MANAGEMENT'S ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS AS OF MARCH 31, 2014

1. Report under International Financial Reporting Standards (IFRS)

The CAP Group adopted IFRS (International Financial Reporting Standards) on January 1, 2010. The year 2014 in therefore the fifth in which the company's accounts and financial statements are prepared and reported to the SVS, stock exchanges and public in general under these standards.

2. Comparative analysis and principal trends noted

Ratios and other indicators are shown in the attached appendix.

Revenue and EBITDA

The consolidated revenue and EBITDA of the CAP Group to March 2014 were ThUS$ 487,590 and ThUS$ 128,475 respectively, representing variations of 0.2% and -6.4% compared to ThUS$ 486,635 and ThUS$ 137,246 obtained to March 2013.

In CAP Mining, the respective revenue and EBITDA for 1Q14 were ThUS$ 276,745 and ThUS$ 125,547, being variations of 4.6% and -10.1% compared to the ThUS$ 264,618 and ThUS$ 139,680 in 1Q13.

In CAP Steel, the revenue and EBITDA reached ThUS$ 146,383 and ThUS$ 1,875, showing variations of -22.6% and 118.3% respectively compared to ThUS$ 189,048 and ThUS$ (10,230) obtained in 1Q13.

In CAP Steel Processing, the revenue and EBITDA amounted to ThUS$ 96,820 and ThUS$ 8,121, showing variations of -13.0% and 4.8% respectively compared to ThUS$ 111,312 and ThUS$ 7,749 obtained in 1Q13.

Net income

The net income in CAP Mining for 1Q13 was ThUS$ 54,252, 34.1% less than the ThUS$ 82,313 produced in 1Q13. This fall is mainly produced by the reduction in the iron ore price during 1Q14, partially compensated by larger deliveries and a 4.7% reduction in the average cost of sales.

In steel production, the net loss for 1Q14 was ThUS$ (8,567), which shows a 60.4% improvement over the loss of ThUS$ (21,615) in 1Q13. This improvement was obtained after absorption by the company of a reduction in the average steel price together with lower volumes delivered during 1Q14, by increases in productivity and a 4.4% reduction in the average cost of sales.

In steel processing, the net income in 1Q14 was ThUS$ 462, showing a reduction of 82.0% in comparison with ThUS$ 2,570 in 1Q13. This substantial fall in 1Q14 is explained by a reduction in margins that affected certain business segments and exchange differences, partially compensated by reductions in the average cost of sales, by 8.7%, and in administrative and selling expenses.

As a result, the consolidated earnings of the CAP Group to March 31, 2014 of ThUS$ 30,452 represents a 32.5% fall in relation to the ThUS$ 45,145 obtained in the same period of 2013.

Analysis of the businesses:

Our subsidiary CMP (CAP Mining) produced revenue in 1Q14 of ThUS$ 276,745, 4.6% more than in 1Q13, mainly as a result in shipments of 38.5% to 2,569 ThMT and a 22.9% fall, to US$ 107.72, in the average price for ton for those shipments.

In the steel business, the revenue of our subsidiary CSH (CAP Steel) of ThUS$ 146,383 to March 31, 2014 reflects a fall of 22.6% compared to 1Q13, due to a reduction of 23.5% in the tonnage dispatched, to 186,493 MT, mainly caused by the reorganization of the plant towards the production of long products, the abandonment of the production of flat products, and a 4.9% reduction, to US$ 721.13 per MT, in the average price of these deliveries, in line with variations that occurred in the international prices for steel products.

In the steel-processing activities, the first quarter of 2014 shows a decline in revenue to ThUS$ 96,820, 13.0% less than in the same period of the year before, due to the combined effect of a 4.9% decline in the volume sold, to 93 thousand tons, and an 8.7% fall in the average price per ton, to US$ 1,034,02.

The Group’s gross financial debt amounted to ThUS$ 941,018 as of March 31, 2014, 27.0% higher than the ThUS$ 741,141 as of March 2013, mainly reflecting (1) progress in the construction of the desalination plant in the region of Atacama, whose financing comes 66.7% from bank loans according to the project financing structure followed, and (2) the purchases of mobile mining equipment for the El Romeral Mine works to extend the useful life by 14 years, and the operation of Los Colorados Mine, financed by leasing transactions.

As of March 31, 2014, the CAP Group has a cash position of ThUS$ 248,488, 60.7% less than the sum of ThUS$ 631,685 at the end of March 2013, reflecting the progress of the company's investments which are mainly financed from own resources.

The amount of cash available enables the CAP Group to show a low net financial debt level of ThUS$ 692,530, resulting in a net financial debt to EBITDA ration of 0.99:1.

3. Summary of the period January-March 2014

At the start of 2014, the American economy continued to show signs of slow growth and that the authorities' concerns were basically concentrated on the maintenance of stable conditions to permit the creation of jobs and thus continuity to the long-term recovery process. In Europe, the adjustment process continues and shows some progress. However, the feeling is that the euro zone has a long way to go in order for its members to attain the competitive conditions necessary for being successful in a global economy. In Asia, Japan is showing some dynamism following the liquidity injected into its economy. And China, through a push to internal consumption and investments in infrastructure, plus measures for reducing levels of contamination and improved energy efficiency, is trying to maintain a GDP growth rate of around 7.5% for this year.

Regarding Chile, some signs of deceleration are beginning to be felt whose trend is still unclear and will depend to a large degree on the definition and effects of the policies that affect the country's economy.

Reviewing the businesses of the CAP Group, there is still a strong demand for its high-grade magnetic iron concentrates (pellet feed of 67% - 68%) which, due to their quality, are required especially by steel producers in Asia and the Middle East, in a pricing environment with downward adjustments during 1Q14. Despite greater supplies of iron ore on the market during this period, the competitive advantages of these products have marked a difference, both in the facility of their placement and premiums for quality.

Regarding its business development, CAP Mining is in the final stage of its investment program, having begun in August 2013 the operational start-up of the Huasco Valley increased production project (with an additional 2 million tons annually) and soon, during May 2014, the operational start-up of the Cerro Negro Norte mine (4 million tons capacity annually), to raise the total annual tonnage sold to around 15 million tons of iron in 2014 and 18 million tons in 2015.

In steel production, the global steel industry in 1Q14 continued to face difficult moments largely caused by excess steel production capacity in China. This has generated a deterioration in margins and a loss of profitability in all markets, including the Chinese market itself.

In 2013, the steel-making subsidiary carried out a deep reorganization, directing production to the manufacture of long products for the crushing of minerals and construction, discontinuing the manufacture of flat products and adjusting processes to a reduced annual production volume using just one blast furnace. This forced CAP Steel to adjust its production processes and workforce to the reduced level of planned activity, while beginning the implementation of important measures for reducing costs in order to improve profitability for the year 2014.

The steel-processing business has adjusted to the slower rate of growth of the Chilean economy in 1Q14, while its margins are aligned to the fall in the price of its raw material. The combined impact of these factors is mitigated partly by the competitiveness of the Cintac group in construction activities and infrastructure development.

4. Market analysis

Iron:

The average price to March 31, 2014 decreased by 22.9% to US$ 107.72 per MT, compared to the average for 1Q13 of US$ 139.77 per MT.

In terms of volumes dispatched in 1Q14, these reached 2,569 ThMT, 38.5% more than the 1,855 ThMT in 1Q13, with export shipments of 2,308 ThMT, 59.3% more than the 1,449 ThMT of the year before, and deliveries to the domestic market of 261 ThMT, a reduction of 35.7% with respect to the 406 ThMT delivered in 1Q13, influenced by the above-mentioned reorganization of CAP Steel.

As a result, the sales of CAP Mining to March 31, 2014 were ThUS$ 276,745, 4.6% more than in 1Q13.

Steel:

The average price for 1Q14 was US$ 721.13 per MT, 4.9% lower than the US$ 758.66 per MT in 1Q13.

Deliveries reached 186,493 MT in 1Q14, 23.5% less than the 243,879 MT in 1Q13. In terms of product mix, the company has completely reoriented its production to long products.

As a result, the revenues of CAP Steel reached ThUS$ 146,383 in 1Q14, a reduction of 22.6% compared to the same period of the year before.

Steel processing:

The average price per ton in 1Q14 was US$ 1,034.02, 8.7% lower than the average of US$ 1,132.14 in 1Q13.
Delivers amounted to 93 thousand tons, 13.2% lower than the 98 thousand tons in the first quarter of 2013.
The revenues of Novacero S.A., including the Argentine subsidiary Intasa S.A., companies that consolidate the steel-processing business, amounted to ThUS$ 96,653, 13.2% less than the ThUS$ 111,312 in 1Q13.

Cost of Sales

Comparing consolidated costs (measured as a percentage of revenue), there was an increase from 71.3% in 1Q13 to 75.2% in 1Q14, mainly due to the pricing adjustments in the mining business during the first quarter of this year. This occurred despite the important reductions in the average unit costs of the Company's three businesses, as explained in section 2 of this analysis.

Administrative and selling expenses

Administrative and selling expenses as a percentage of sales were 7.8% and 7.2% in 1Q14 and 1Q13 respectively. These costs in absolute terms amounted to ThUS$ 38,182 and ThUS$ 35,071 respectively, showing here that the sudden fall in ore prices could not be offset to the same degree by adjustments to administrative and selling expenses, which should be reduced progressively over the next quarters of 2014.

Financial expenses and exchange differences

CAP's consolidated financial expenses rose from ThUS$ (9,183) in 1Q13 to ThUS$ (24,805) in 1Q14, mainly due to the increased financing in CAP Mining.

Financial income declined from ThUS$ 12,382 in 1Q13 to ThUS$ 1,505 in 1Q14 as a result of greater gains obtained from derivative transactions in 1Q13 and the reduction in cash balances available for financial investment in 1Q14.

With respect to the net financial expense, this moved from income of ThUS$ 3,199 in 1Q13 to ThUS$ (23,330) in 1Q14.

Exchange rate fluctuations produced a result of ThUS$ (1,600) in 1Q14, compared to ThUS$ 1,148 in 1Q13. In both cases, this exchange differences are produced by variations in the value of the dollar applied to temporary mismatches in asset and liability accounts in pesos.

Business trends

The perception of a fairly stable international economic scenario due to the slow improvement in the performance of the United States, the weak stability of the euro zone and the continuous questioning of the strength of Chinese growth, has not helped market stability. Greater global connectivity and the speed with which news spreads mean that we are living in a changing environment and of increased complexity. However, at the start of 2014, we have the sensation that the world is experiencing a greater normality compared to the difficult years that the world had to face since the start of the financial crisis in the United States in September 2008.

In the above scenario, our mining subsidiary has programmed an increase in its deliveries for 2014 to reach an annual tonnage of around 15 million tons. As explained above, the larger supply of iron ore (together with the potential credit pressure on loans collateralized by the mineral) has resulted in lower prices. Even so, the margins for low-cost producers of high-grade concentrates continue at a high level compared to the historic average, the producers of low-grade direct sent ore (DSO) suffering the most pressure.

Weaknesses still persist in the international steel market, in a sector that is using around 78% of its installed capacity. While Chinese production is for internal economic development, there have been growing exports over the years whose magnitude has seriously affected the international steel price, particularly in Latin America.

Regarding the Chilean economy, reduced activity is expected for the coming months. However, it is expected that the focus of the production of our steel subsidiary on long products for supplying the mining and construction sectors, and the reorganization of its operative, labor and commercial structure will enable it to continue reducing its losses through better operating margins.

5. Analysis of the statement of cash flows and liquidity

Operating activities

In operating activities, the positive balance of ThUS$ 120,180 is the result of goods and services sales proceeds of ThUS$ 573,853 partially compensated by payments to suppliers of ThUS$ (375,013), personnel of ThUS$ (61,980), tax payments of ThUS$ (11,396) and other payments of ThUS$ (5,284).

Investment activities

Investment activities generated a negative flow of ThUS$ (88,391), mainly produced by the incorporation of property, plant and equipment of ThUS$ (162,483) (76.0% corresponding to investments of CAP Mining, 1.9% to CAP Steel, 1.0% to the steel-processing business and 21.1% to investments in the desalination plant, electricity transmission line to connect the Cerro Negro Norte Mine and Punta Totoralillo Port and the corresponding aqueducts). There were also other disbursements of ThUS$ (3,069), partially compensated by the proceeds of time deposits at their maturity of ThUS$ 77,161.

Financing activities

Cash flows from financing activities show a negative balance of ThUS$ (8,474) due to loan repayments ThUS$ (43,189), dividend payments of ThUS$ (19,620) and interest payments of ThUS$ (8,432), partially compensated by the drawing of loans for ThUS$ 51,735 and share issues of ThUS$ 11,032.

This all resulted in a net total cash flow for the period of ThUS$ 23,315.

The Company's current ratio is 1.42:1 as of March 31, 2014, which compares with 2.01:1 at the end of March 2013.

6. Book and economic values of the principal assets

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

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

7. Market risks

Accounting in dollars and exchange rate

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

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

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

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

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

Commodities

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

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

Sensitivity analysis

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

The Group believes that, at the production and delivery levels during the period, an increase/(decrease) of 10% in the average steel price would have increased/(decreased) the Group’s revenue by ThUS$ 13,449. With respect to iron, an increase/(decrease) of 10% in the average price for this period would have increased/(decreased) the Group’s revenue by ThUS$ 23,227.

Debt in other currencies and interest rates

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

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

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

CAP S.A. and subsidiaries

Financial indicators

Apendix to management´s analysis as of 31.03.2014

		As of 31.03.2014	As of 31.12.2013
Solvency			
Current ratio	times	1.42	1.55
Current assets/Current liabilities			
Acid test	times	0.3	0.35
(Cash & cash equivalents + Other current financial assets)/Current liabilities			
Cash Generation			
EBITDA last 12 months	ThUS$	699,483	708,254
Gross earnings – Administrative Expenses + Depreciation – Distribution expenses+ Amortization			
Debt			
Total Financial Debt	ThUS$	941,018	931,531
Other current financial liabilities + Other non-current financial liabilities			
Net Financial Debt	ThUS$	671,643	601,619
Total Financial Debt - (Cash & cash equivalents + Other current financial assets)			
Net Financial Debt to EBITDA	times	0.96	0.85
Net Financial Debt/EBITDA last 12 months			
Net Financial Debt to Equity	times	0.21	0.19
Net Financial Debt /Equity			
Net Financial Expense Coverage	times	12.05	22.54
EBITDA last 12 months/(Financial expenses last 12 months – Financial income last 12 months)			
Short-Term to Total Debt	%	36	36
Current liabilities/Total liabilities			
Long-Term to Total Debt	%	64	64
Non-current liabilities/Total liabilities			
Activity			
Inventory Turnover	times	0.91	3.82
Cost of sales/Inventories			
Permanence of Inventories	days	96	96
(Inventories/Cost of sales)*days of the period			
Profitability			
Return on Equity	%	1.34	8.73
Earnings (Loss) / Equity			
Return on Assets	%	0.78	4.97
Earnings (Loss)/ Total assets			
Earnings per Share	US$	0.20	1.23
Earnings (Loss) attributable to owners of the controller/Number of issued shares			
Dividend Yield*	%	5.34	6.15
Dividends last 12 months / closing share price			

* Considers only dividends distributed by CAP S.A.

Analysis of the principal changes between the periods reported

Indicator	Explanation
Solvency	The reduction in the current and acid test ratios reflects the progress in the Company's investments program, which has mainly been financed from own resources. (Further detail is given in point 5 to the Management's Analysis).
Cash generation (EBITDA)	(See point 2 to the Management's Analysis).
Debt	The increase in net financial debt reflects the reduction in cash balances and the increase in the Group's debt. (Further detail is given in point 2 to the Management's Analysis).
Activity	The reduced inventory turnover is explained by the number of days in the periods reported (90 days to March 31, 2014 and 365 days to December 31, 2013).
Profitability	Points 2 and 4 to the Management's Analysis provide an explanation of the comparative results and by segments.