintac: Instapanel, Varco Pruden, Centroacero and Tupemesa / Intasa: Tasa and Coselava), thus consolidating these businesses at 31-12-2006.
Bonds were placed for US$ 200 million for 30 years on the international market.

2007

The 27% holding in Compañía Minera Carmen de Andacollo was sold to Aur Resources, Canada.
Minera Hierro Atacama S.A. was formed, a subsidiary of CMP for the exploitation of the Hierro Atacama Project in Chile's 3rd Region.
Shipments of Compañía Siderúrgica Huachipato S.A. reached 1,213 million tons, a company record.

2010 - 2012

2008

Bonds for UF 2 million for 5 years and US$ 171.5 million for 10 years were placed on the domestic market.

The new straight bar roller mill was inaugurated and began operating at Compañía Siderúrgica Huachipato S.A.

Phase I of the Hierro Atacama Project was inaugurated which comprises the start-up of a magnetite plant to the south of Copiapó, a 120 km mineral pipeline and a mechanized port in Punta Totoralillo, at Caldera in Chile's 3rd Region.

2009

The new corporate building of the CAP Group was inaugurated in Las Condes, Santiago, in the Metropolitan Region.

Shipments by Compañía Minera del Pacífico S.A. reached 10,146 million tons, the largest in the Company's history.

2010

The shareholdings in CMP are distributed 25% MCI and 75% CAP following the merger in which CMP absorbed the assets of CMH, and the capital increase of CMP for ThUS$ 401,000 fully subscribed and paid by MCI.

Shipments by Compañía Minera del Pacífico S.A. amounted to 10,213 million tons, the highest in the Company's history.

2011

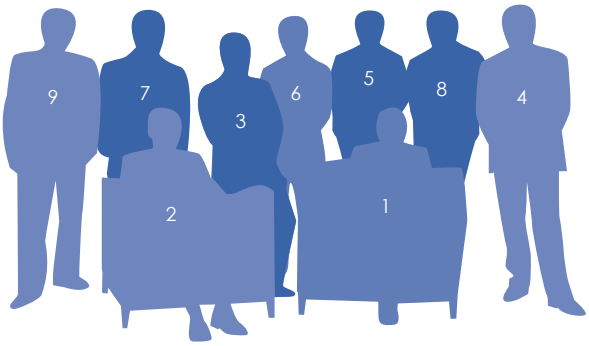
Shipments by Compañía Minera del Pacífico S.A. broke a new record for the third consecutive year, reaching 11 million 469 thousand tons.

CAP's financial debt decreased by 37% to ThUS$ 627,874, following the early redemption of ThUS$ 393,100 of bonds placed on the local and international markets.

2012

Shipments by Compañía Minera del Pacífico S.A. broke a new record, reaching 12 million 246 thousand tons.

1.3 BOARD OF DIRECTORS **2012**



1 Roberto de Andraca Barbás
Tax ID 3.011.487-6
Commercial Engineer, Chilean
Chairman

2 Sven von Appen Behrmann *
Tax ID 2.677.838-7
Businessman, Chilean
Vice Chairman

3 Fernando Reitich Sloer *
Tax ID 48.106.405-8
Doctor on Mathematics, American
Director

4 Eddie Navarrete Cerda
Tax ID 2.598.242-8
Lawyer, Chilean
Director

5 Hernán Orellana Hurtado *
Tax ID 8.818.570-6
Electronic Civil Engineer, Chilean
Director

6 Tokuro Furukawa Yamada
Tax ID 22.464.577-5
Engineer, Japanese
Director

7 Osamu Sasaki
Passport: TZ0770690
Degree in Philosophy, Japanese
Director

8 Jaime Charles Coddou
Tax ID 5.812.044-8
Economist
President & Chief Executive Officer

9 Eduardo Frei Bolívar
Tax ID 4.883.266-0
Lawyer
Chief Legal Counsel

* Members of the Director's Commitee at December 31, 2012.

CAP Management 2012

Jaime Charles Coddou
Tax ID 5.812.044-8
Economist
President & Chief Executive Officer

Eduardo Frei Bolívar*
Tax ID 4.883.266-0
Lawyer
Chief Legal Counsel

Sergio Verdugo Aguirre
Tax ID 5.316.689-K
Civil Industrial Engineer
COO Mining & Steel

Raúl Gamonal Alcaíno
Tax ID 8.063.323-8
Commercial Engineer
Chief Financial Officer

Ernesto Escobar Elissetche
Tax ID 4.543.613-6
Civil Mechanical Engineer
Corporate Affairs

Arturo Wenzel Álvarez
Tax ID 7.375.688-K
Commercial Engineer
Planning & Strategic Resources

Andrés Del Sante Scroggie
Tax ID 7.034.913-2
Commercial Engineer
Internal Control Manager

Roberto de Andraca Adriasola
Tax ID 7.040.854-6
Commercial Engineer
Manager, Infrastructure Development

* Acts as Secretary of the Board

MANAGEMENT **OF CAP SUBSIDIARIES 2012**

MINING AREA

BOARD OF DIRECTORS

Jaime Charles Coddou
Sergio Verdugo Aguirre
Ernesto Escobar Elissetche
Raúl Gamonal Alcaíno
Arturo Wenzel Álvarez
Tokuro Furukawa
Yuichi Ichikawa

Erick Weber Paulus
Tax ID 6.708.980-4
Civil Chemical Engineer
President
Compañía Minera del Pacífico S.A.

STEEL PRODUCTION AREA

BOARD OF DIRECTORS

Jaime Charles Coddou
Sergio Verdugo Aguirre
Ernesto Escobar Elissetche
Raúl Gamonal Alcaíno
Arturo Wenzel Álvarez

Iván Flores Klesse
Tax ID 7.087.544-6
Civil Metallurgical Engineer
President
Compañía Siderúrgica Huachipato S.A.

STEEL PROCESSING AREA

CINTAC S.A.

BOARD OF DIRECTORS

Roberto de Andraca Barbás
Jaime Charles Coddou
Jorge Pérez Cueto
Sergio Verdugo Aguirre
Mario Puentes Lacámara
Gabriel Tomic Errázuriz

Juan Pablo Cortés Baird
Tax ID 5.640.476-7
Civil Industrial Engineer
President
Cintac S.A.

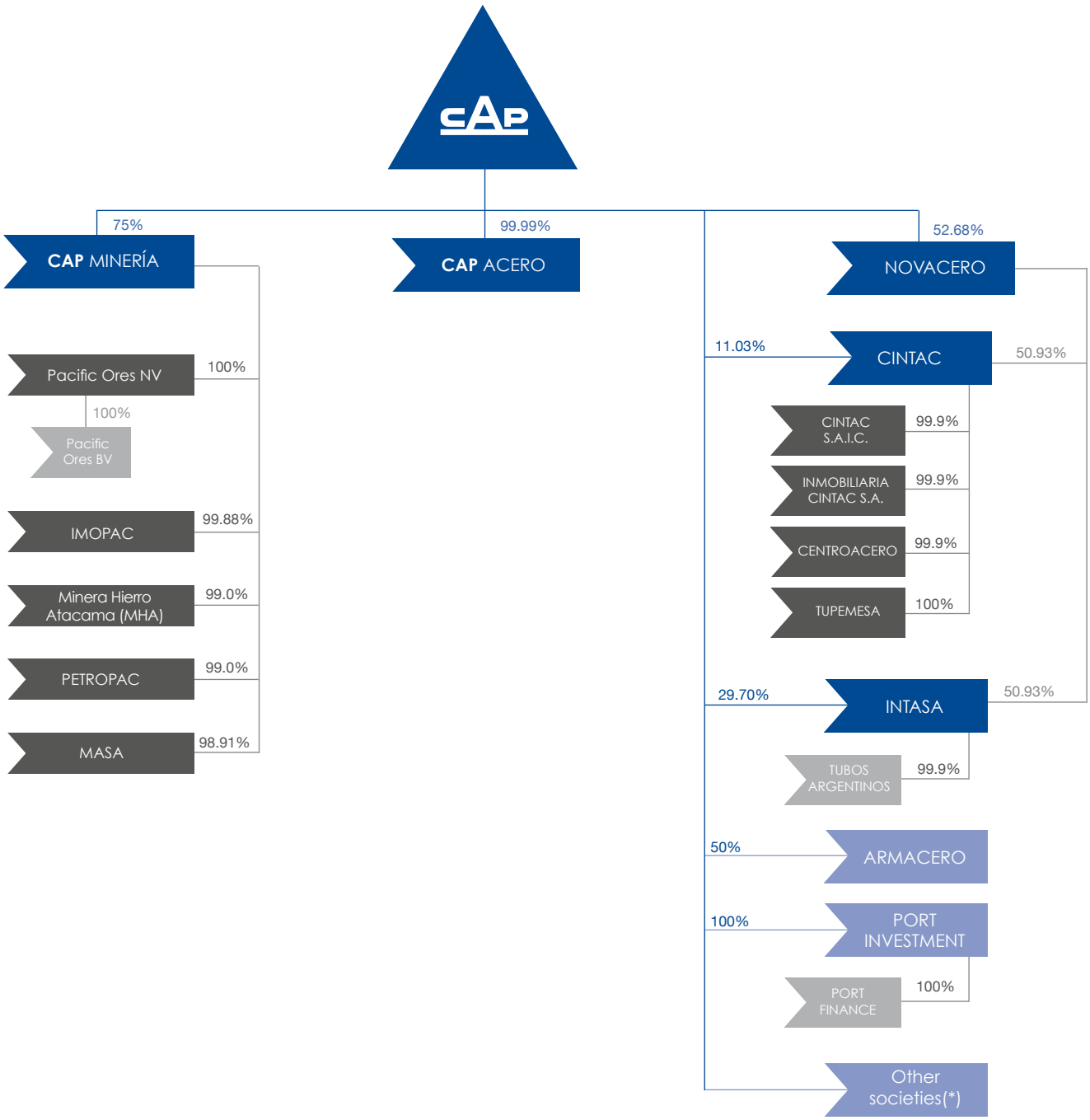
INTASA S.A.

BOARD OF DIRECTORS

Roberto de Andraca Barbás
Claudia Hinz
Jorge Pérez Cueto
Juan Rassmuss Echecopar
Alejandra Zarate Rojas
Raúl Gamonal Alcaíno
Cristián Cifuentes Cabello

Javier Romero Madariaga
Tax ID 10.286.706-8
Civil Industrial Engineer
President
Intasa S.A.

1.4 CAP'S CORPORATE STRUCTURE



(*) Relates to holding of CAP and subsidiaries in Tecnocap S.A., Ecocap S.A., Cleanairtech Sudamérica S.A., Abcap S.A. and Puerto Las Losas S.A.

ACTIVITIES AND BUSINESS


CAP

2.1 ACTIVITIES AND BUSINESS

MINING / COMPAÑÍA MINERA DEL PACÍFICO S.A. (CAP MINERÍA)

PRODUCTION

Total production and purchases of CMP in 2012 were 12 million 55 thousand metric tons, of which 6 million 781 thousand metric tons relate to the production of Huasco Valley, 3 million 674 thousand metric tons to that of Elqui Valley and 1 million 588 thousand metric tons to that of Copiapó Valley. Purchases amounted to 12 thousand metric tons.

The following table compares the production and purchases of 2012 with those of 2011:

PRODUCTION (thousands of metric tons)	2012	2011	VARIATION ThMT	VARIATION %
TOTAL PRODUCTION AND PURCHASES	12,055	11,883	172	1.4%
TOTAL PRODUCTION	12,043	11,852	191	1.6%
HUASCO VALLEY	6,781	6,708	73	1.1%
Pellets Plant	5,567	5,547	20	0.4%
Self-fluxing pellets	1,871	2,335	(464)	(19.9%)
Direct-reduction pellets	264	649	(385)	(59.3%)
Pellet Feed	3,325	2,304	1,021	44.3%
Pellet Chips	107	259	(152)	(58.7%)
Algarrobo District	616	622	(6)	(1.0%)
Lumps (Algarrobo)	418	485	(67)	(13.8%)
Lumps (Cristales)	198	137	61	44.5%
Los Colorados	598	539	59	10.9%
Sinter Feed	598	539	59	10.9%
ELQUI VALLEY	3,674	3,459	215	6.2%
Lumps	731	884	(153)	(17.3%)
Fines	1,232	692	540	78.0%
Pellet Feed	1,711	1,883	(172)	(9.1%)
COPIAPÓ VALLEY	1,588	1,685	(97)	(5.8%)
Final contrates in Punta Totoralillo port	1,588	1,685	(97)	(5.8%)
TOTAL PURCHASES	12	31	(19)	(61.3%)

COPIAPÓ VALLEY

MAGNETITE PLANT AND PUNTA TOTORALILLO PORT

The Magnetite Plant in 2012 processed 25 million 718 thousand metric tons of tailings from Compañía Contractual Minera Candelaria with an average Femag fed grade of 5.5%. It also began supplies from third parties, processing 640 thousand tons of iron fines and 400 thousand tons of rejected material from Los Colorados.

The operating time of the Magnetite Plant was 7,629 hours, the processing rate 190 mts/h and the production rate of the ceramic filters for the year was 167 MTbh/hrs.

The production of final concentrates at Punta Totoralillo port was 1 million 588 thousand metric tons, of which 1 million 95 thousand metric tons related to production from fresh tailings and 493 thousand tons from iron fines. The magnetite plant had an additional production of primary concentrates of 81 thousand metric tons.

Technical modifications and improvements were made during the year at the Magnetite Plant which, together with the programming of maintenance, permitted the physical availability of the year to be 98.1%, with a utilization of 88.5%. The physical availability of the port's filtering plant was 98.5%.

The principal projects carried out included the change of position of the tailings feed lines and discharge of plant tails, as a result of the repositioning of the south wall of CCMC's tailings barrage. Another important project was the temporary preparation of Yard 2 of Punta Totoralillo port from April in order to start shipment from third parties. 9 third-party shipments were made during 2012, carrying 518,174 metric tons.

13 ships were loaded with pellet feed during the year, totaling 1 million 688 thousand MT of final concentrates shipped from Punta Totoralillo port.

HUASCO VALLEY

LOS COLORADOS MINES, PELLETS PLANT, EL ALGARROBO MINES AND GUACOLDA II PORT

The production of Los Colorados Mine moved a total of 83 million 120 thousand metric tons of materials, which included a plant feed of 10 million 336 thousand metric tons to produce 7 million 221 thousand metric tons of pre-concentrates in the crushing and concentration plant, and 598 thousand metric tons of sinter feed.

The Rejects Plant started operations in May, which was fed by 1 million 860 thousand metric tons of rejects with ore grade of 18% magnetic Fe, achieving a production of 391 thousand metric tons of pre-concentrates with grade of 40.8% magnetic Fe, destined to supply the Magnetite Plant of MHA.

The transportation of pre-concentrates received at the Pellets Plant reached a record of 7 million 211 thousand metric tons.

The Huasco Valley Pellets Plant operated the equivalent of 199.8 effective days in 2012, achieving a total production of 5 million 567 thousand metric tons which includes 1 million 871 thousand metric tons of self-fluxing pellets, 264 thousand metric tons of pellets for direct H&L reduction, 107 thousand metric tons of pellet chips and 3 million 325 thousand metric tons of pellet feed.

The Pellets Plant production was 20 thousand metric tons more than the year before. This was mainly due to the reprogramming of production due to larger programmed shipments of this product. The reduced pellets production caused the hourly-production rate to reach an average of 445.3 metric tons per hour, with an effective operating time of the thermal hardening area of 4,795.17 hrs.

Regarding operating results, the feeding of pre-concentrates to the crushers was 6 million 602 thousand metric tons. The production of concentrates for crushers was 5 million 440 thousand metric tons, producing a weight recovery of 82.31%. The re-pulping plant also produced 133 thousand metric tons of concentrates from material recovered from spillages from the barrages and rejects from the sifting and crushing plant.

The Company maintained the exploitation of El Algarrobo mines during the year, awarding the loading and transport work to third parties and the operation of the Algarrobito plant to IMOPAC Ltda. It also continued with the exploitation of Cristales Mine, work that was performed by third parties and the plant operation by IMOPAC Ltda. The production of both works totaled 616 thousand tons of lumps.

Guacolda II port attended 75 ships of which 42 were shipments abroad and 33 to Compañía Siderúrgica Huachipato S.A.

ELQUI VALLEY

EL ROMERAL MINES AND GUAYACÁN PORT

The production of El Romeral mines in 2012 was 3 million 674 thousand metric tons, consisting of 731 thousand metric tons of lumps, 1 million 232 thousand metric tons of fines and 1 million 711 thousand metric tons of pellet feed.

The production of El Romeral mines was achieved through a total movement of material of 7 million 871 thousand metric tons, 5.8% more than in the year.

At the concentrator plant, there was a greater feed with a reduced recovery in weight with respect to 2011. This permitted a production of 518 thousand metric tons of lumps, 927 thousand metric tons of fines and 2 million 268 thousand metric tons of pre-concentrates.

At the crushing plant, there was greater feed with a reduced recovery in weight, 2 million 887 thousand metric tons, to produce pellet feed.

In August, the Company approved the Phase V project which will extend the life of these works by 14 years from 2014.

Guayacán port attended 46 ships of which 27 were shipments to the external market and 19 to Compañía Siderúrgica Huachipato S.A.

COMMERCIALIZATION

THE INDUSTRY

The Company is the principal producer and exporter of iron ore and pellets in Chile and participates as such in the international iron and steel market.

Global economic uncertainty, falls in profitability in the steel industry and iron ore prices tending downward, although with a slight recovery in the last quarter, formed the external scenario in which the Compañía carried on its business during 2012. International seaborne trade in iron ore passed the barrier of 1,110 million tons and the Australian (BHP Billiton, Rio Tinto y FMG) and Brazilian (Vale and CSN) producers continued to dominate the market, controlling over 2/3rds of trade. The Company's share was around 1%.

According to the World Steel Association (WSA), the global production of raw steel was 1,548 million tons in 2012, an increase of 1.2% over the 1,529 million tons produced the previous year. China once again led this expansion of world steel production activity, breaking a new industry record of 716.5 million tons of raw steel in the year, 5% more than in 2011. In the same period, China imported 744 million tons of iron ore, another record for that country and a significant increase of 8.4% over the year before. The Company's participation was slightly over 1% (7.99 million tons).

RISK FACTORS

The global economic uncertainty, volatility of the raw-material markets, the appearance of new producers of magnetic iron ore in Australia and the heavy concentration of the Company's sales in Asia, particularly China, appear as the principal risks that the Company should face in the near future.

COMMERCIAL RELATIONS WITH SUBSIDIARIES AND ASSOCIATES

Compañía Minera del Pacífico S.A. is the sole supplier of iron ore and pellets to the integrated Chilean steel producing company Compañía Siderúrgica Huachipato S.A. During 2012, 614 thousand tons of iron ore (lumps) and 1,180 thousand tons of pellets were delivered to it under long-term contracts. The tonnages delivered were around the historic average.

SALES

Consolidated sales of iron ore during 2012 amounted to 12 million 246 thousand metric tons which represents a 6.8% increase over the total sold the previous year.

Export sales were 10 million 451 thousand metric tons, while 1 million 795 thousand metric tons were sold on the domestic market. This led the external market to represent 85.3% of total sales and the domestic market the remaining 14.7%.

In aggregate, the Asian market represented 99% of the Company's total exports, with China concentrating 76% of these.

The following table compares the sales of 2012 with 2011:

SALES			VARIATION	
(thousands of metric tons)	2012	2011	ThMT	%
CMP TOTAL	12,246	11,469	777	6.8%
HUASCO VALLEY	6,714	6,467	247	3.8%
External market	5,533	5,301	232	4.4%
Domestic market	1,181	1,166	15	1.3%
ELQUI VALLEY	3,844	3,395	449	13.2%
External market	3,230	2,683	547	20.4%
Domestic market	614	712	(98)	(13.8%)
COPIAPÓ VALLEY	1,688	1,607	81	5.0%
External market	1,688	1,607	81	5.0%
Domestic market	-	-	-	-

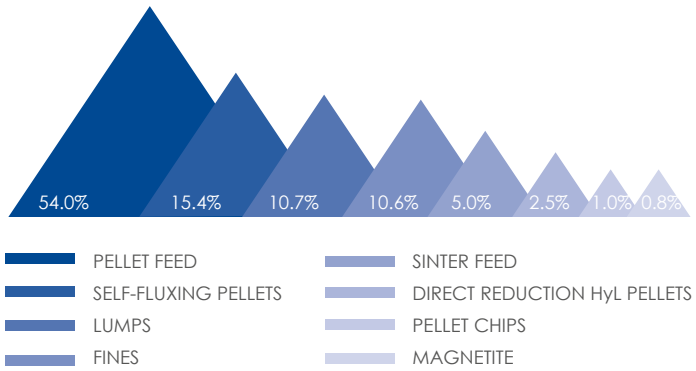
The following were the 6 different markets for the products of Compañía Minera del Pacífico S.A. during 2012:

COUNTRIES	CUSTOMERS
CHINA	Jinan Iron & Steel Hangzhou Iron & Steel Rizhao Iron and Steel Continental Minerals Company Ltd. Xinyu Iron and Steel Puyang Iron and Steel Cargill International RGL Group Glencore AG Bao Steel Trading Co., Ltd. Bao Harvest Holding, Ltd. Trafigura Noble Resources Ltd.
JAPAN	JFE Steel Corporation Kobe Steel Ltd. Nisshin Steel Co. Ltd.
INDONESIA	PT Krakatau Steel (Persero)
UNITED STATES	Reiss Viking Universal Minerals
BAHRAIN	Gulf Industrial Investment, Co.
CHILE	Compañía Siderúrgica Huachipato S.A. (CAP Acero)

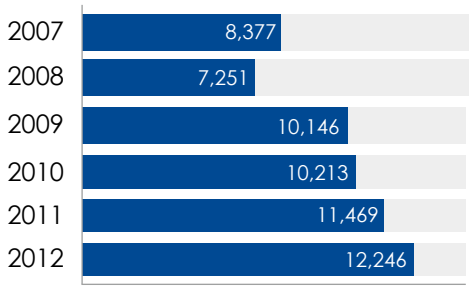
Regarding the product mix, pellet feed is the principal product in terms of volume. This is followed by self-fluxing pellets, fines and lumps representing 90.7% of shipments. The product mix is completed by sales of sinter feed, H&L direct-reduction pellets, pellet chips and magnetite.

GRAPHICAL SUMMARY

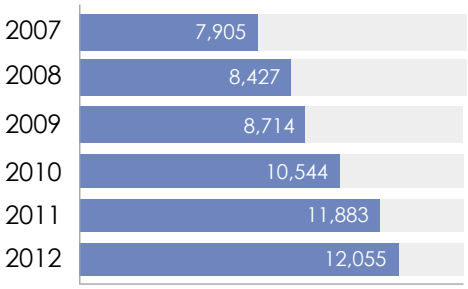
DISTRIBUTION OF SHIPMENTS BY PRODUCTS



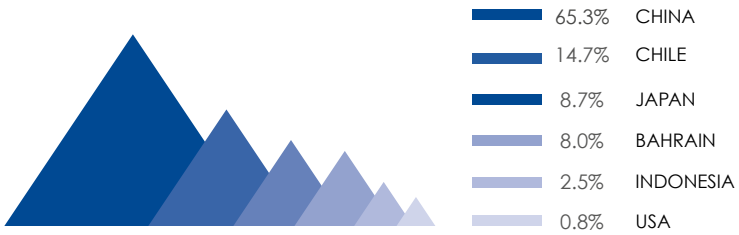
TOTAL SHIPMENTS **(ThMT)**



FINISHED PRODUCTION OF MINING PRODUCTS **(ThMT)**



TOTAL SALES BY MARKETS **2012**



RESERVES Y RESOURCES

The following is information about our geological resources and mining reserves as of December 31, 2012, with respect to the mines that CMP is currently exploiting and other iron deposits in which CMP has exploitation rights, including the tailings of the Candelaria copper mine.

DEPOSITS		GEOLOGICAL RESOURCES (1)			MINING RESERVES (2)		
NAME	LOCATION	MT(*)	ORE CONTENT		MT(*)	ORE CONTENT	
Los Colorados	Vallenar	960,1	34.8%	Fe	243,7	46.4%	Fe
Romeral	La Serena	458,6	28.3%	Fe	105,3	30.2%	Fe
Low grade stockpiles		18,8	21.1%	Fe	11,7	21.9%	Fe
Phase IV		0,8	42.0%	Fe	0,2	42.0%	Fe
Phase V		439,0	28.6%	Fe	93,4	31.2%	Fe
Candelaria (3)	Copiapó	268,3	10.0%	Fe	268,3	10.0%	Fe
Cerro Negro Norte	Copiapó	376,7	32.8%	Fe	189,4	36.5%	Fe
Tofo	La Serena	1,671.0	26.0%	Fe	690,0	28.7%	Fe
Pleito		1,049.9	26.7%	Fe	690,0	28.7%	Fe
Sierra Tofo		460,2	25.5%	Fe			
Pleito Este		151,3	23.9%	Fe			
Stockpiles		10,0	15.0%	Fe			
El Algarrobo	Vallenar	133,0	45.9%	Fe	46,4	49.3%	Fe
Algarrobo		126,0	45.9%	Fe	39,4	48.9%	Fe
Stockpiles		7,0	45.3%	Fe	7,0	45.3%	Fe
El Algarrobo Distrito	Vallenar	590,3	32.8%	Fe	118,4	35.5%	Fe
Alcaparra D		307,3	29.9%	Fe	118,4	35.5%	Fe
Alcaparra A		122,0	46.0%	Fe			
Domeyko II		107,0	28.0%	Fe			
Charaña		42,0	27.5%	Fe			
Ojos de Agua		12,0	34.5%	Fe			
El Laco	Antofagasta	733,9	49.2%	Fe	376,3	56.7%	Fe
Los Colorados District	Vallenar	26,0	43.3%	Fe			
Cristales	Vallenar	149,0	32.0%	Fe	1,9	57.3%	Fe
TOTAL		5,367.3	32.1%	Fe	2,039.7	35.2%	Fe

(*) Million
(1) Minerals measured on a geological ore content basis feasible to be mined
(2) Geological resources that are feasible for mining economically
(3) CMP has a contractual right to process the tailings of Candelaria copper mine

Note: Tonnages and grades of Fe are estimated by CAP's Minería specialized professionals. The information presented, to comply with Chilean law 20.235, is currently under certification process by independent professionals in mining resources and reserves. This process is estimated to take approximately three years from 2012 with respect to the mineral deposits reported.

STEEL PRODUCTION/

COMPAÑÍA SIDERÚRGICA HUACHIPATO S.A. (CAP ACERO)

PRODUCTION

Finished steel production in 2012 amounted to 1,135,182 tons, with a liquid steel production of 1,185,923 tons obtained from a production of cast iron totaling 1,068,373 tons.

PRODUCTION (thousands of metric tons)	2012	2011	Variation ThMT	Variation %
PRODUCTION OF LIQUID STEEL	1,186	1,191	(5)	(0.4%)
PRODUCTION OF FINISHED STEEL	1,135	1,097	38	3.5%
Flats	412	438	(26)	(5.9%)
Bars	723	660	64	9.6%

COMMERCIALIZATION

Total shipments of steel products in 2012 were 1,123,641 tons of which 1,121,884 were to the domestic market and 1,757 to the external market.

Compared to the previous year, shipments to the domestic market increased by 12,986 tons while those to external markets declined by 2,781 tons.

Total sales revenue in 2012 amounted to ThUS$ 911,331, of which ThUS$ 909,464 related to the domestic market and ThUS$ 1,866 to the external market.

SHIPMENTS (thousands of metric tons)	2012	2011	Variation ThMT	Variation %
TOTAL SHIPMENTS	1,124	1,113	10	0.9%
Domestic market	1,122	1,109	13	1.2%
External market	2	5	(3)	(61.3%)

AVERAGE PRICES (US$ per ton)	2012	2011	Variation US$/MT	Variation %
Domestic market	810,7	882,2	(71,5)	(8.1%)
External market	1,062.0	1,105.1	(43,1)	(3.9%)

CAP Acero is the only integrated steel company in Chile able to produce flat and long products. Its production of flats starts with slabs that continue in processes until becoming hot and cold laminated rolls, tin plate and zincalum. Its production of long products converts billets into contruction and crushing bars, wire rods and various bars.

The company sells its products to steel distributors and construction, processing and industrial companies, manufacturers of metallic containers, wire drawers, manufacturers of tubes and profiles, workshops and mining.

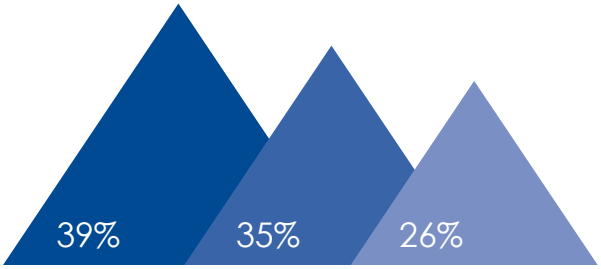
The following are the company's principal customers plus a graph showing the distribution of shipments in 2012 by market:

CUSTOMERS 2012

ACMA S.A.
ARMACERO INDUSTRIAL Y COMERCIAL S.A.
CARLOS HERRERA LTDA.
CINTAC S.A.I.C.
CEMENTOS BIO BIO S.A.
COMERCIAL A Y B LTDA.
CONSTRUMART S.A.
CORPORACIÓN NACIONAL DEL COBRE DE CHILE
EASY S.A.
FORMACIÓN DE ACEROS S.A.
GARIBALDI S.A.
IMEL LTDA.
INDAMA
INCHALAM S.A.
MOLY-COP CHILE S.A.
PRODALAM
SACK
SANTA ANA DE BOLUETA CHILE
SODIMAC S.A.
VH MANUFACTURA DE TUBOS DE ACERO

2012 shipments show that the metallurgical, construction and works industry sectors account for 74% of the total. Customers in the construction and works industry mainly required zincalum plates and bars for reinforced concrete, the metallurgical industry wire rods, rolls and laminated plates, and mining mainly crushing bars.

SHIPMENTS BY MARKET **CAP ACERO 2012**

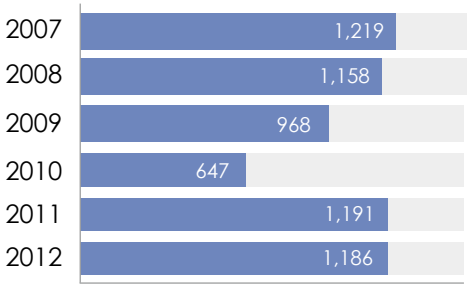


METALLURGICAL INDUSTRIES
CONSTRUCTION & WORKS INDUSTRIES
MINING

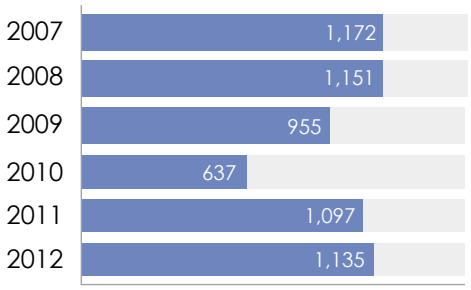
The external market demanded products such as laminated plates, zincalum rolls and byproducts of steel manufacturing. The main foreign destination for steel products in 2012 was Bolivia (zincalum rolls).

GRAPHICAL SUMMARY

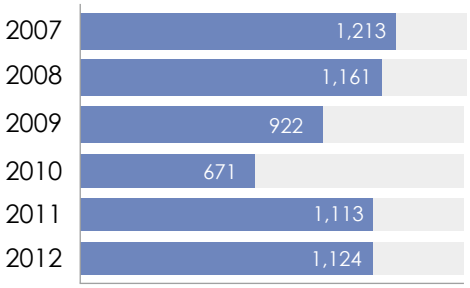
LIQUID STEEL PRODUCTION **(ThMT)**



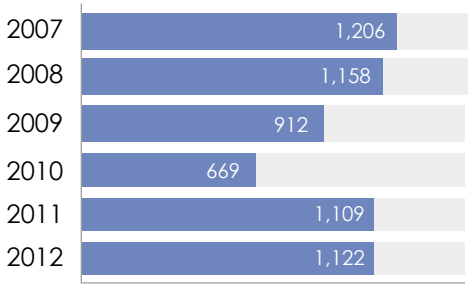
FINISHED STEEL PRODUCTION **(ThMT)**



TOTAL SHIPMENTS **(ThMT)**



DOMESTIC MARKET SHIPMENTS **(ThMT)**



STEEL PROCESSING

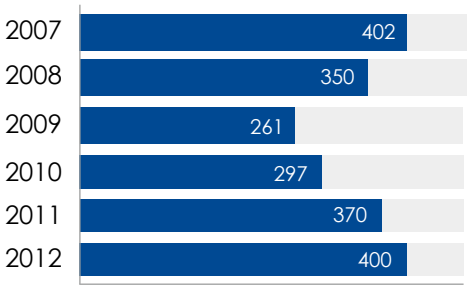
The steel processing business is performed through Cintac S.A. and Intasa S.A., subsidiary companies of Novacero S.A. in which CAP has a shareholding of 52.68%. Novacero S.A. has shareholdings of 50.93% in Cintac S.A. and Intasa S.A. which, together with the shareholdings of 11.03% and 29.70% that CAP has in them, permits a direct and indirect control of 61.96% and 80.63% of them respectively.

The objectives of Cintac S.A. and its subsidiaries Cintac S.A.I.C., Instapanel S.A., Centroacero S.A. and Tupemesa S.A. and Intasa S.A. and its subsidiary Tubos Argentinos S.A., is the creation of solutions in steel, mainly for the construction, industry and infrastructure sectors in Chile and abroad.

The incorporation of the steel processing group into the traditional activities of CAP, mining and steel production, permits foreseeing an improvement in consolidated returns as a consequence of the participation in the whole value-added chain, taking advantage of existing opportunities for developing the synergies of a vertically-integrated business.

The following shows the evolution of the total shipments of the steel processing group:

TOTAL SHIPMENTS **(ThMT)**



Cintac S.A.I.C.

A company created in 1956 for the production and sale of steel products, mainly for supplying the construction industry, both housing and commercial and industrial, in Chile and abroad.

Cintac operates a plant in Santiago with a processing capacity of 185 thousand tons annually.

Centroacero

This company was created in 1991 to develop specific steel solutions, selling high value-added products to thus become a strategic partner of its customers.

Centroacero operates a plant in Santiago with a processing capacity of 100 thousand tons annually.

Instapanel

This company was formed in 1964 to offer the domestic and international markets steel panels for industrial coverings and sidings through a broad range of products with high quality standards.

Instapanel operates plants in Santiago with a processing capacity of 50 thousand tons annually.

Tubos y Perfiles Metálicos S.A. (TUPEMESA)

A company formed in 1965 which currently operates successfully in the tubular steel products market in Peru, with a wide range of high-quality products.

Tupemesa operates a plant in Lima, Peru, with a processing capacity of 45 thousand tons annually.

Tubos Argentinos (TASA)

This company was created in 1909 and is focused on the production of construction systems and integral solutions through the transformation and use of steel, accompanied by logistical services and innovation which add value and greater satisfaction to the end user both in Argentina and other countries.

Tasa operates a plant in the Province of Buenos Aires, Argentina, with a processing capacity of 70 thousand tons annually.

The following shows comparative tables of production and shipments for the years 2012 and 2011 of Cintac, Intasa and their respective subsidiaries:

PRODUCTION
(in thousands of metric tons)

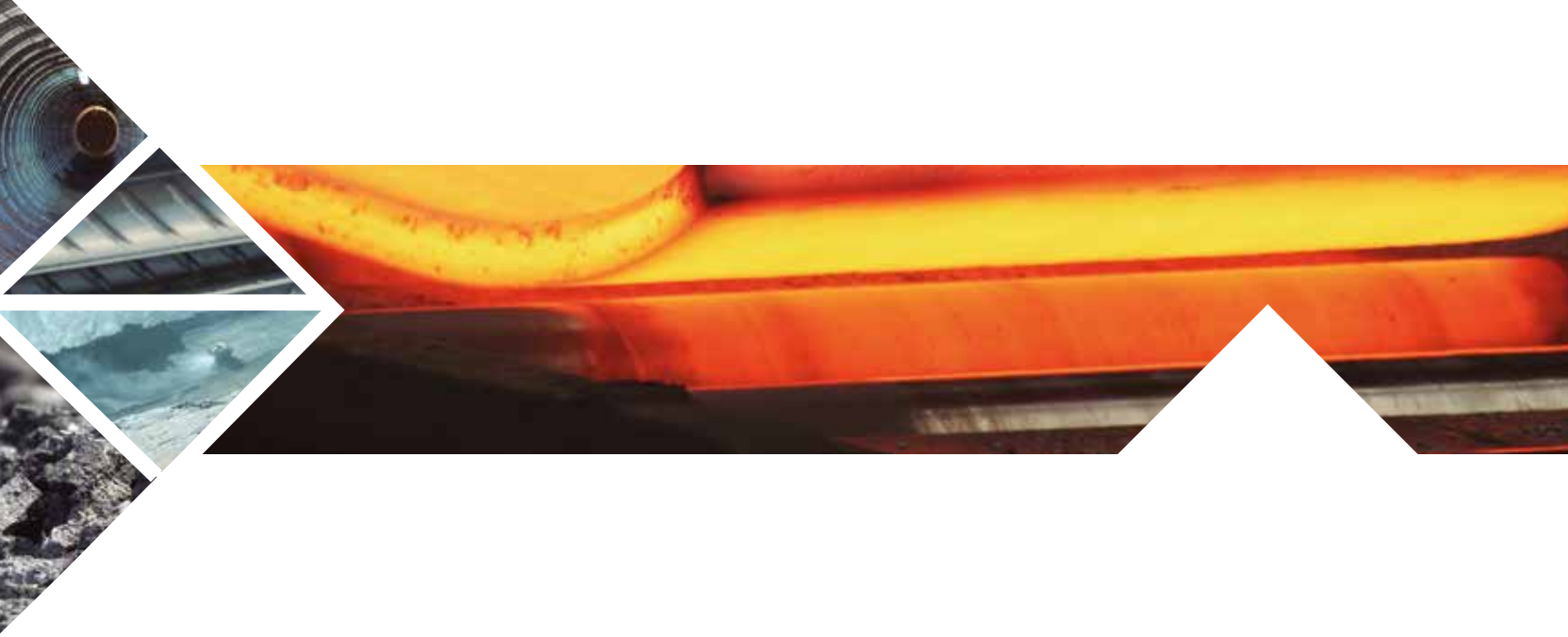
	2012	2011	Variation ThMT	Variation %
Total production	414	391	23	5.9%
Cintac	161	150	11	7.3%
Instapanel	62	50	12	24.0%
Centroacero	95	93	2	2.2%
Tupemesa (Peru)	39	32	7	21.9%
Tasa (Argentina)	57	66	(9)	(13.6%)

SHIPMENTS
(in thousands of metric tons)

	2012	2011	Variation ThMT	Variation %
Total shipments	399	370	29	7.8%
Cintac	182	171	11	6.4%
Instapanel	44	34	10	29.4%
Centroacero	72	57	15	26.3%
Tupemesa (Peru)	37	34	3	8.8%
Tasa (Argentina)	64	74	(10)	(13.5%)

Notes: The figures exclude inter-company sales.

The steel-processing group sells its products through a broad network of distribution channels which include the principal retail chains, construction companies, workshops and the large members of the mining, industrial, commercial and services sectors.



2.2 FINANCE

INVESTMENT AND FINANCIANG POLICIES

INVESTMENT

Year by year CAP consistently applies its investment policy, taking into account essential elements like care for the environment, the development of its human capital and the use of the most efficient technologies, in its efforts to carry out the projects within the framework of its activities as a vertically-integrated producer in iron ore mining, steel production and steel processing, and thus responsibly strengthen the Group's returns.

Despite the recent years characterized by a greater global economic instability that began in September 2008 with the fall of Lehman Brothers in the USA, severely affecting the dynamism of global activity since then, and then the appearance on stage in 2010 of serious debt difficulties in various European economies and, more recently in 2012, with greater uncertainty about growth rates in China, the Company has continued to invest in its businesses, with special emphasis on its iron ore mining activity.

In the middle of the scenario described above, CAP Minería continued in 2012 with the development of the expansion project of the Los Colorados mine in Huasco valley which will add 2 million MT to its present production capacity, and the construction of the new Cerro Negro Norte mine to the north of Copiapó, with 4 million MT of capacity. In addition to these projects there is the construction of a water desalination plant to the north of Caldera to meet commitments with respect to the supply of fresh water for the mining operations in the Region of Atacama. In 2012 also, the Romeral Phase V project was approved, which will extend the life of this deposit by 14 years. Its start-up is expected for the first quarter of 2014.

Apart from progressing with the above projects, CAP Minería continued with its exploration and soundings programs in different zones of interest, located mainly in its own mining districts.

Regarding the steel business, following the reconstruction and repairs to its installations and equipment in 2010 as a result of the earthquake that occurred in February that year, the years 2011 and 2012 have been characterized by investments only in maintenance and limited technical improvements and adjustments for better energy efficiency. In fact, the world steel activity has suffered a deep structural change with the arrival of the expansion of the Chinese steel industry which, with certain fluctuations, has maintained the prices of steel production raw materials in high levels and has implied reductions in international steel prices, thus deterring increased investments in this business.

In the steel processing business, developed in Chile and Peru through Cintac S.A. and in Argentina through Intasa S.A., the investment emphasis was on efforts to double the installed capacity in Peru, whose economy is passing through a bonanza that has already lasted several years, and in Chile producing at full capacity, accompanying the dynamism shown in the construction, infrastructure and mining sectors.

The presence of CAP in the whole ferrous production chain permits the development of synergies between the companies comprising the group, thus enabling a better consolidated return.

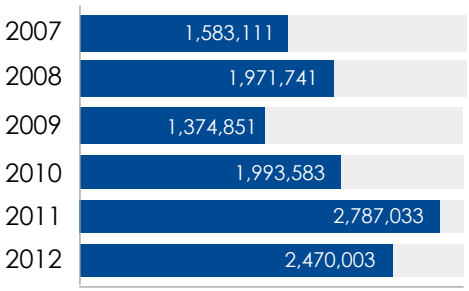
FINANCING

CAP's financial policy is carried out in the accustomed way through the maintenance of adequate liquidity, minimization of exchange risks and the diversification of funding sources, while maintaining a mixed balanced of capital and debt, between local and foreign sources and between short and long term.

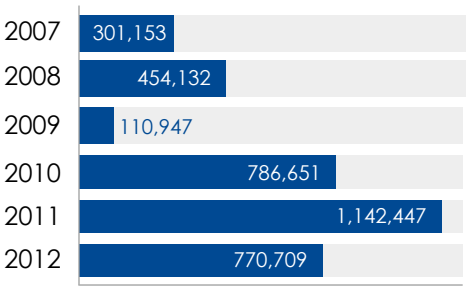
In 2012, The CAP Group financial position was characterized by the maintenance of a high availability of cash and liquidity, supported by the fluctuating but good prices of iron ore and the large volumes sold. This enabled the maintenance of a reduced gross financial debt of ThUS$ 718,685 while holding a healthy consolidated cash balance of ThUS$ 711,333 as of December 31, 2012. The net financial debt therefore reduced to ThUS$ 7,352, which permitted the making of investments in mining mainly from own resources.

With respect to the credit ratings for its debt issues, CAP retains A+ from Fitch Ratings and Feller Rate at the domestic level, and BBB from Fitch Ratings and BBB- from Standard & Poor's at the international level.

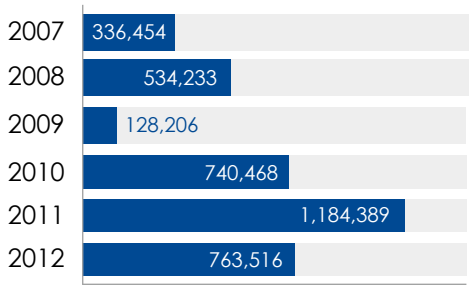
CONSOLIDATED REVENUES **(ThUS$)**



GROSS MARGIN **(ThUS$)**

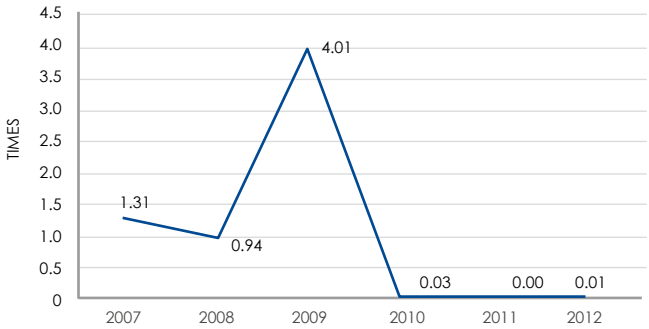


CASH GENERATION (EBITDA) **(THUS$)**



(*) As from 2011, the amount of amortization is considered in the calculation of EBITDA.

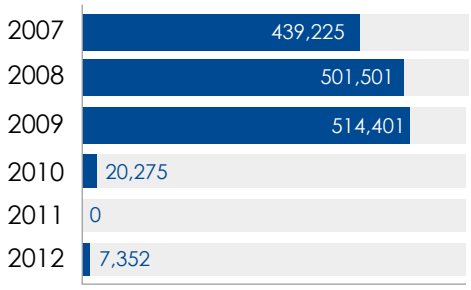
CONSOLIDATED NET FINANCIAL DEBT TO EBITDA RATIO **(ThUS$)**



DEBT

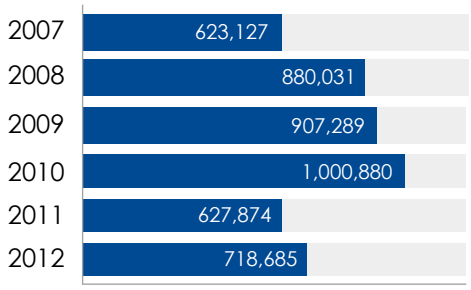
The net financial debt of the CAP Group is maintained at a low and healthy level for the third consecutive year.

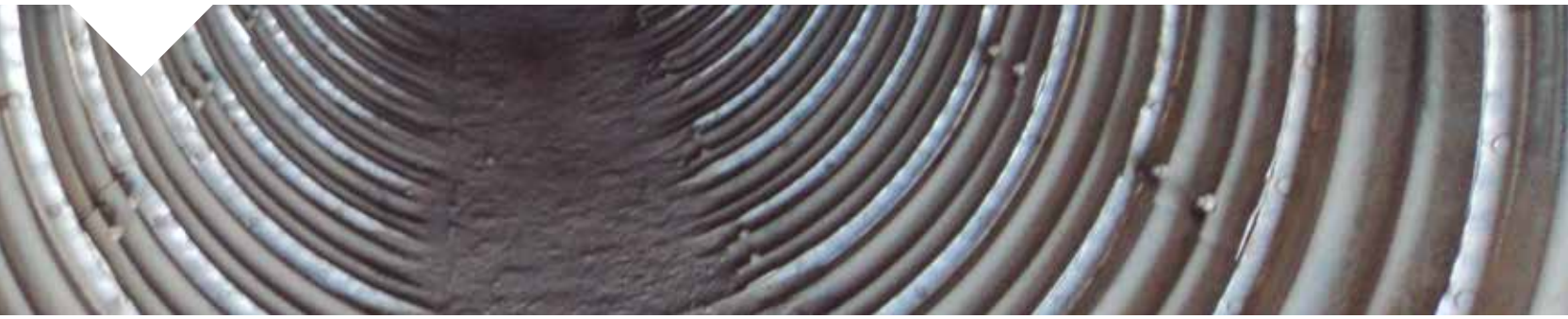
NET FINANCIAL DEBT **(ThUS$)**



(*) The net financial debt in 2011 was a negative ThUS$ (255,370).

GROSS FINANCIAL DEBT **(ThUS$)**





LIQUIDITY

CAP's consolidated liquidity is at a level of 2.06 times as of December 2012, compared to 2.57 times in 2011.

DIVIDENDS AND INVESTMENTS

Dividends of ThUS$ 181,285 were distributed during the year. Investments totaled ThUS$ 777,379.

RISK FACTORS

The businesses of production and commercialization of iron and steel are traded internationally and reflect in their prices the cyclical changes in global and domestic supply and demand, which are in turn very dependent on world economic conditions, the state of the national economy and microeconomic aspects that are important for these industries.

Iron and steel are not commodities, except in a very restricted sense, as the chemical composition of the ore or iron or steel products is essential in purchasing decisions for the vast majority of users, and this generates a wide variety of types of products.

Regarding the steel processing business, this is strongly influenced by the costs of its raw material, i.e. steel, and dynamism of the domestic markets and in general the local business environment.

Recognizing the unique and specific character of each customer's requirements and for an optimum performance in the face of the variables described above, the CAP Group makes a constant effort to maintain its production processes technologically up to date and always emphasizes the provision of suitable and timely responses in service and supply of its markets, thus ensuring proper satisfaction for its customers.

Together with the cyclical nature of revenues, the CAP Group's statement of results is exposed to the effects of its financial policies which determine the proportion of debt in various currencies and its corresponding applicable fixed or floating interest rates.

2.3 BANKS

INTERNATIONAL BANKS

Banco Santander
BBVA
Crédit Agricole
Deutsche Bank
Export Development Canada
HSBC
JP Morgan Chase
Mizuho Corporate Bank Ltd.
Scotiabank
Société Générale
The Bank of New York Mellon
The Bank of Tokyo-Mitsubishi UFJ, Ltd.

LOCAL BANKS

Banco Bice
Banco Consorcio
Banco Crédito e Inversiones
Banco de Chile
Banco Itaú
Banco Santander Chile
Banco Security
Banco Estado
BBVA Chile
Corpbanca
HSBC Bank (Chile)
Scotiabank
The Bank of Tokyo-Mitsubishi UFJ, Ltd.

2.4 DIVIDEND POLICY

A dividend distribution of 50% of the net income will be proponed to the shareholders meeting to be held in April 2013.

The meeting will be proposed that during 2013 the board may pay interim dividends against the earnings for the year, provided there are no accumulated losses.

It will also be proposed that the board, at its discretion, may agree to pay eventual dividends against present retained earnings, as foreseen in article 80 of Law 18,046.

It is also the intention to propose to the ordinary shareholders meeting to be held in 2014, that if earnings are produced in the year 2013, 50% of these will be distributed as the final dividend.

2.5 PERSONNEL

As of December 31, 2012, the personnel of CAP S.A. and its subsidiaries totaled 5,454 people, distributed by company and compared to the year before as follows:

COMPANY	2012	2011
CAP S.A.	72	69
Cía. Siderúrgica Huachipato S.A.	1,716	1,825
Cía. Minera del Pacífico S.A.	2,778	2,426
Steel Processing Group	888	891
Total	5,454	5,211

Of the total, 949 are engineers, technicians and other university professionals and 4,505 are employees qualified to carry out operative, administrative and service jobs. During the fiscal year 2012, the number of permanent personnel increased by 243, representing a 4.66% rise compared with the previous year. The parent company, CAP S.A., employs 13 managers, 25 professionals and technicians and 34 qualified employees.

SUSTAINABILITY

3.1 SUSTAINABILITY

3


CAP

3.1 SUSTAINABILITY

The CAP Group has incorporated the concept of corporate social responsibility since its creation. The Company continuously seeks to ensure that the group's present and future activities can be carried out without altering relations with its environment, and in addition can contribute to the areas where it operates.

The strategy is thus directed to create value on the basis of three key pillars: to operate the business contributing to society, in harmony with the environment and ensuring a proper job quality, based on Cap Group's business principles and the achievement of an economically-efficient operation.

During 2012 the application of the Corporate Sustainability Strategic Plan 2010-2012 continued to be promoted. The Company also continued to adhere and promote the 10 universal principles of the United Nations Global Compact, an initiative in which it has participated since 2008.

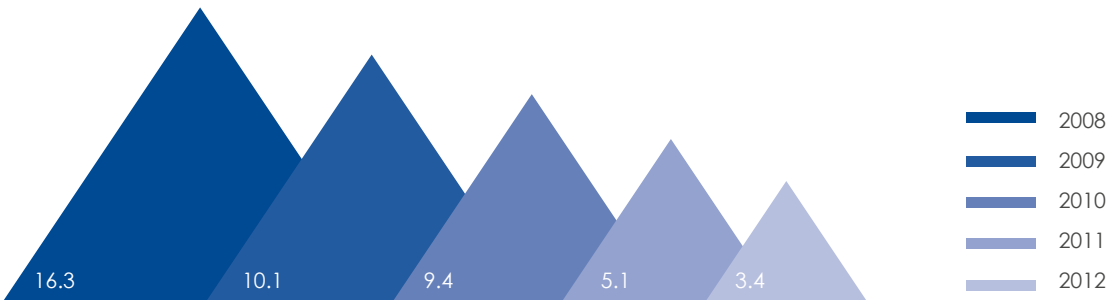
The Sustainability Report for the year 2011 was published in July, This reflects the Company's constant interest to continuously improve relations with its stakeholders, providing them with transparent, useful and timely information on its activities. This document follows the guidelines of the Global Reporting Initiative (GRI), self-qualified at level A, in compliance with the voluntarily-acquired guidelines.

Safety and Occupational Health Policy

The CAP Group in 2012 continued working to the objectives set out in 2011 in its Corporate Prevention Plan, i.e. to have zero fatal accidents, reduce serious accidents (that cause 30 days or more of rest) by 50% and reduce the frequency rate toward the benchmarks identified for each production area.

Despite the Company's efforts in terms of safety, the year produced the regrettable fatal accident to an external worker of CAP Acero. Prevention efforts were therefore redoubled, setting demanding targets, new performance indicators and committing the leadership of the whole supervisory line to ensure the achievement of the defined objectives.

However, the frequency rate continued to show important progress, reducing by 33% at the group level between 2011 and 2012.



The CAP Group also produced a seriousness rate of 480 (+14%), affected by the fatal accident mentioned above.

CAP Grop Environmental Policy

In developing the tasks of its corporate mission, the CAP Group is concerned about the quality of the environment, protecting the ecosystems where it operates, giving full compliance with current environmental legislation and the voluntary agreements it has made. The CAP Group therefore:

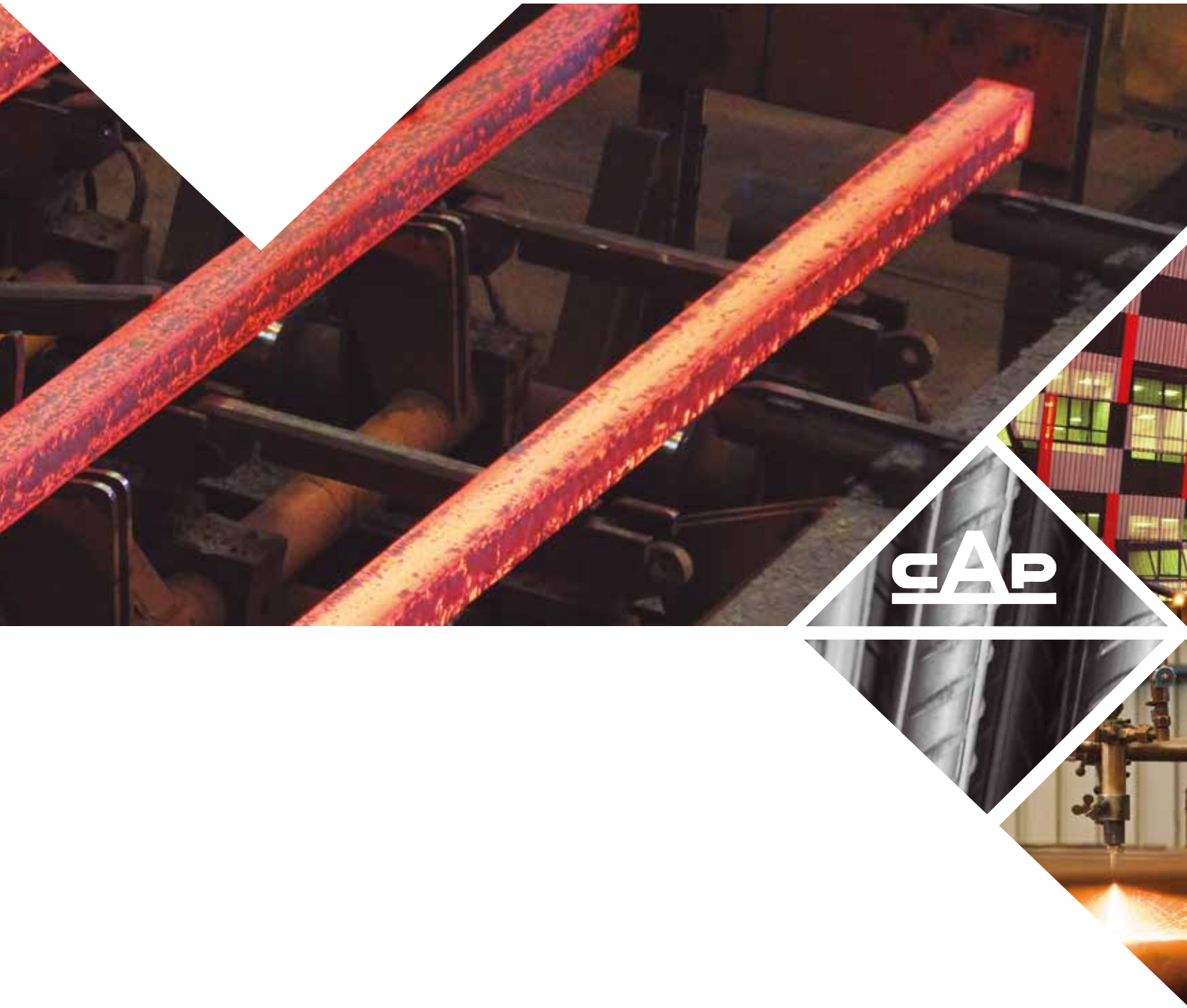
- Seeks to optimize its environmental management system for the continuous improvement of its production activities.
- Promotes re-use and recycling, reducing the generation of waste and the more efficient consumption of energy and materials.
- Maintains contingency plans for potential risks to the environment, its personnel and the communities close to its installations, arising from its operations
- Organizes training and prevention programs in environmental matters for its personnel and external contractors.
- Promotes initiatives and new technologies that contribute in the areas where it operates.

Further information on these matters will be included in the Sustainability Report 2012 which will be available from April 2012 on our web site www.cap.cl


CAP

FINANCIAL STATEMENTS

Consolidated Financial Statements 2012


CAP


CAP

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INDEPENDENT AUDITOR'S REPORT OVER SUMMARY FINANCIAL STATEMENTS

To the Shareholders and Directors of
CAP S.A.

The accompanying summary financial statements, which comprise the summary statements of financial position as of December 31, 2012 and 2011, and the related summary statements of comprehensive income, changes in equity, and cash flows for the years then ended, and the related notes to the summary financial statements, are derived from the audited consolidated financial statements of CAP S.A. and Subsidiaries as of and for the years ended December 31, 2012 and 2011. We express an unmodified audit opinion on those audited financial statements in our report dated February 01, 2013. The audited financial statements, and the summary financial statements derived therefrom, do not reflect the effect of events, if any, that occurred subsequent to the date of our report on the audited financial statements. The summary financial statements do not contain all the disclosures required by International Financial Reporting Standards (IFRS).Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of CAP S.A and Subsidiaries.

Management's Responsibility for the Summary Financial Statements

Management is responsible for the preparation of the summary financial statements on the basis described in Note 3

Auditors' Responsibility

Our responsibility is to express an opinion on whether the summary financial statements are consistent, in all material respects, with the audited financial statements based on our procedures, which were conducted in accordance with auditing standards generally accepted in Chile. The procedures consisted principally of comparing the summary financial statements with the related information in the audited financial statements from which the summary financial statements have been derived, and evaluating whether the summary financial statements are prepared in accordance with the basis described in Note 3. We did not perform any audit procedures regarding the audited financial statements after the date of our report on those financial statements.

Opinion

In our opinion, the summary financial statements of CAP S.A. and Subsidiaries as of and for the years ended December 31, 2012 and 2011 are consistent, in all material respects, with the audited financial statements from which they have been derived, on the basis described in Note 3.

Other-matter

The accompanying summary financial statements have been translated into English solely for the convenience of readers outside Chile.

Deloitte

April 26, 2013
Santiago, Chile

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION, CLASSIFIED

AS OF DECEMBER 31, 2012 AND 2011
(In thousands of U.S. dollars - ThS$)

ASSETS	12.31.2012 ThUS$	12.31.2011 ThUS$
CURRENT ASSETS		
Cash & cash equivalents	295,297	133,467
Other financial assets, current	416,036	749,777
Other non-financial assets, current	43,031	30,100
Trade and other current receivable	450,607	410,322
Accounts receivable from related entities, current	6,509	66,765
Inventories	474,222	519,726
Current tax assets	78,654	74,445
TOTAL CURRENT ASSETS OTHER THAN ASSETS OR DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE OR HELD FOR DISTRIBUTION TO OWNERS	**1,764,356**	**1,984,602**
TOTAL CURRENT ASSETS	**1,764,356**	**1,984,602**
NON-CURRENT ASSETS		
Other non-current financial assets	1,567	327
Other non-financial assets, non-current	7,066	13,441
Non-current receivables	7,243	7,281
Investments accounted for using equity method	11,401	10,635
Intangible assets other than goodwill	855,005	896,134
Goodwill	1,767	1,767
Property, plant & equipment	2,502,198	1,841,263
Deferred tax assets	16,023	17,176
TOTAL NON-CURRENT ASSETS	**3,402,270**	**2,788,024**
TOTAL ASSETS	**5,166,626**	**4,772,626**

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION, CLASSIFIED

AS OF DECEMBER 31, 2012 AND 2011
(In thousands of U.S. dollars - ThS$)

EQUITY AND LIABILITIES	12.31.2012 ThUS$	12.31.2011 ThUS$
LIABILITIES		
CURRENT LIABILITIES		
Other financial liabilities, current	156,480	122,650
Trade and other current payables	485,405	298,530
Accounts payable to related entities, current	116,587	195,519
Other short-term provisions	21,558	24,160
Current tax liabilities	25,226	86,192
Current provisions for employee benefits	46,637	42,018
Other current non-financial liabilities	5,773	3,743
TOTAL CURRENT LIABILITIES OTHER THAN LIABILITIES INCLUDED IN DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE	**857,666**	**772,812**
TOTAL CURRENT LIABILITIES	**857,666**	**772,812**
NON-CURRENT LIABILITIES		
Other non-current financial liabilities	562,205	506,898
Other long-term provisions	13,920	19,400
Deferred tax liabilities	369,530	344,586
Non-current provisions for employee benefits	158,800	143,394
Other non-current non-financial liabilities	96,095	15,110
TOTAL NON-CURRENT LIABILITIES	**1,200,550**	**1,029,388**
TOTAL LIABILITIES	**2,058,216**	**1,802,200**
EQUITY		
Issued capital	379,444	379,444
Retained earnings (accumulated losses)	1,473,221	1,368,803
Other reserves	(14,852)	(24,169)
EQUITY ATTRIBUTABLE TO OWNERS OF PARENT	**1,837,813**	**1,724,078**
Non-controlling interest	1,270,597	1,246,348
TOTAL EQUITY	**3,108,410**	**2,970,426**
TOTAL EQUITY & LIABILITIES	**5,166,626**	**4,772,626**

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE RESULTS, BY FUNCTION

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(In thousands of U.S. dollars - ThS$)

INCOME STATEMENT	01.01.2012 12.31.2012 ThUS$	01.01.2011 12.31.2011 ThUS$
PROFIT (LOSS)		
Revenues	2,470,003	2,787,033
Cost of sales	(1,762,294)	(1,644,586)
GROSS PROFIT	**707,709**	**1,142,447**
Other income	16,673	53,565
Distribution Costs	(24,935)	(22,060)
Administrative expenses	(123,560)	(140,913)
Other expenses	(78,228)	(70,014)
Other gains (losses)	15,175	(20,640)
PROFIT (LOSS) FROM OPERATING ACTIVITIES	**512,834**	**942,385**
Financial income	51,846	21,922
Financial costs	(49,529)	(89,044)
Share of profit (loss) of associates and joint ventures accounted for using equity method	(351)	337
Exchange differences	(1,128)	(19,551)
Results for indexation units	333	216
PROFIT (LOSS) BEFORE TAX	**514,005**	**856,265**
Income tax expense	(186,499)	(226,071)
PROFIT (LOSS) FROM CONTINUING OPERATIONS	**327,506**	**630,194**
Profit (loss) from discontinued operations	-	-
PROFIT (LOSS)	**327,506**	**630,194**
PROFIT (LOSS) ATTRIBUTABLE TO:		
Profit (loss), attributable to owners of the parent	230,781	441,656
Profit (loss), attributable to non-controlling interests	96,725	188,538
Profit (loss)	**327,506**	**630,194**
EARNINGS PER SHARE		
BASIC EARNINGS (LOSS) PER SHARE FROM CONTINUING OPERATIONS	**US$**	**US$**
Basic earnings (loss) per share from continuing operations	1.544222	2.955246
BASIC EARNINGS (LOSS) PER SHARE	**1.544222**	**2.955246**

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE RESULTS, BY FUNCTION

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(In thousands of U.S. dollars - ThS$)

STATEMENT OF OTHER COMPREHENSIVE INCOME	01.01.2012 12.31.2012 ThUS$	01.01.2011 12.31.2011 ThUS$
Profit (loss)	327,506	630,194
COMPONENTS OF OTHER COMPREHENSIVE INCOME, BEFORE TAX:		
EXCHANGE DIFFERENCE ON TRANSLATION:		
Gains (losses) on exchange differences on translation, before tax	1,105	(682)
Other comprehensive income, before tax, exchange differences on translation	1,105	(682)
Cash flow hedges	7,870	(9,016)
Other comprehensive income, before taxes, cash flow hedges	7,870	(9,016)
OTHER COMPREHENSIVE INCOME, BEFORE TAX	**8,975**	**(9,698)**
OTHER COMPREHENSIVE INCOME	**8,975**	**(9,698)**
TOTAL COMPREHENSIVE INCOME	**336,481**	**620,496**
COMPREHENSIVE INCOME ATTRIBUTABLE TO		
Comprehensive income, attributable to owners of parent	239,756	431,958
Comprehensive income, attributable to non-controlling interests	96,725	188,538
TOTAL COMPREHENSIVE INCOME	**336,481**	**620,496**

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS, DIRECT

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(In thousands of U.S. dollars - ThS$)

STATEMENT OF CASH FLOWS	01.01.2012 12.31.2012 ThUS$	01.01.2011 12.31.2011 ThUS$
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Classes of cash receipts from operating activities:		
Receipts from sales of goods and rendering of services	2,647,300	2,738,180
Receipts from premiums and claims, annuities and other policy benefits	-	88,000
Other cash receipts from operating activities	7,544	70,484
Classes of cash payments		
Payments to suppliers for goods and services	(1,244,385)	(1,745,824)
Payments to and on behalf of employees	(256,708)	(249,420)
Interest received	15,094	8,552
Income tax refund (paid)	(170,648)	(251,401)
Other inflows (outflows) of cash	(19,206)	(7,663)
NET CASH FLOW FROM (USED IN) OPERATING ACTIVITIES	978,991	650,908
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Cash flows used in acquisitions of non- controlling interests	(809)	-
Proceeds of sales of property, plant & equipment	484	1,531
Purchases of property, plant & equipment	(777,379)	(282,447)
Cash advances and loans to third	(10,604)	(13,430)
Revenues from futures, time, option and financial exchange contracts	-	1,774
Payments derived from contracts of future, to term, of options and of financial barter	(9,705)	(14,239)
Collections proceeding from contracts of future, to term, of options and of financial operations	18,253	3,626
Interest received	385	312
Other inflows (outflows) of cash	324,906	(24,851)
NET CASH FLOW FROM (USED IN) INVESTMENT ACTIVITIES	(454,469)	(327,724)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Proceeds from issuing shares	5,672	31,937
Total proceeds from borrowings	224,290	158,389
Proceeds of long-term loans	45,000	50,000
Proceeds from short-term borrowings	179,290	108,389
Loans from related entities	-	571
Repayments of borrowings	(296,660)	(413,454)
Payments of finance lease liabilities	(2,434)	(3,416)
Dividends paid	(265,229)	(322,320)
Interest paid	(27,395)	(68,329)
Other inflows (outflows) of cash	(2,015)	-
NET CASH FLOW FROM (USED IN) FINANCING ACTIVITIES	(363,771)	(616,622)
Net increase (decrease) in cash and cash equivalents before the effect of exchange rate changes	160,751	(293,438)
EFFECTS OF EXCHANGE RATE CHANGE ON CASH AND CASH EQUIVALENTS		
Effects of exchange rate change on cash and cash equivalents	1,079	(1,663)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	161,830	(295,101)
Cash and cash equivalents at beginning of period	133,467	428,568
CASH & CASH EQUIVALENTS AT END OF PERIOD	295,297	133,467

CONDENSED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

(In thousands of U.S. dollars - ThS$)

	CHANGES IN CAPITAL	CHANGES IN OTHER RESERVES							
AS OF DECEMBER 31, 2012	COMMON SHARES CAPITAL IN SHARES	TRANSLATION RESERVES	HEDGING RESERVES	OTHER RESERVES	TOTAL RESERVES	CHANGES IN RETAINED EARNINGS	EQUITY ATTRIBUTABLE TO DOMINANT COMPANY	CHANGES IN MINORITY PARTICIPATIONS	TOTAL EQUITY
	ThUS$	ThUS$	ThUS$	ThUS$	ThUS$	ThUS$	ThUS$	ThUS$	ThUS$
OPENING BALANCE AT 01.01.2012	379,444	2,793	(26,962)	-	(24,169)	1,368,803	1,724,078	1,246,348	2,970,426
Increase (decrease) from changes in accounting policies	-	-	-	-	-	-	-	-	-
Increase (decrease) for bug fixes	-	-	-	-	-	-	-	-	-
BEGINNING BALANCE RESTATED	379,444	2,793	(26,962)	-	(24,169)	1,368,803	1,724,078	1,246,348	2,970,426
CHANGES IN EQUITY									
Comprehensive income									
Profit (loss)						230,781	230,781	96,725	327,506
Other comprehensive income		1,105	7,870	-	8,975		8,975	-	8,975
Comprehensive income							239,756	96,725	336,481
Dividends paid						(126,363)	(126,363)	-	(126,363)
Increase (decrease) through transfers and other changes, equity	-	-	-	342	342	-	342	(72,476)	(72,134)
TOTAL CHANGES IN EQUITY	-	1,105	7,870	342	9,317	104,418	113,735	24,249	137,984
CLOSING BALANCE TO DECEMBER 31, 2012	379,444	3,898	(19,092)	342	(14,852)	1,473,221	1,837,813	1,270,597	3,108,410

CONDENSED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

(In thousands of U.S. dollars - ThS$)

AS OF DECEMBER 31, 2011	CHANGES IN CAPITAL	CHANGES IN OTHER RESERVES							
	COMMON SHARES CAPITAL IN SHARES	TRANSLATION RESERVES	HEDGING RESERVES	OTHER RESERVES	TOTAL RESERVES	CHANGES IN RETAINED EARNINGS	EQUITY ATTRIBUTABLE TO DOMINANT COMPANY	CHANGES IN MINORITY PARTICIPATIONS	TOTAL EQUITY
	ThUS$	ThUS$	ThUS$	ThUS$	ThUS$	ThUS$	ThUS$	ThUS$	ThUS$
OPENING BALANCE AT 01.01.2011	379,444	3,475	(17,946)	-	(14,471)	1,154,101	1,519,074	1,167,085	2,686,159
Increase (decrease) from changes in accounting policies		-	-	-	-	-	-	-	-
Increase (decrease) for bug fixes		-	-	-	-	-	-	-	-
BEGINNING BALANCE RESTATED	379.444	3,475	(17,946)	-	(14,471)	1,154,101	1,519,074	1,167,085	2,686,159
CHANGES IN EQUITY									
Global results									
Earnings (loss)						441,656	441,656	188,538	630,194
Other comprehensive results		(682)	(9,016)	-	(9,698)		(9,698)	-	(9,698)
Total global results							431,958	188,538	620,496
Dividends						(226,954)	(226,954)	-	(226,954)
Increase (decrease) through transfers and other changes, equity			-	-	-	-	-	(109,275)	(109,275)
TOTAL CHANGES IN EQUITY	-	(682)	(9,016)	-	(9,698)	214,702	205,004	79,263	284,267
CLOSING BALANCE TO DECEMBER 31, 2011	379,444	2,793	(26,962)	-	(24,169)	1,368,803	1,724,078	1,246,348	2,970,426

CONDENSED NOTES TO THE CONSOLIDATED STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

1. GENERAL INFORMATION

The Company was established in Chile by public deed dated April 27, 1946 under the name of Compañía de Acero del Pacífico S.A., being legally declared as established by the Finance Ministry Decree No. 3,418. Subsequently, in February 1981 it was renamed Compañía de Acero del Pacífico S.A. de Inversiones and in May 1991 it adopted the name of CAP S.A., currently used.

CAP S.A. is a publicly traded corporation, its Tax ID number is 91,297,000-0, it is registered in the Securities Registry of the Superintendency of Securities and Insurance under No. 0131 and its legal registered address is No. 220 Gertrudis Echenique, Las Condes, Santiago de Chile.

The major shareholder of CAP S. A. is Invercap S. A., with 31.32% of its ownership interest, as such it is in a position to exercise significant influence but not control over its financial and operating policies. For the purposes of the definition given Chapter XV of Law 18.045, it is concluded that Invercap S.A. is the controller of CAP S.A..

2. DESCRIPTION OF THE BUSINESS

The Company's main activity is to invest in any kind of incorporeal property, including shares, bonds, debentures, savings and capitalization plans, shares or rights in companies or mutual funds and any kind of securities as well as administering such investments.

The Company's specific purposes are to promote, organize and set up companies of any nature and purpose, to buy or sell shares and social rights; provide managerial, financial and legal, engineering, auditing and other necessary services for the better development of companies in which it is a shareholder or partner; or of third party companies; coordinate the management of the companies of which it is a shareholder or partner to maximize productivity and profitability.

CAP S.A. is the parent of the following direct and indirect subsidiaries registered in the Superintendency of Securities and Insurance:

Direct subsidiaries registered in the Special Register of Reporting Entities:

Compañía Siderúrgica Huachipato S.A.
Compañía Minera del Pacífico S.A.

Indirect subsidiaries registered in the Securities Registry:
Cintac S.A.
Intasa S.A.

Additionally, CAP S.A. is the parent of the following direct subsidiaries not registered in the Superintendency of Securities and Insurance:

Puerto Las Losas S.A.
Port Investments Limited N.V.
Cleanairtech Sudamerica S.A.
Novacero S.A.
Tecnocap S.A.
Abastecimientos CAP S.A.

CAP S.A. aims to consolidate its position in the steel business, efficiently managing its three business areas: iron ore (CAP Mining), steel production **(CAP Steel) and CAP Steel Solutions,** using the best technology available, being competitive in terms of costs and complying with strict measures for the safety and protection of the environment where it operates.

CAP Mining conducts its business through its subsidiary Compañía Minera del Pacífico S.A. (CMP) and its subsidiaries (Sociedad de Ingeniería y Movimiento de Tierra del Pacífico S.A., Compañía Distribuidora de Petróleos del Pacífico S.A., Manganesos Atacama S.A., Minera Hierro Atacama S.A. and Pacific Ores and Trading N.V.) whose main purpose is to evaluate, develop and exploit mineral ores; process and trade their products; develop complementary, derived, secondary or supplying of raw materials, supplies or services industries, or directly

or indirectly related with the above purposes; provide geological and mining research, engineering, industrial and mechanical maintenance, construction and earthmoving services; create and establish companies for the purposes of achieving any of these goals.

CAP Mining is the largest producer of iron ore and pellets in the Pacific coast, with extensive known resources and reserves and ever-expanding exploitation programs to ensure continuity of operations for many decades.

For management purposes, Compañía Minera del Pacífico S.A. is organized into four main units:

- **Huasco Valley** (Valle del Huasco): Includes the pellet plant activities, Los Colorados (former Compañía Minera Huasco S. A.), El Algarrobo Mines and Guacolda II Port.
- **Elqui Valley** (Valle del Elqui): Includes the activities of El Romeral Mine and Port Guayacán.
- **Copiapó Valley** (Valle de Copiapó): Comprises of the activities of the Magnetite plant and Port Totoralillo.
- **Other:** Includes overall management of the Company and the results of the subsidiaries.

CAP Steel operates through its subsidiary Compañía Siderúrgica Huachipato S.A. (CSH), which has its facilities in the municipality of Talcahuano, Eighth Region of Chile.

CSH is an integrated steel industry, unique in its kind in Chile. This means that manufacture its products from raw materials found in nature (iron ore, coal and limestone), which ensures high purity and quality steel. Its advanced technological development enables high standards of productivity and efficiency.

CSH sells its steel products to distributors and construction companies, processors and industrial companies, manufacturers of metal packaging, wire drawers, tubes and profiles factories, metals workshops and mines.

CAP Steel Solutions conducts its business through Novacero S.A. and subsidiaries: Cintac S.A. and subsidiaries (Instapanel S.A., Centroacero S.A. and Tubos y Perfiles Metálicos S.A.) and Intasa S. A. and subsidiaries (Tubos Argentinos S.A. and Steel House do Brasil Comercio Ltda.). Its main purpose is the manufacture, distribution, sale, representation, import and export of all kinds of steel and metal products; the execution of civil works, housing construction, installation and manufacture of specialty products in which goods manufactured by the company are used, organizing transportation to complement these purposes, the sale, import and export of all kinds of movable goods in order to complement its activities.

The Group has in its product portfolio solutions to several market needs, serving multiple economic sectors such as construction, real estate, industrial, commercial, road construction and mining, among others.

In Argentina, CAP Steel Solutions has the subsidiary Tubos Argentinos S.A. whose main activities are the cutting of coils, the pressing of cold, hot and galvanized rolled sheet and the manufacture and sale of seamed steel pipes, and steel pipes and profiles for dry construction. The Company has two plants, one located at Talar de Pacheco in the province of Buenos Aires and another at Justo Daract in the province of San Luis. The Company obtained an industrial promotion concession consisting of decreasing percentages for tax rebates that expire in 2011.

Under the present exchange controls regime in Argentina for access to US dollars, Intasa S.A. and its subsidiary are analyzing the way for transferring funds to Intasa S.A. with respect to dividend and other payments.

It also has the subsidiary Tubos y Perfiles Metálicos S.A. (Tupemesa) in Lima, Peru which operates successfully in the market for tubular steel products, with a broad range of products of high quality standards.

In Brazil, the subsidiary Tubos Argentinos S.A., together with Intasa S.A., have set up the company Steel House Do Brasil Comercio Ltda., headquartered in the city of Porto Alegre, which began its operations in January 2010. The principal business of this company is the commercialization in the south of Brazil of galvanized profiles for dry construction, under the trade name STEEL HOUSE, produced at the San Luis plant in Argentina.

The incorporation of the steel solutions group into the traditional businesses of the CAP Group has allowed the strengthening of steel consumption in Chile and an improvement in the consolidated returns as a result of participating in the whole steel value chain.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting principles

These condensed consolidated financial statements are presented in thousands of United States dollars and have been prepared from the accounting records kept by CAP S.A. and its Subsidiaries (the "Group" or the "Company") and have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and were approved by the Board of Directors at its meeting held on February 1, 2013.

These condensed consolidated financial statements presents fairly the consolidated Group's financial position as of December 31, 2012 and 2011, and the results of their operations, changes in equity and their cash flows for the years then ended.

Responsibility for the information and estimates made

CAP S.A. and its subsidiaries' management are responsible for the information contained in these consolidated financial statements.

The preparation of these condensed consolidated financial statements in accordance with IFRS requires the use of estimates and assumptions by CAP S.A. and its subsidiaries' management. These estimates are based on management's best knowledge of the amounts reported, events or circumstances, at the date of issuance of these condensed consolidated financial statements. However, it is possible that future events force them to be modified (downward or upward) in subsequent periods which would be made prospectively, in accordance with IAS 8, presenting the effects of changes in estimates in the corresponding future consolidated financial statements.

3.1 Significant Accounting Policies Adopted

The following are the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been defined based on the IFRS effective as of December 31, 2012, and have been consistently applied in all periods presented in these condensed consolidated financial statements.

(a) Periods covered - These condensed consolidated financial statements of CAP S.A. and subsidiaries comprise the condensed statements of financial position and of changes in equity as of December 31, 2012 and 2011, and the condensed statements of comprehensive income and of cash flows for the years then ended.

(b) Basis of preparation - These condensed consolidated financial statements have been prepared in accordance with IFRS, and in accordance with the requirements and options presented by the Superintendency of Securities and Insurance (SVS), and represent the full, explicit and unreserved adoption of these international standards.

These condensed consolidated financial statements have been prepared from the accounting books kept by CAP S.A. and its Subsidiaries.

(c) Basis of consolidation - The condensed consolidated financial statements incorporates the financial statements of the parent Company and the companies controlled by it. All significant intercompany transactions and balances have been eliminated on consolidation, and recognition has been given to the non-controlling interest that corresponds to third parties' percentage participations in subsidiaries, which is presented separately within the condensed consolidated equity of CAP S.A.

Subsidiaries - A subsidiary is an entity over which the Group exercises, directly or indirectly, control, which is understood as the power to govern the operating and financial policies of an entity so as to obtain benefits from its activities. This power is, in general, presumed, but not always, by directly or indirectly holding 50% or more of the voting rights in the entity. Also, consolidated by this method are the entities in which, despite not having this percentage of ownership, it is understood that its activities are carried out in the benefit of the Company, it being exposed to all the risks and benefits of the dependent entity.

When assessing whether the Company controls another entity, the existence and effect of the potential voting rights which are being exercised is taken into account. The subsidiaries are consolidated from the date on which control is obtained from the Group and are excluded at the time it ceases.

The following table sets forth the direct and indirect subsidiaries that have been consolidated by the CAP Group:

				SHAREHOLDING PERCENTAGE			
				12.31.2012			12.31.2011
TAX NO.	COMPANY	ADDRESS	RELATIONSHIP	DIRECT	INDIRECT	TOTAL	TOTAL
94637000-2	Compañía Siderúrgica Huachipato S.A.	Chile	Direct subsidiary	99,999	0,000	99,999	99,999
94638000-8	Compañía Minera del Pacífico S.A.	Chile	Direct subsidiary	74,999	0,000	74,999	74,999
79942400-2	Compañía Distribuidora de Petróleos del Pacífico Ltda.	Chile	Indirect sub.	0,000	74,999	74,999	74,999
79807570-5	Sociedad de Ingeniería y Movimientos de Tierra del Pacífico Ltda.	Chile	Indirect sub.	0,000	74,999	74,999	74,999
0-E	Pacific Ores & Trading N.V.	Dutch Antilles	Indirect sub.	0,000	74,999	74,999	74,999
0-E	Pacific Ores & Trading B.V.	Holland	Indirect sub.	0,000	74,999	74,999	74,999
90915000-0	Manganesos Atacama S.A.	Chile	Indirect sub.	0,000	74,184	74,184	74,184
76498850-7	Puerto Las Losas S.A.	Chile	Direct subsidiary	51,000	0,000	51,000	51,000
76800010-7	Minera Hierro Atacama S.A.	Chile	Indirect sub.	0,000	74,999	74,999	74,999
94235000-7	Abastecimientos CAP S.A.	Chile	Direct subsidiary	50,000	43,750	93,750	93,750
76369130-6	Tecnocap S.A.	Chile	Direct subsidiary	60,000	34,999	94,999	94,999
76399380-9	Ecocap S.A.	Chile	Indirect sub.	0,000	95,000	95,000	95,000
76399400-7	Cleanairtech Sudamérica S.A.	Chile	Direct subsidiary	51,000	0,000	51,000	51,000
0-E	P.O.R.T. Investments Ltd. N.V.	Dutch Antilles	Direct subsidiary	100,000	0,000	100,000	100,000
0-E	P.O.R.T. Finance Ltd. N.V.	Dutch Antilles	Indirect sub.	0,000	100,000	100,000	100,000
96925940-0	Novacero S.A.	Chile	Direct subsidiary	52,682	0,000	52,682	52,682
99503280-5	Intasa S.A.	Chile	Direct subsidiary	29,704	26,832	56,536	37,863
0-E	Tubos Argentinos S.A. (Argentina)	Argentina	Indirect sub.	0,000	56,536	56,536	37,863
0-E	Steel House Do Brasil Comercio Ltda.	Brasil	Indirect sub.	0,000	56,536	56,536	37,863
92544000-0	Cintac S.A.	Chile	Indirect sub.	11,031	26,832	37,863	37,863
0-E	Steel Trading Co. Inc. (Bahamas)	Bahamas	Indirect sub.	0,000	37,863	37,863	37,863
96919030-3	Conjuntos Estructurales S.A.	Chile	Indirect sub.	0,000	37,863	37,863	37,863
0-E	Tubos y Perfiles Metálicos S.A. (Perú)	Perú	Indirect sub.	0,000	37,863	37,863	37,863
96705210-8	Cintac S.A. (ex Acero Cintac S.A.)	Chile	Indirect sub.	0,000	37,863	37,863	37,863
96859640-3	Instapanel (ex Varco Pruden Chile S.A.)	Chile	Indirect sub.	0,000	37,863	37,863	37,863
76721910-5	Inmobiliaria Cintac S.A.	Chile	Indirect sub.	0,000	37,863	37,863	37,863
99537280-0	Tecnoacero S.A.	Chile	Indirect sub.	0,000	37,863	37,863	37,863
99553700-1	Tecnoacero Uno S.A.	Chile	Indirect sub.	0,000	37,863	37,863	37,863
76734400-7	Centroacero S.A. ex Nueva Centroacero S.A.	Chile	Indirect sub.	0,000	37,863	37,863	37,863

All the companies have the U.S. dollar as their functional currency.

Associates: An associate is an entity over which the Company is in a position to exercise significant influence but not control or joint control, through the power to participate in financial and operating policy decisions. The Group's ownership over the net assets, results after taxes and reserves after acquisition of associates, is included in the consolidated financial statements. This requires initially recognizing the investment at cost and then, in subsequent periods, adjusting the investment's carrying amount to reflect the Group's share in the associate's results, less impairment losses and other changes in the net assets of the associate, e.g. dividends.

Joint ventures: These are jointly-controlled entities in which the situation described in the preceding paragraph is met through the agreement with other shareholders and in conjunction with them.

A joint venture is understood to exist when there is joint control, which arises only when the strategic decisions of the activities, whether financial or operating, require the unanimous consent of the parties that share control.

The Company's jointly-controlled entities are as follows:

	OWNERSHIP PERCENTAGE	
	12-31-2012	12-31-2011
Armacero Industrial y Comercial S.A	50%	50%

Special purpose entity (SPE): An SPE is an organization constituted for a defined purpose or limited life. Frequently these SPEs serve as intermediary organizations. An SPE shall be consolidated when the relationship between the entity that consolidates and the SPE indicates that the former controls the latter. The Group has certain organizations relating to sports clubs, and health and education services, which are controlled by the Company, but these organizations, have not been consolidated because they have no material effect on the Group's consolidated financial statements.

(d) Business combinations – Business combinations are recorded by using the acquisition method. This involves the recognition of the identifiable assets (including intangible assets not previously recorded) and liabilities (including contingent liabilities and excluding future restructurings) of the business acquired at fair value. If these business combinations imply acquiring control of an investment in which the Company has significant influence or joint control, such prior participation is recorded at fair value presenting the effect on profit or loss.

(e) Investments accounted for using the equity method – Ownership in companies over which the Group exercises jointly control with another company or in which it has significant influence are recorded under the equity method. In general, significant influence is presumed to exist in those cases in which the Group holds more than 20% of the voting power.

The equity method consists of recording the investment for the share in the equity that represents the Company's share in the adjusted capital of the investee. If the investment is negative, the participation is shown as nil unless there is a commitment by the Company to replenish the equity position of the investee, in which case the corresponding provision is made.

Dividends received from these companies are recorded as a deduction of the carrying amount of the investment, and the results obtained by these companies are included in the statement of comprehensive income under the line item "Share of profit (loss) of associates and joint ventures accounted for using the equity method".

(f) Currency – The Company's functional currency has been determined as the currency of the main economic environment in which it operates. Transactions other than those carried out in the functional currency are translated at the exchange rate on the date of the transaction. Monetary assets and liabilities denominated in currencies other than the functional currency have been translated at the closing exchange rate. Gains and losses on the translation have been included in profit or losses for the year under exchange differences.

The Group's presentation currency is the U.S. dollar. In the consolidation, items of the statement of comprehensive income corresponding to entities with a functional currency other than the US dollar are translated to the latter at the average exchange rates. Items in the statement of financial position are translated at closing date exchange rates. Exchange differences arising from the translation of these entities net assets are recorded in equity and presented as a separate translation reserve.

(g) Foreign currency translation - Transactions in a currency other than the functional currency are considered as foreign currency transactions and are recognized in the functional currency at the exchange rate at the date of the transaction. Assets and liabilities denominated in Chilean pesos, Argentine pesos, Peruvian soles and Unidades de Fomento are translated to US dollars at the exchange rates prevailing at the closing date of financial statements, as follows:

	12.31.2012	12.31.2011
Chilean pesos per US$	479.96	519.20
Argentine pesos per US$	4.918	4.30
Unidad de Fomento (pesos)	22,840.75	22,294.03
Peruvian soles per US$	2.55	2.69

(h) Offsetting of balances and transactions – As a general rule, neither assets and liabilities, nor revenues and expenses are offset in the financial statements, unless offsetting is required or permitted by an IFRS and such presentation reflects the substance of the transaction.

Revenues and expenses arising from transactions that, contractually or according to law, include the possibility of settlement on a net basis, and the Group intends either to settle the net amount or to realize the asset and settle the liability simultaneously, are shown net in the statement of comprehensive income.

(i) Property, plant and equipment – Property, plant and equipment are recorded at cost, excluding periodic maintenance costs, less accumulated depreciation and accumulated impairment losses.

The cost of the items of property, plant and equipment comprises their purchase price plus all costs directly attributable to bringing the asset to the location and condition for its operating use in the manner intended by management and the initial estimate of any cost for dismantling and removing the asset or restoring the site on which it is located.

Additionally, borrowing costs directly attributable to the acquisition or construction of assets that require a substantial period of time before being ready for use or sale will be considered as cost of items property, plant and equipment.

The costs of expansion, modernization or improvements that represent an increase in productivity, capacity or efficiency or an increase in useful life are capitalized by increasing the carrying amount of the assets.

The costs of repairs, preservation and maintenance are charged to comprehensive income for the year in which they are incurred. It is important to note that certain elements of the Group's property, plant and equipment require periodic reviews. In this case, the elements to be replaced are presented separately from the rest of the assets and with a disaggregation level that allows them to be depreciated in the period between the current and the following repair.

At the reporting date or whenever there is an indication that there may be impairment of assets, the recoverable amount will be compared with the net carrying amount. Any recognition or reversal of an impairment loss arising as a result of such comparison is presented as a debit or credit to comprehensive income, as appropriate.

Also, this item includes investments made in assets acquired under lease agreements meeting the conditions of a financial lease in accordance with IAS 17. These assets do not legally belong to the Company until the purchase option is exercised.

The gain or loss on the disposal or retirement of an asset is calculated as the difference between the proceeds of its disposal and its carrying amount, and it is recognized in comprehensive income for the period.

(j) Depreciation - The items of property, plant and equipment are depreciated using the straight-line method, through the distribution of the assets' acquisition costs minus the expected residual value between the assets' estimated years of useful life.

The residual value and useful life of the elements of property, plant and equipment are reviewed annually and depreciation begins when the assets are available for use.

Land is separately recognized from the buildings or facilities that may be on it. It is understood that its useful life is indefinite and is not therefore subject to depreciation. Likewise, other assets, which include balances of construction works in progress, are depreciated from the date when they are in use according to their nature.

The useful life of property, plant and equipment used in mining works is determined based on technical studies prepared by internal and external specialists. These studies are also used for new purchases of property, plant and equipment or when there are indications that the useful lives of these assets should be changed.

The technical studies take into account certain factors for the determination of the useful life of certain assets, including:

- Production expectations of units or volumes,
- Quality of additions to the production process, and
- Extraction and processing method.

(k) Mine development - The costs incurred during the execution of a project and until its start-up are capitalized and amortized in relation to future mineral production. These costs include the extraction of sterile overload, the construction of mine infrastructure and works prior to normal operating work.

(l) Stripping Ratio - The surface operations of a mine require to remove mine waste materials to obtain access to the mineral one deposits. These stripping costs are incurred before production begins (pre – operation) during the production phase; their classification depends on the phase in which they were incurred.

Stripping costs incurred before production begins are capitalized as part of the mine development costs and are amortized based on the useful life of the mine.

Stripping costs incurred during the production phase in order to remove any additional overburden are capitalized and amortized to operating costs based on the ore to waste ratio and average life of the mine (stripping ratio).

(m) Goodwill - Goodwill arises when the acquisition cost is higher than the fair value of the identifiable assets, liabilities and contingent liabilities of the entity acquired. Goodwill is initially measured at cost and subsequently is measured at cost less impairment losses, if any.

Goodwill is annually tested to determine whether there are indications of impairment or more frequently when there are events or changes in circumstances indicating that the carrying amount might be impaired. Impairment of goodwill is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates.

When the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (or group of cash-generating units) to which the goodwill has been allocated, an impairment loss is recognized. Impairment losses related to goodwill cannot be reversed in future periods.

(n) Intangible assets - Intangible assets with a finite useful life acquired separately are measured initially at cost. Subsequent to initial recognition, they measured at cost less any accumulated amortization and any accumulated impairment losses.

(ñ) Impairment of non-financial assets – Intangible assets with an indefinite useful life and goodwill are not amortized and are annually tested for impairment.

Assets subject to amortization are tested for impairment if there is objective evidence that as a result of one or more events occurring after initial recognition, the carrying amount may not be recoverable.

For the purposes of assessing impairment losses, assets are grouped together at the lowest level at which there are identifiable separate cash flows (cash generating units).

An impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher between the fair value of an asset less costs of sale and its value in use. In evaluating value in use, the estimated future cash flows are discounted to their present value using a discount pre-tax rate that reflects current market assessments of time value of money and the risks specific to the asset for which the future cash flows have not been adjusted.

If the recoverable amount of an asset or cash generating unit is less than its carrying amount, the latter is reduced to the recoverable amount. Impairment is recognized immediately as depreciation. If impairment is subsequently reversed, the carrying amount is increased to the revised estimate of the recoverable amount, but it should not exceed the carrying amount that would have been determined had no impairment losses for the asset had been previously recognized. A reversal is immediately recorded as a reduction of the depreciation charge.

Non-financial assets other than goodwill that have suffered an impairment loss are reviewed at the date of each statement of financial position in case reversals of the loss have occurred.

Assets on which the methodology described above is applied, are:

- Investments in subsidiaries
- Investments in associates
- Investments in joint ventures

In the case of mining properties, estimated future cash flows are based on estimates of the amounts of proven and probable reserves, and on assumptions about future production levels, future commodity prices, future production costs and capital investment projects. IAS 36 “Impairment of assets” includes a series of restrictions on the future cash flows that may be recognized with respect to future restructurings and improvements related to expenses. In calculating the value in use, it is also necessary for these to be based on exchange rates in force at the time of the appraisal.

(o) Useful economic lives of assets and estimated mineral reserves

i. Useful economic life of assets - The useful life of property, plant and equipment that are used to calculate the depreciation is determined based on technical studies prepared by internal experts. Additionally, these studies are used for new purchases of properties, plant and equipment or when there are indicators that useful lives of these assets should be changed.

The studies consider some factors to calculate the useful life of certain assets including:

Expected units or production volume;
Quality of inputs into the production process; and
Method of extraction and processing.

ii. Iron ore reserves - Estimates of ore reserves are based on estimates of ore resources and reflect management's beliefs regarding the amount of resources that could be recovered and sold at prices that exceed the total cost associated with the extraction and processing. The estimates of reserves are internally prepared by using standard methods of the mining industry and supported by historical experience and management's assumptions regarding production cost and market prices.

Management applies its judgment to calculate probable resources to exploit. Therefore, possible changes in these estimates could have a significant impact on profits as a result of changes in useful lives of certain assets and the recognition of certain decommissioning and restoration costs that require being re-evaluated.

(p) Financial assets - Financial assets are classified into the following categories:

- Financial assets at fair value through profit and loss.
- Held-to-maturity investments.
- Available-for-sale financial assets.
- Loans and accounts receivable.

Classification depends on the nature and purpose of the financial assets and is determined on initial recognition.

- **Financial assets at fair value through profit and loss** - Their feature is that they are mainly held to be sold in the near future in order to obtain return and liquidity. These instruments are measured at fair value and variations in their value are recognized in profit and loss when they are incurred.

- **Loans and receivable** - Are recorded at their amortized cost, which corresponds to the cash disbursed less repayments of principal made, plus interest accrued but not collected in the case of loans and at present value for accounts receivable. They are included in current assets, except for those with maturities over 12 months from the statement of financial position date which are classified as non-current assets. Loans and receivable are included in trade and other current receivables in the statement of financial position.

- **Held-to-maturity investments** - Are non-derivative financial assets with determinable payments and fixed maturities that the Group's management has the intention and ability to hold to maturity. Where the Group sells a significant amount of the held-to-maturity financial assets, the complete category would be reclassified as available-for-sale.

  These financial assets are included in non-current assets except for those whose maturity is less than 12 months from the date of the statement of financial position.

- **Available - for - sale financial assets** - Available-for-sale financial assets are non-derivative financial assets specifically designated in this category or that are not classified in any of the previous categories. These financial assets are included in non-current assets unless management intends to dispose of the investment within 12 months from the date of the statement of financial position.

- **Effective interest rate method** - Correspond to the method of calculating the amortized cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all the fees and points received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts), over the expected life of the financial asset.

  Purchases and sales of financial assets are recognized at their trade date, i.e. the date on which the Group is committed to acquire or sell the asset.

- **Impairment of financial assets** - Financial assets, other than those measured at fair value through profit and loss, are assessed at the date of each statement of financial position to establish whether there is any evidence of impairment indicators. Financial assets are impaired when there is objective evidence, as a result of one or more events that occurred after the initial recognition of the asset that have impacted the estimated future cash flows of the financial asset.

  In the case of financial assets measured at amortized cost, the impairment loss is the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the financial assets original effective interest rate. As of December 31, 2012, the impairment tests carried out indicate that no impairment loss exists.

- **Derecognition of financial assets** - The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset have expired or when substantially all the risks and rewards inherent to the ownership of the financial asset are transferred to another entity. If the Company retains substantially all the risks and rewards of ownership of the financial asset, the asset shall continue to be recognized, as well as a liability, for the cash flows received.

(q) Financial liabilities - Financial liabilities are classified either as financial liability "at fair value through profit and loss" or as "other financial liabilities".

- **Financial liabilities at fair value through profit and loss** - Financial liabilities are classified at fair value through profit and loss when they are held for trading or are designated at fair value through profit and loss.

- **Other financial liabilities** - Other financial liabilities, including loans, are measured initially at the cash amount received net of transaction costs. They are subsequently measured at amortized cost using the effective interest rate method, recognizing the interest expense on the basis of effective interest rate.

- **Effective interest rate method** - Correspond to the method of calculating the amortized cost of a financial liability and of allocating the interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or, when appropriate, a shorter period when the related liability has a prepayment option that it is expected of being exercised.

  As of the close of these consolidated financial statements, the effective interest rate does not differ significantly from the nominal interest rate of the financial liabilities.

  Financial loans are presented at their net value, i.e. deducting the associated issuance costs.

  The Group derecognizes the financial liabilities only when the obligations are paid, cancelled or have expired.

  Modifications of the conditions of a financial loan are booked as the extinction of a financial liability only when such modifications are substantial

- **Classification as liability or equity** - Debt and equity instruments are classified either as financial liabilities or as equity according to the substance of the contractual agreement.

- **Equity instruments** - An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The equity instruments issued by the Group are recognized at the amount of the consideration received, net of direct issuance costs. Currently, the Group has only issued shares of a single series.

  Capital increases made through assets and liabilities received other than cash and cash equivalents are recognized at their fair value.

(r) Derivative and hedging financial instruments - The derivative contracts entered into by the Group to hedge the risk exposure to exchange rates and interest rates fluctuations are mainly forward exchange contracts and currency and interest rate swaps. All of them relate to hedging contracts therefore the effects of changes in the fair value of this type of instrument are recognized as hedging assets or liabilities to the extent that the hedge of the item has been determined effective according to its purpose. A hedge is considered to be highly effective when changes in the fair value or in the underlying cash flows attributable to the risk hedged are compensated by changes in the fair value or cash flows of the hedging instrument, with effectiveness in the range of 80% - 125%. The corresponding gain or loss is recognized in comprehensive income for the year only in those cases in which the contracts are settled or no longer meet the requirements of a hedging contract; otherwise they are recognized in equity.

Derivatives are recognized initially at fair value at the date of signing the derivative contract and are subsequently measured at fair value on the date of each reporting period. The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for similar maturities.

The total fair value of hedging derivatives is classified as non-current asset or liability if the remaining maturity is more than 12 months and as current asset or liability if the remaining maturity is less than 12 months.

Cash flow hedges - The effective portion of the changes in fair value of derivative instruments that are designated and qualify as cash flow hedging instruments are deferred in equity in a reserve called "Cash flow hedges." The gain or loss related to the ineffective portion is recognized immediately in the statement of comprehensive income, in the line "Other gains (losses)." The amounts deferred in equity are recognized as gains or losses in the periods in which the hedged item is recognized, within the same line item of the statement of comprehensive income where the hedged item was recognized. However, when the forecasted hedged transaction results in the recognition of a non-financial asset or liability, the gains and losses previously deferred are transferred from equity and are included in the initial cost of that asset or liability.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminates or exercised, or no longer qualifies for hedge accounting. Any deferred gain or loss deferred in equity at that time remains in equity and is recognized in gains or losses when the forecasted transaction occurs. When it is no longer likely that a forecasted transaction will occur, the accumulated gain or loss that was deferred in equity is immediately recognized in profit or loss.

Embedded derivatives - The Company and its subsidiaries have established a procedure to evaluate the existence of embedded derivatives in financial and non-financial contracts. Where an embedded derivative exists, and if the host contract is not recognized at fair value, the procedure determines whether its characteristics and risks are closely related to the host contract, in which case a separate recognition is required.

The procedure consists of an initial featuring each contract in order to identify those in which there might exist an embedded derivative. In such case, the contract is analyzed in further detail. If such evaluation determines that the contract contains an embedded derivative that needs to be recognized separately, it is measured and the movements in its fair value are recognized in comprehensive income in the consolidated financial statements.

Up to date, the analyses indicate that there are no embedded derivatives in the Company's and subsidiaries' contracts that need to be recognized separately.

(s) Inventories - Inventories are shown at cost using the following methods:

- **Finished and in-process products:** at the average monthly production cost which includes the depreciation of fixed assets and the amortization of mining properties.
- **Raw materials, supplies and consumption spare parts:** at acquisition cost.
- **Stockpiled ore:** at the lower of average monthly extraction cost or its recoverable amount.
- **Raw materials and supplies in transit:** at acquisition cost.

The cost assigned to inventories does not exceed their net realization value.

The subsidiaries measured inventories at the lower between cost and net realization value. The cost price includes direct materials' costs and any handling costs, indirect costs incurred in transforming the raw materials into finished goods and general expenses incurred in transforming the raw materials into finished goods, and general expenses incurred in moving inventories to their current location and conditions.

Net realization value represents the estimated sale price minus all estimated costs of completion, and costs that will be incurred in marketing, sales and distribution processes.

(t) Statement of cash flows - The Group has defined the following for the purposes of preparing the statement of cash flows:

Cash and cash equivalents include cash, time deposits with financial entities, mutual fund shares and other highly liquid short-term investments that are readily convertible and have a low risk of changes in their value with an original maturity of up to three months. In the statement of financial position, bank overdrafts are classified as third party resources in current liabilities.

- **Operating activities:** Are the Group's principal revenue-producing activities and other activities that are not classified as investing or financing activities.
- **Investing activities:** Are the acquisition, disposal or disposition by other means of long-term assets and other investments not included in cash equivalents.
- **Financing activities:** Are activities that result in changes in the size and composition of net equity and of liabilities of a financial nature.

(u) Income tax - The Company and its Chilean subsidiaries determine taxable income and calculate their income tax in accordance with current legislation. Its foreign subsidiaries do so under the regulations of their respective countries.

Deferred taxes originating from timing differences and other events that create differences between the financial and tax accounting for assets and liabilities are recognized in accordance with IAS 12 “Income taxes”.

Similarly, the subsidiary, Compañía Minera del Pacífico S.A., recognizes the temporary differences arising from tax and financial items that result from the determination of the Operating Taxable Result (OTR) for the purpose of calculating the specific mining tax.

Corporate taxes are recognized in comprehensive income or in equity within the statement of financial position depending on where the resulting gains or losses have been recognized. The differences between the carrying amount of assets and liabilities and their tax base result in balances of deferred tax assets and liabilities that are calculated using the tax rates expected to be effective when the assets and liabilities are realized.

Variations during the year in deferred tax assets and liabilities are recognized in the consolidated statement of comprehensive income or directly in the equity within the statement of financial position, as appropriate.

Deferred tax assets are recognized only when it is expected that sufficient future taxable income will be available to recover deductions for temporary differences.

Non-monetary tax assets and liabilities determined in Chilean pesos or in the corresponding local currency are translated to the company’s functional currency at the closing exchange rate of each period. Variations in the exchange rate give rise to temporary differences.

(v) Provisions - The present obligations at the date of the statement of financial position arising as a consequence of past events that might result in equity damage for the Company, which amount and timing of payment is uncertain, are recognized as provisions for the present value of the expected most probable amount that the Company will have to disburse to settle the obligation.

Provisions are reviewed periodically and are estimated taking into account the best available information at the date of each reporting period.

(w) Employee benefits - Employment terms establish the payment of a severance indemnity for years of service when a work contract expires. Normally this corresponds to the proportion of one month for each year of service, based on the final salary. This benefit has been defined as a long-term benefit.

On the other hand, the Company and some of its subsidiaries have agreed a year of service award with certain of their employees, which is paid on the basis of an incremental percentage in their salary according to a specific table. This benefit has been defined as a long-term benefit.

The provisions for severance indemnities and year of service awards are calculated based on valuations prepared by an independent actuary, using the projected unit credit method, which are periodically updated. The obligation
recognized in the statement of financial position represents the present value of the obligation for severance indemnities and year of service awards. Actuarial gains or losses are recognized immediately in comprehensive income within operational costs or administrative expenses, as appropriate.

The employee benefit costs are charged to comprehensive income in the period that they accrue.

Management makes assumptions for determining the best estimate of these benefits. These expectations and assumptions are established in conjunction with an actuary independent from the Company, and include an annual discount rate, expected salary increases, turnover rate, etc.

The amount of the net actuarial liabilities accrued at the end of the period is presented within the line item “non-current provision for employee benefits” in the Consolidated Statement of Financial Position.

(x) Provisions and contingent liabilities - They correspond to present obligations (legal or constructive) as a result of past events, the settlement of which is expected to result in an outflow of resources whose amount and timing can be reliably estimated.

Contingent liabilities are obligations arising from past events whose existence is subject to the occurrence or non-occurrence of events not wholly within the control of the company, or present obligations arising from past events whose amount cannot be reliably estimated or it is not probable that an outflow of resources will be required for its settlement.

The Company does not record contingent assets or liabilities except those deriving from onerous contracts which are recognized as a provision and reviewed on the date of each statement of financial position to revise them to present the best estimate.

(y) Provisions for decommissioning and restoration costs - An obligation to incur in decommissioning and restoration costs arise when the environment is altered as a result of the development or ongoing production of a mining property. The costs are estimated based on a formal closure plan and are subject to a regular reviews.

The costs arising from setting up a plant or another project for the preparation of its location, discounted at their net present value, are provisioned and capitalized at the beginning of each project, as soon as the obligation to incur these costs arises. These decommissioning costs are charged to comprehensive income over the life of the mine by means of the depreciation of the asset and amortization or deduction from the provision. Depreciation is included in operating costs while amortization is included as a finance cost.

Costs of restoration due to damages in the location, which are generated progressively during production, are provisioned at their net present value when the damage is caused and charged to comprehensive income for the period as extraction continues.

Provisions for decommissioning and restoration and environmental provisions are determined at the present value at the time the obligation is known. Environmental costs are estimated also using the work of an external specialist and/or internal experts. Management uses its judgment and experience in provisioning and amortizing these estimated costs over the useful life of the mine.

(z) Revenues - Revenues are recognized when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. The following specific criteria should also be met before recognizing revenue.

- **Sale of goods** - Revenue from the sale of goods is recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods; this normally occurs when the goods are dispatched.

- **Revenue from services** - Revenue from services rendered is recognized by reference to the stage of completion of the services at the end of the reporting period, to the extent that the amount of revenue can be measured reliably.

- **Interest gained** - Income is recognized as interest accrues on the basis of the principal outstanding and the applicable interest rate.

- **Revenue generated by industrial promotion** - The indirect subsidiary Tubos Argentinos S.A. has recognized in operating revenue the effects of the industrial promotion granted through fiscal credit certificates by the Argentine Federal Administration of Public Revenues.

(aa) Earnings per share - Basic earnings per share are calculated by dividing profit or loss attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the period.

The Company has no carried out any kind of transaction of potential diluting effect that suggests diluted earnings per share would differ from the basic earnings per share.

(ab) Dividends - The distribution of dividends to shareholders is recognized as a liability at the end of each period in the financial statements based on the dividend policy agreed by the ordinary shareholders meeting, which corresponds to 50% of distributable profits, determined as discussed in Note 24 to the complete consolidated financial statements.

(ac) Leases - There are two kinds of leases:

- **Financial leases** - This is the case when the lessor transfers substantially all the risks and rewards incidental to ownership of the asset leased. The ownership of the asset may or may not be transferred.

When the Group's companies act as lessees of an asset under a financial lease, the cost of the assets leased is presented in the consolidated statement of financial position according to the nature of the asset under the contract, and simultaneously a liability is recognized in the consolidated statement of financial position for the same amount. This amount will be the lesser of the leased asset's fair value and the present value of the minimum lease payments to the lessor plus, if applicable, the price for exercising the purchase option.

These assets are amortized following criteria similar to that applied to the items property, plant and equipment for its own use.

The interest expenses derived from the financial updating of the liability recognized are charged to "Finance costs" in the consolidated statement of comprehensive income.

- **Operating leases** - These are leases in which the ownership of the leased asset and substantially all the risks and benefits that fall upon the asset remain with the lessor.

(ad) Classification of balances as current or non-current - In the consolidated statement of financial position, balances are classified depending on their maturities, i.e. current being those maturing at no more than twelve months, and non-current being those maturing at over that term. Where there are obligations maturing at less than twelve months but whose long-term refinancing is assured at the Company's discretion, by committed available loan agreements with long-term maturities, they may be classified as non-current liabilities.

(ae) Environment - The Group adheres to the principles of sustainable development which balance economic development with care for the environment and the safety and health of its personnel.

The Company recognizes that these principles are key to the well-being of its employees, the care of the environment and the success of its operations.

3.2 New accounting standards

a) The following new standards and interpretations have been adopted in these financial statements:

IFRS AMENDMENTS	EFFECTIVE DATE
IFRS 12, Disclosures of interest in other entities	Annual periods beginning on or after January 1, 2012
IFRS 1 (Revised), First-time adoption of IFRS – (i) Elimination of dates set for first-time adopters (ii) Severe hyperinflation	Annual periods beginning on or after July 1, 2011
IFRS 7, Financial Instruments: Disclosures – Transfers of Financial Assets	Annual periods beginning on or after July 1, 2011

The application of these standards has not had a significant impact on the amounts reported in these financial statements; however, they could affect the accounting of future transactions or agreements.

b) The following new standards and interpretations have been issued, but they are not yet effective:

AMENDMENTS OF INTERPRETATIONS	MANDATORY APPLICATION DATE
IFRS 9, Financial instruments	Annual periods beginning on or after January 1, 2015
IFRS 10, Consolidated Financial Statements	Annual periods beginning on or after January 1, 2013
IFRS 11, Joint arrangements	Annual periods beginning on or after January 1, 2013
IFRS 12, Disclosures of interest in other entities	Annual periods beginning on or after January 1, 2013
IAS 27 (2011), Separate Financial Statements	Annual periods beginning on or after January 1, 2013
IAS 28 (2011), Investments in associates and joint ventures	Annual periods beginning on or after January 1, 2013
IFRS 13, Fair value Measurements	Annual periods beginning on or after January 1, 2013

IFRS AMENDMENTS	MANDATORY APPLICATION DATE
IAS 1, Presentation of financial statements – Presentation of components of Other comprehensive results	Annual periods beginning on or after July 1, 2012
IAS 19, Employee benefits (2011)	Annual periods beginning on or after January 1, 2013
IAS 32, Financial Instruments: Presentation – Clarification of requirements for netting of financial assets & liabilities	Annual periods beginning on or after January 1, 2014
IFRS 7, Financial Instruments: Disclosures – Modification to disclosures about netting of financial assets & liabilities	Annual periods beginning on or after January 1, 2013
IFRS 10, IFRS 11 and IFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities - Guidelines for transition	Annual periods beginning on or after January 1, 2013
Investment Entities – Modification to IFRS 10, Consolidated Financial Statement; IFRS 12 Disclosure of Interests in Other Entitie and IAS 27 Separate Financial Statements	Annual periods beginning on or after January 1, 2014

NEW INTERPRETATIONS	MANDATORY APPLICATION DATE
IFRIC 20, Stripping costs in the production phase of a Surface Mine	Annual periods beginning on or after January 1, 2013

Management believes that the future adoption of the above regulations, amendments and interpretations will have no significant impact on the Group's consolidated financial statements.

The complete financial statements of CAP S.A. and subsidiaries and the auditors' report are available to the public at the reporting entity's offices and web page and Superintendency of Securities and Insurance and the Stock Exchange.

The attached CD on the back is an integral part of this report and includes:

- *Independent Auditors' Report*
- *Consolidated Statements of Financial Position of CAP S.A. and Subsidiaries (complete).*


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