



The Institute of International Finance, Inc.
THE GLOBAL ASSOCIATION OF FINANCIAL INSTITUTIONS

The Global Liquidity Crisis and Economic Slowdown: How has it affected Latin American Corporates?

2009 Annual Meeting of Latin American Chief Executives
March 23-25, 2009
Lima, Peru

CAP

Vertically integrated ferrous metals company

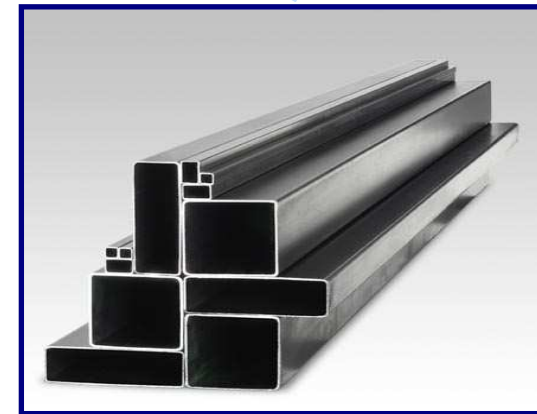
- Exports iron ore mainly to Asia
- Produces steel for the domestic market
- Processes steel products, creating high value-added solutions in Chile, Peru and Argentina
- 1% of total iron ore seaborne trade and 0,1% of total world steel production



Mining



Steel



Steel processing

CAP: Our Strategy

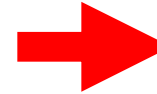


Problem	Goal	How:
Risk from relative price changes	Efficient hedge	<ul style="list-style-type: none">• Vertical Integration
Downturns	To minimize impact	<ul style="list-style-type: none">• Low Leverage• Cash position• Flexibility to Slash Down Production
Forthcoming stemming from climate change concerns	To be ahead, go beyond current standards	<ul style="list-style-type: none">• Renewable energy projects• Efficient energy use

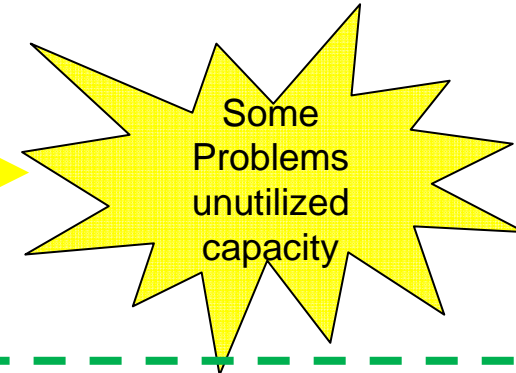
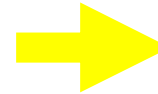
- In the present context you not only need to have the right strategy but also...
 - To be lucky, and have the right tactics

We were lucky...not all companies can say the same...

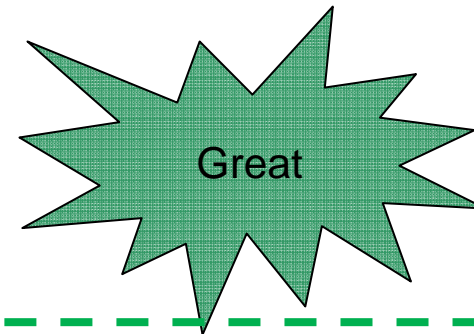
- In the middle of a major investment program



- At the beginning or at the end of an investment program



- Prior to commencing with an investment plan



We were lucky...not all companies can say the same...



Crisis hits CAP at the time of:

- Record profits (US\$ 293 million)
- High liquidity (US\$ 379 million)
- No capital investment commitments
- Leverage $<0.94x$ NFD/EBITDA



- The Global Crisis
- Impact in Chile
- Impact on corporate environment
- Few comments on policies
 - International
 - Local
- Thinking Positive



The Global Crisis: “A World of Difference”

A World of Difference...

- We are facing what has been deemed the worst economic crisis after the Great Depression...
- The turning point was the Lehman Brothers Bankruptcy:
 - Asset Prices fell by 33% in 3 months (SP 500 Sept-Dec 2008)

SP 500 Index

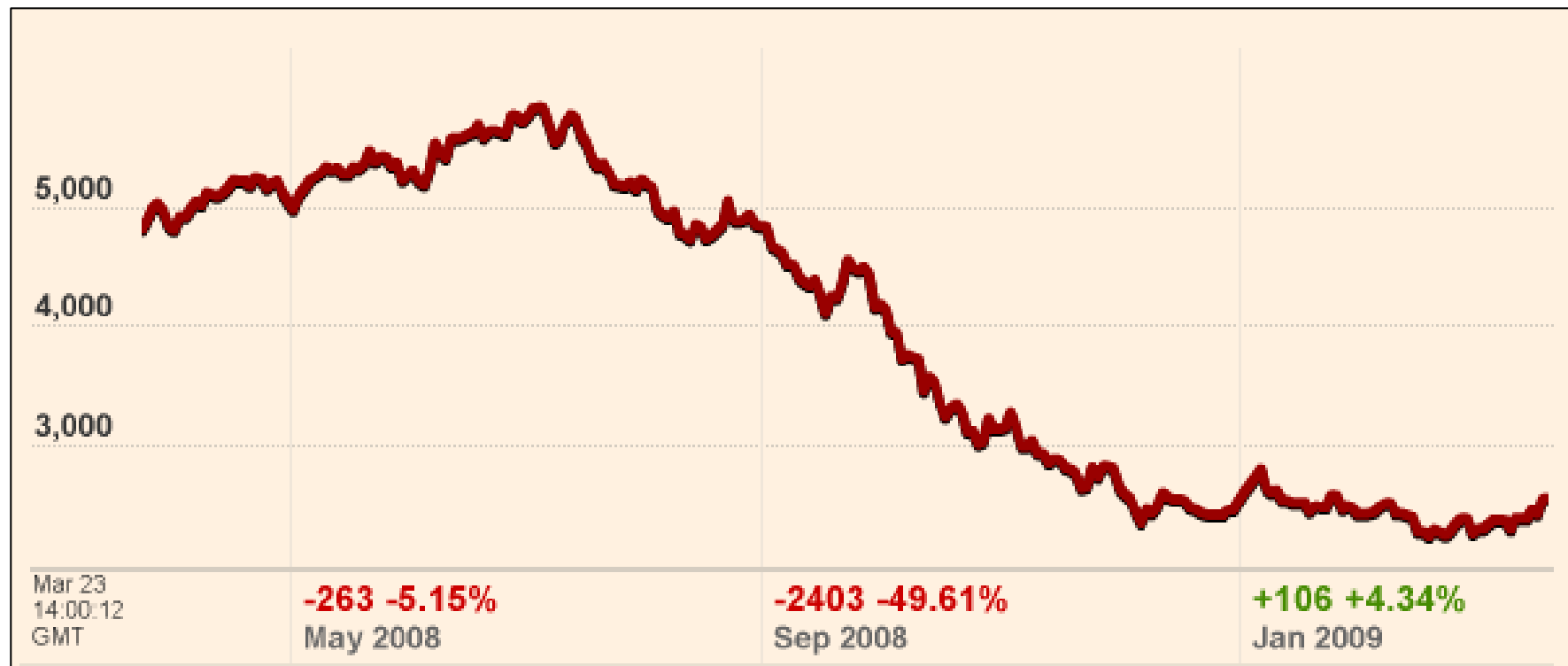


A World of Difference...



- Commodity prices fell by 45% in 3 months (RICIX Rogers Index Sept- Dec 2008)

RICIX Rogers Index

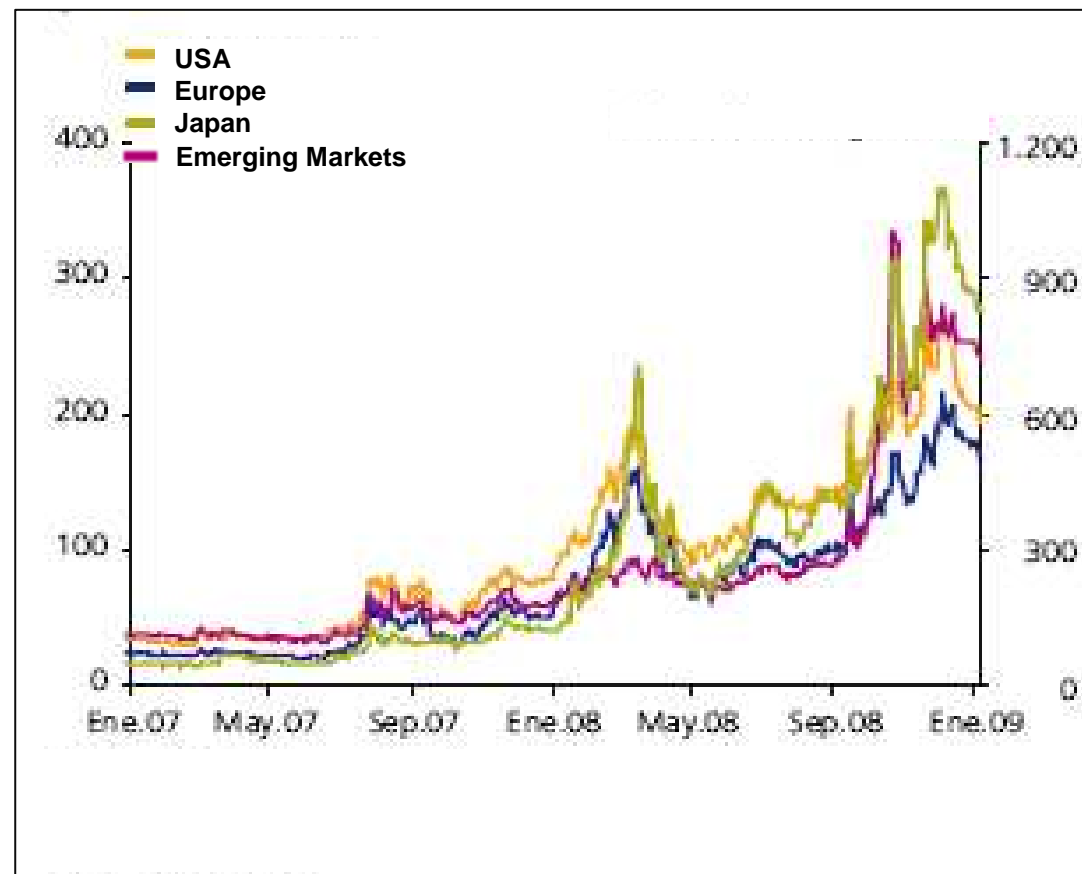


A World of Difference...



- CDS doubled their spreads

Credit Default Swap



Source: Bloomberg

A World of Difference...



- For the first time since 1982, the world is expecting a contraction in global trade (expected -5%, source: IMF)
- The highest volatility in exchange rates since the breakdown of Breton Woods...
- Worldwide output may have fallen by about [-1% -2%] (Robert Zoellick March-12-2009)

Impacts in Chile: Transmission Mechanism

- Chile is the most open economy of Latin America (90% volume of trade over GDP)
- Exposed to the global environment:
 - Through commodity prices → aggregate demand
 - Through credit tightening → foreign and local
- Our Strengths:
 - A net debt position of only 8% of the GDP
 - Capital market strongly based on local savings (pension system)



Impacts in Chile

Economic Sector	Fourth Quarter 2008 / FQ 2007	2008/2007	Forecast 2009
Agriculture	2.5%	3.0%	2%
Fishing	-9.4%	-0.7%	-15%
Mining	-5.1%	-5.0%	-2%-0%
Manufacture	-3.5%	0.0%	-4%.-6%
Construction	6.1%	9.7%	-5%, -10%
Retail	-2.8%	3.8%	-4%, -3%

Source: Chilean Central Bank, SNA, CchC, CNC, Sonami and personal estimations.

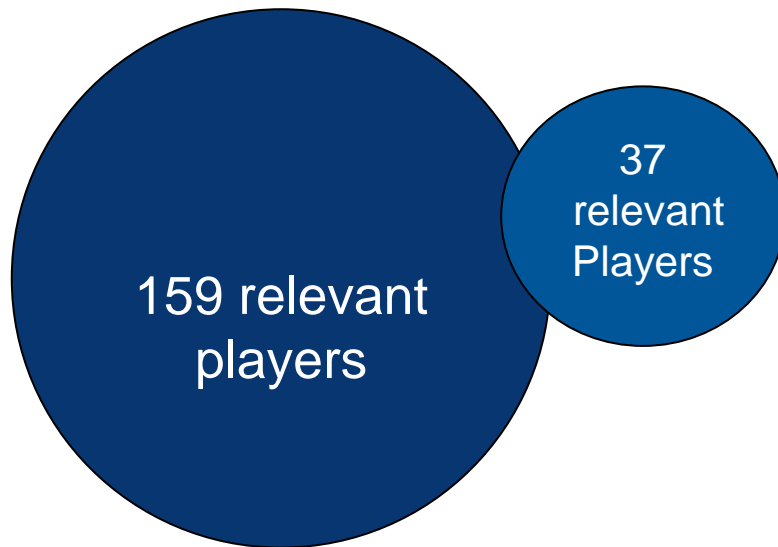
How were corporates affected (on impact):

a) Credit tightening:

- Banks are imposing more stringent procedures for credit approvals
- A generalized “flight to quality” trend
- Superlative risk aversion

How were corporates affected (in impact)

b) Fewer Financial players.

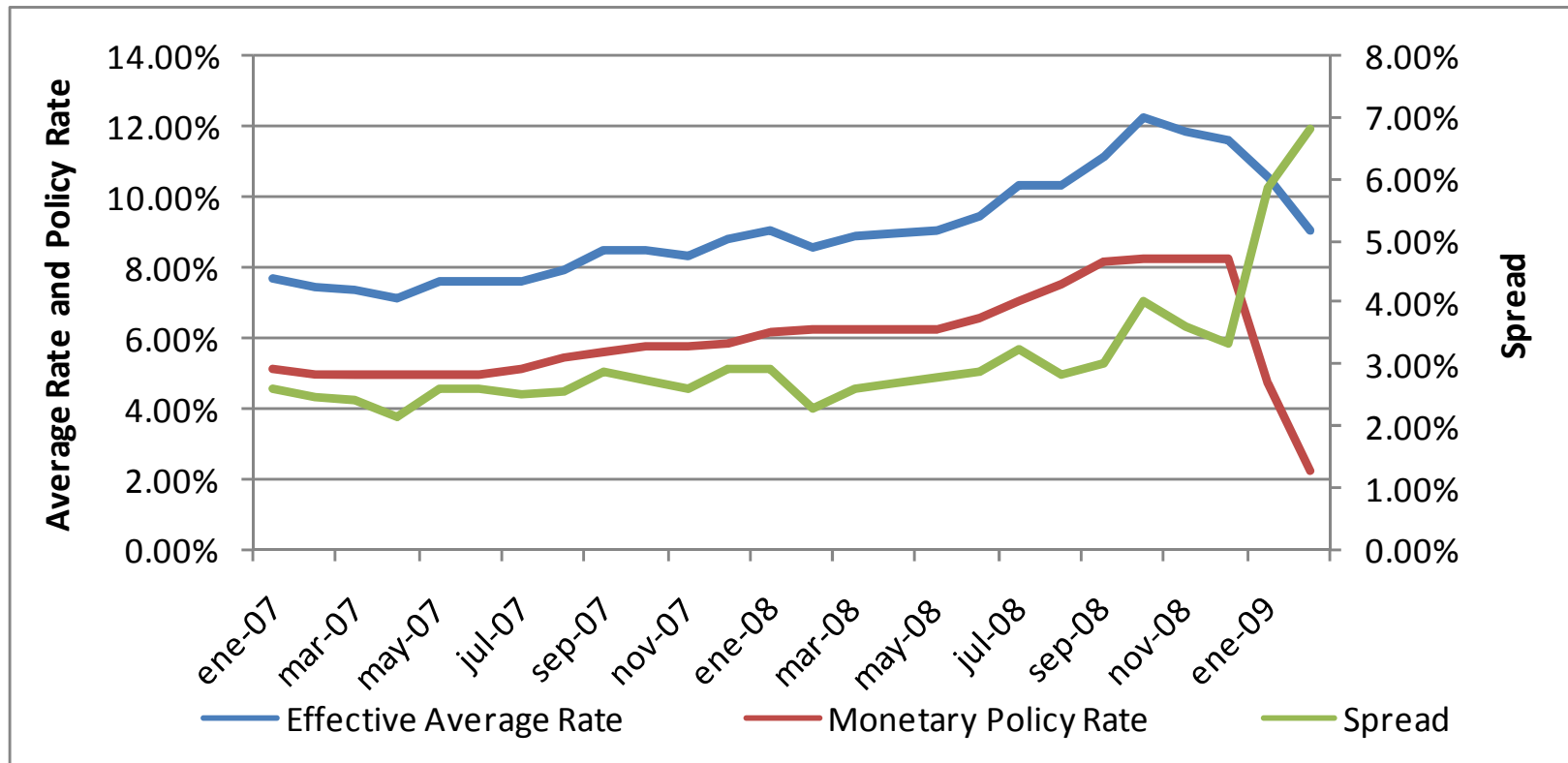


- Reduction of credit
- Focuses on short term (strategy still not clear)
- Less term
- Less financial innovation
- Government imposed lending policies

How were corporates affected (on impact)

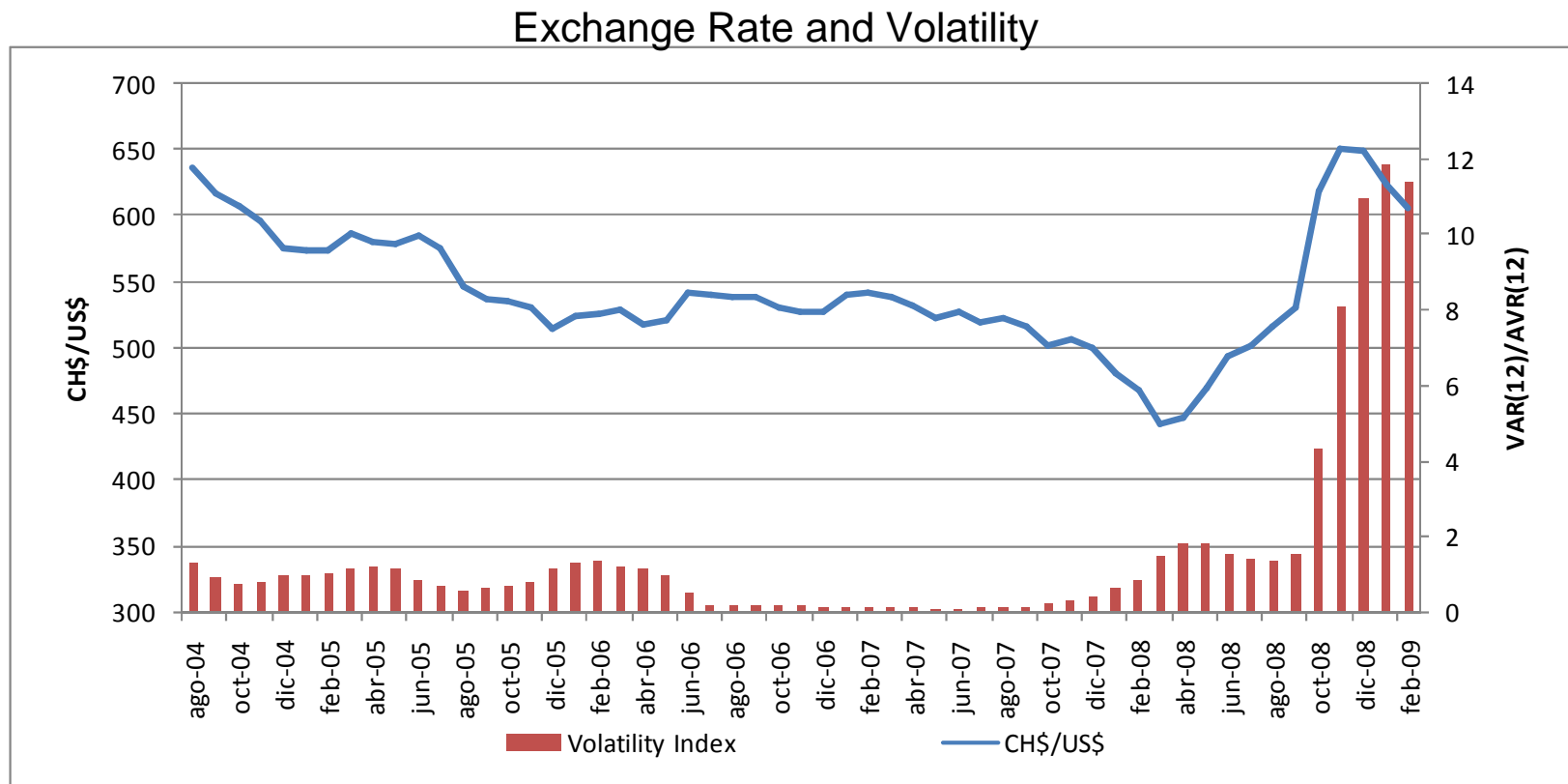
c) Higher credit spread:

Monetary Policy Rate and Effective Rate



How were corporates affected (on impact)

d) Balance Sheets affected by exchange rate movements



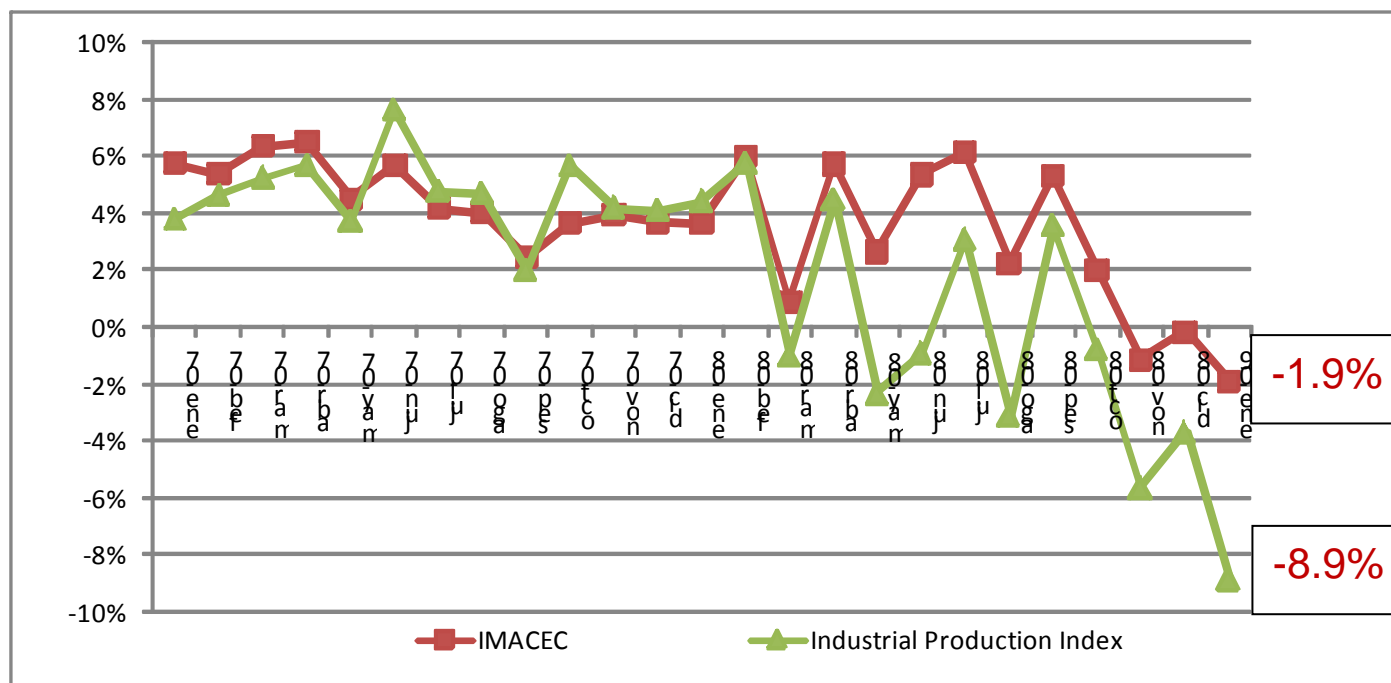
Source: Own elaboration with Chilean Central Bank data

Business Environment: How were corporates affected (on impact):



e) Inventories depletion → (Depletion of Inventories in Chile accounted for -3.4 points of GDP in the last quarter; in the US the figure was -1.5 2008:II) → impact on the global production chain...

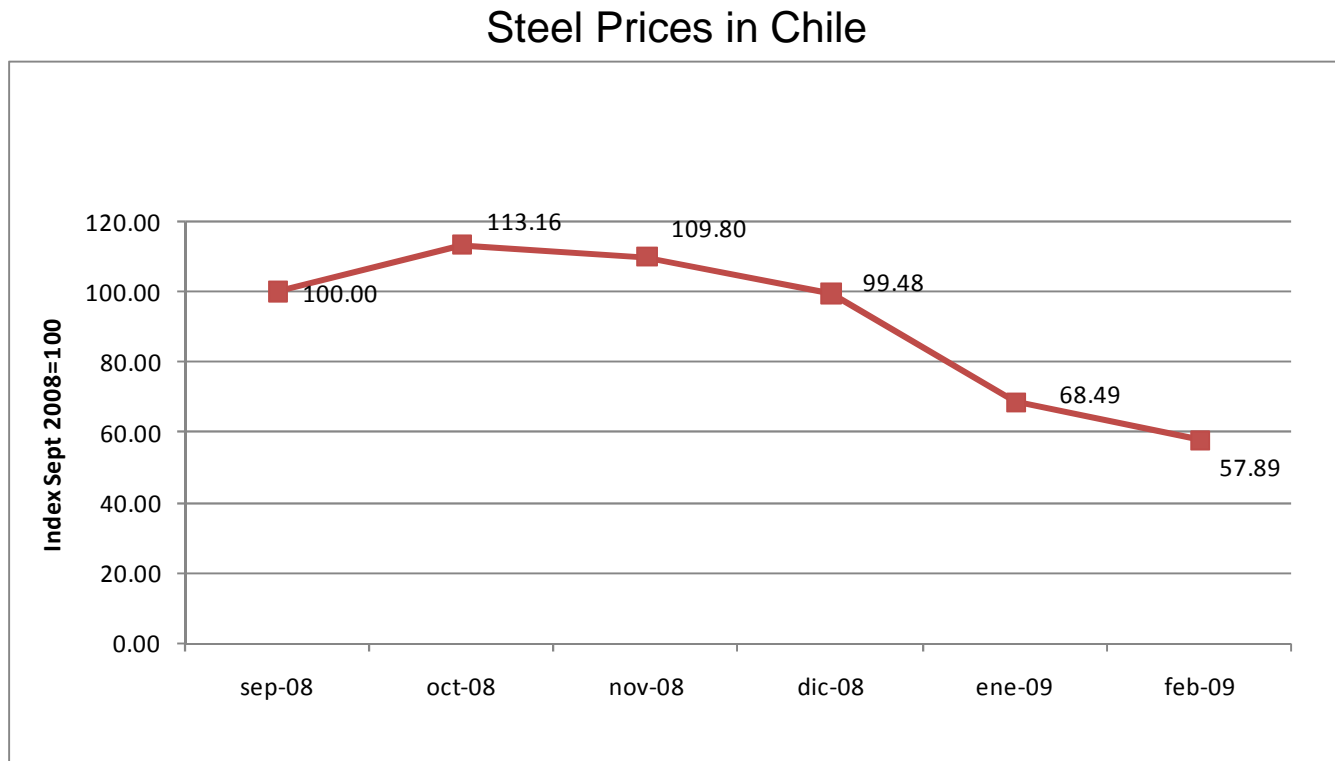
Imacec and Industrial Production



Business Environment: How were corporates affected (on impact):

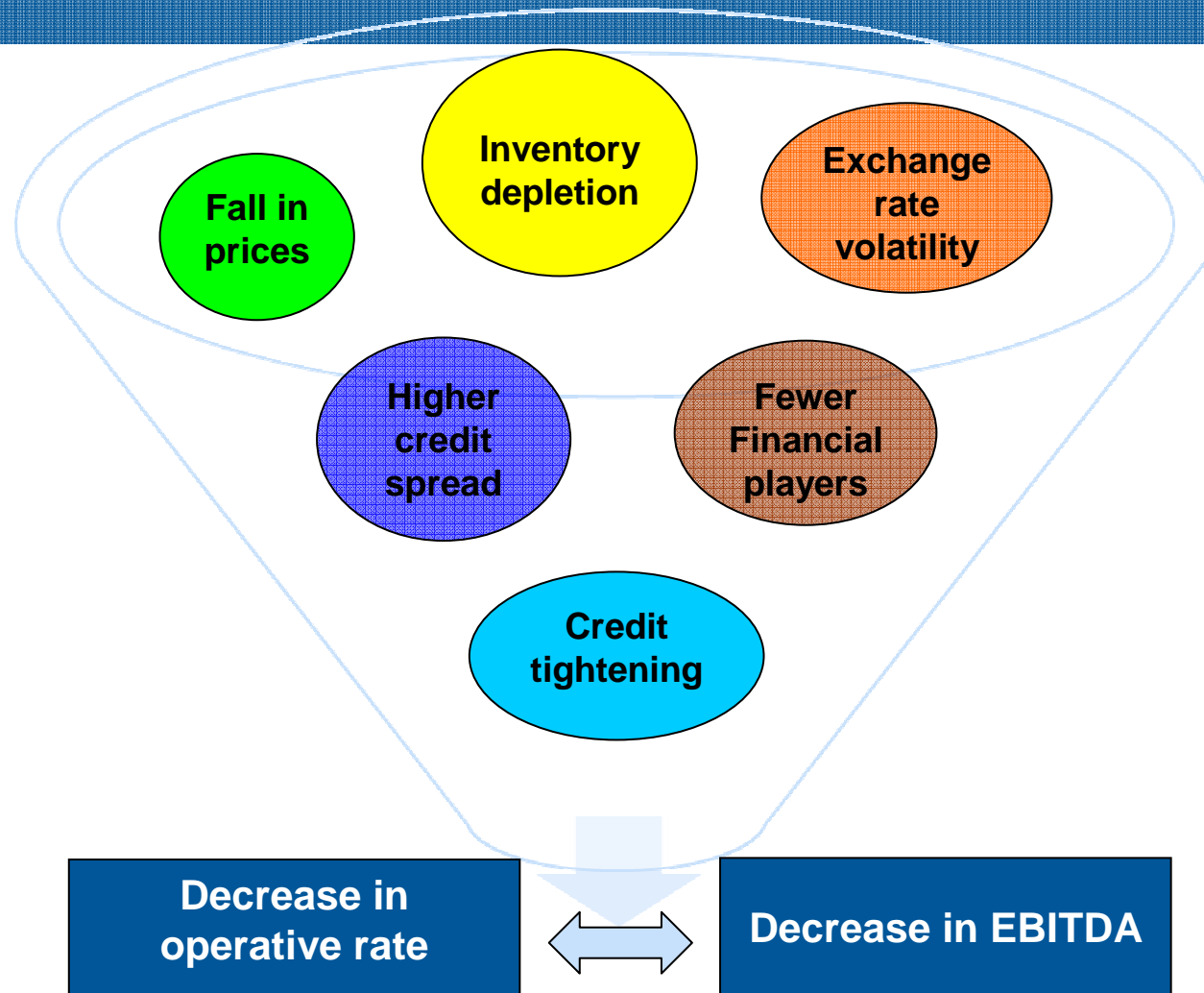


f) Fall in Prices → in some cases, 50% reduction or more in a few months....



Source: INE

How were corporates affected (on impact)

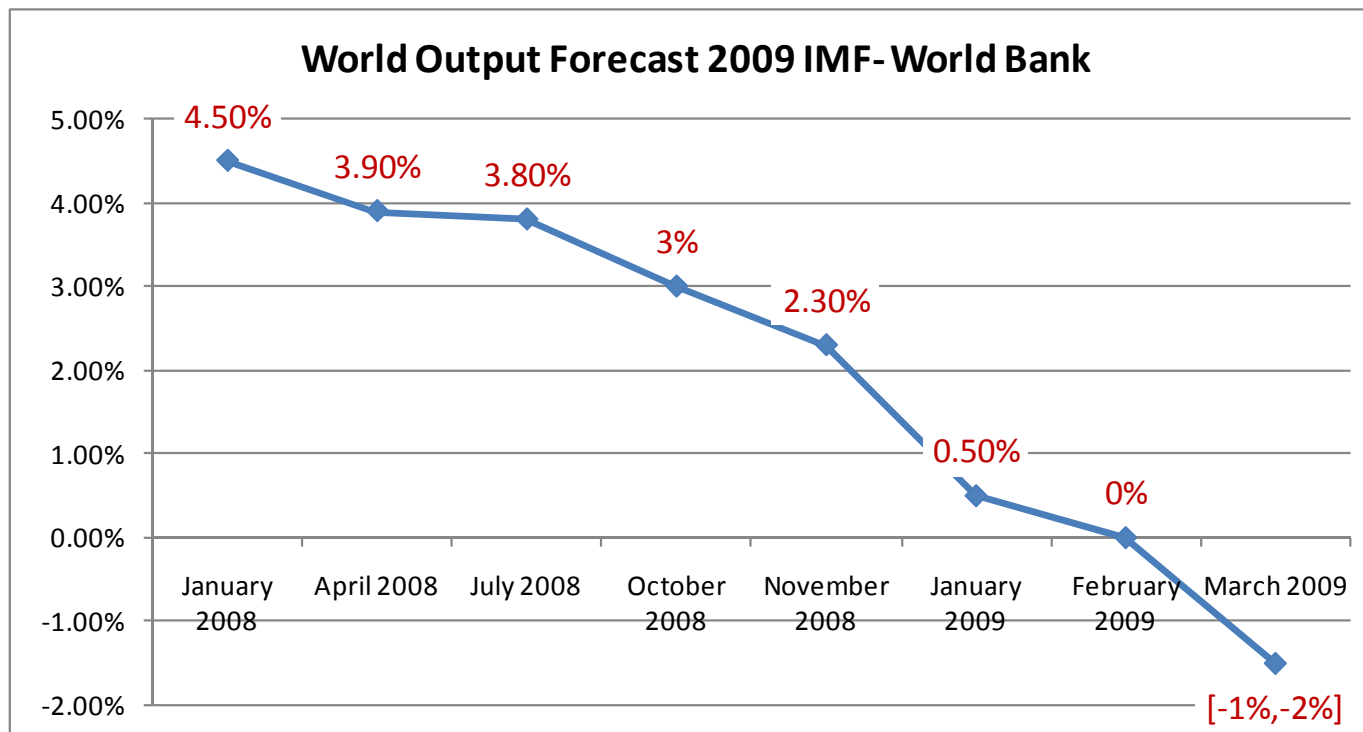


Covenants - Ratings

The Hard Task of Tactics



- The main difficulty is to forecast short term scenarios...
- Even institutions like the IMF keep changing forecasts every other week:
A Picture speaking for itself:



- We do not have scenario projections anymore, we just have “conjectures” ...

Some reflections about policies

- With only an 8% of GDP in net debt position, the country has substantial room for countercyclical fiscal and monetary policies...
- But expansionary government expenditure will not do the job by itself...
- We need to look at other components of the aggregate demand...
- In particular, Investment, which accounts for roughly 30% of aggregate demand and it is one of its more volatile components.
- How to increase investment (or mitigate its downfall)? Government policies have a lot to do....

Local Policies: Additional policies needed

- Incentives towards private investment
 - Tax Incentives
 - Infrastructure concessions
- Mitigate impact on credit
 - Provision norms of banks
 - Allow banks to capitalize credits
- More credit resources to small and medium size companies

Finally, Thinking Positive...

Thinking Positive

Strengthen industry value chain

Complementary regional opportunities

Prefer “Brownfield” investments

Explore structures where third parties can bear the financial risk during pre- completion, pre-EBITDA period

CAP good for all seasons

CAP good for all seasons



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