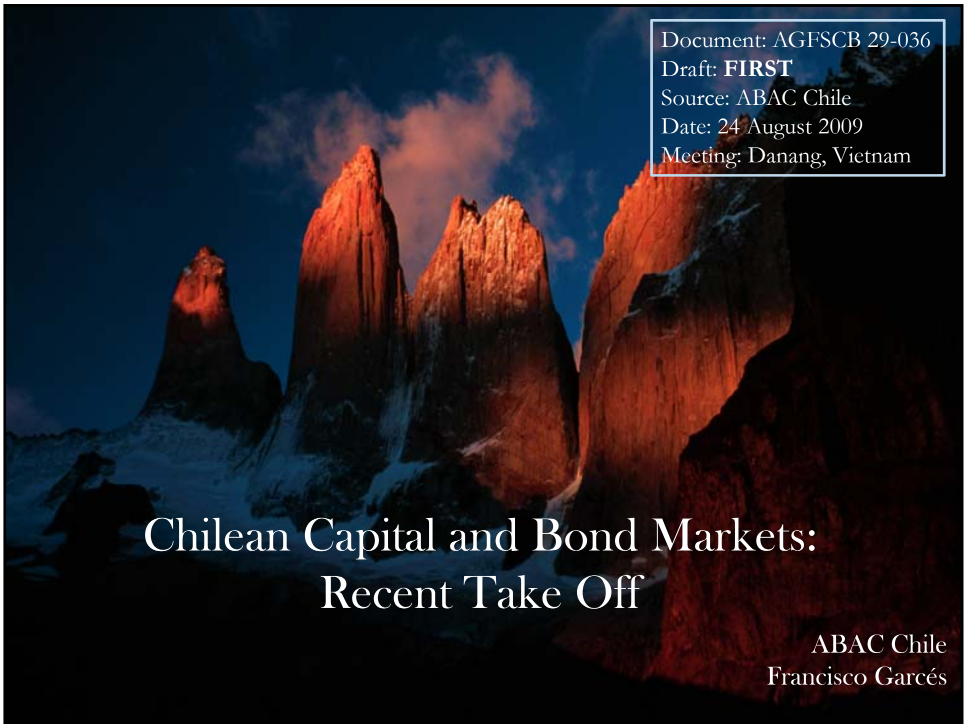
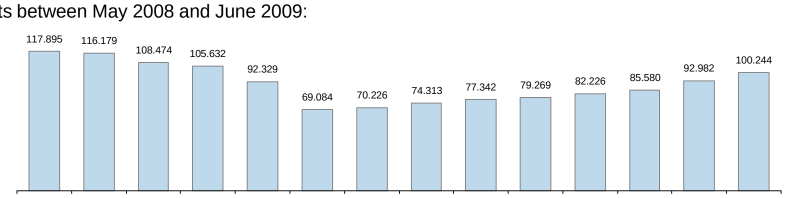


Chilean Capital and Bond Markets: Recent Take Off 1

Capital Market Development, Global Financial Crisis, Late Dynamism and Remaining Bureaucratic and Tax Barriers.

Key Aspects of the Chilean Capital Markets

- The development of capital markets in Chile began at the end of the 70's and early 80's with the Capital Markets Reform supported by the World Bank and other institutions as well as with the Pensions Reform of 1981.
- Pension Funds are the main Institutional Investors. They suffered with the 2008 financial crisis but recovered substantially in the first semester of this year. The following graph portrays the outstanding assets between May 2008 and June 2009:



Source: SAFP.

- Currently, there are US$ 22 billion in outstanding corporate bonds vs. US$ 2.7 billion in 1999. Until June, 2009, the amount of placed corporate bonds has grown explosively, matching the amount placed in the entire previous year. The Bonds issued and outstanding by the Treasury and Central bank, held by institutional investors, are valued at US$17 Billion.

Chilean Capital and Bond Markets: Recent Take Off 2

Transaction Volumes and Yields

- Transaction volume: the largest corporate issued amount correspond to that of Transelec (A+) with a US$ 450 million equivalent, at 21 years tenor (December of 2006). Transelec is a Chilean power transmission company owned by a consortium lead by Brookfield Asset Management. The Transaction was lead by Banchile | Citi

- The basic yield curve of the Chilean economy is given by Central Bank notes in inflation indexed to local currency (*Unidades de Fomento*). The sweet spots in the curve are concentrated in the 5th and 21st years.

- Traditionally Chilean investors have invested in “A–” ratings or higher under the local scale. A rating “A–” local is equivalent to a BB+/BBB– in the international scale. However, given recent market volatility, they are showing a strong preference for AA issuers.

Other Considerations for Foreign Issuers

Costs associated with issuing in Chile are lower than those of the US market

- The regulation allowing foreign issuers to issue in Chile was published January, 2006 and updated in June, 2009. The disclosure requirements have been assimilated to those of the Determined Market and the filing process has been fast tracked (3 to 4 weeks), although the registration of a bond program can take approximately 3 months.

- América Móvil has already issued the first bond of a foreign issuer for approx. US$ 140 million in April of 2009. Banchile | Citi registered the bond program for an amount of UF 30 million (approximately US$ 1.0 billion) for a 30 year issue.

- Costs associated with issuing in Chile are substantially lower than those in the US market. For an issuance of about US$300 million, the up-front costs, excluding the stamp tax (which will be unchanged during 2009), but including legal expenses, rating agencies and other fees, are estimated at US$500,000.

- All debt transactions in Chile are taxed with the stamp tax. However, given the current volatility of international markets, the local government has decided to temporarily reduce it to zero. This implies that any debt raised in 2009, will not pay this up-front tax (previously on levels of 1.2%)

The Chilean Capital Markets

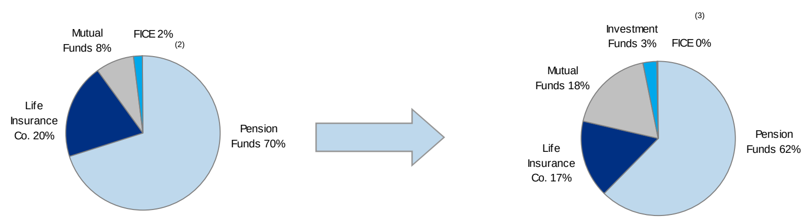
Main institutional investors are pension funds ("AFPs") and life insurance companies, which account for around 80% of total institutional investors' funds (vs. 90% in 2000)

Institutional Investors portfolio

- Chilean Institutional investors managed an investment portfolio of around US$ 152.7 billion, which is approximately equivalent to 110% of the local GDP published for the year 2008[(1)]

Institutional Investors Assets Under Management

June 2000 | **June 2009**



US$ 57.5 billion | **US$ 161.4 billion**

(1) Local GDP published for year 2008 by the Chilean Central Bank equal to CLP$ 88,535,187 million, which is equivalent to US$ 139,108 million, using a foreign exchange rate of CLP/US$ 636.45
(2) "Other" includes investment funds, FICE and banks.
(3) FICE: Foreign Capital investment funds.
Source: Superintendencia de Valores y Seguros ("SVS"), Superintendencia de Administradoras de Fondos de Pensión ("SAFP") and Chilean Central Bank.

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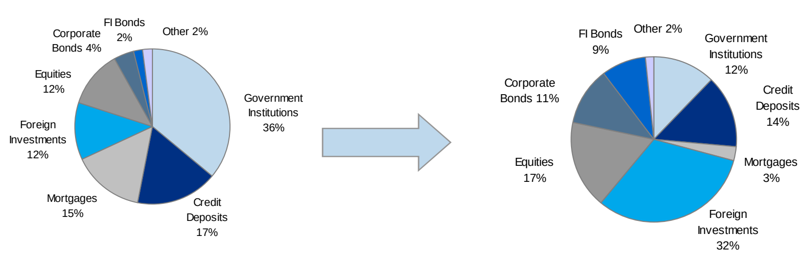
Institutional Investors: Pension Funds

Pension funds' investment portfolios have increased due to a rise in the inflow of resources from affiliates and due to higher returns. Additionally, there has been a change in the portfolio mix, decreasing government paper and mortgages and increasing corporate papers and foreign investments.

- The implementation of the multi-fund system continues to attract more resources from affiliates. This, together with the youthfulness of the Chilean pension system makes the inflows higher than the outflows
- Additionally, there has been a change in the portfolio composition, with an increase in equity, foreign investments and corporate bonds (these three items currently represent around 60% of their portfolio vs. a 28% in June, 2000), and a decrease in government papers and mortgages

Pension Funds Portfolio

June 2000 | **June 2009**



US$ 36.8 billion | **US$ 100.2 billion**

Source: SAFP.

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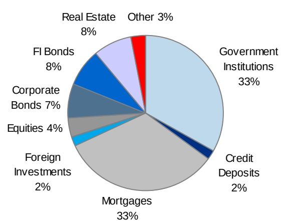
Institutional Investors: Life Insurance Companies

Life insurance companies have changed their investment portfolio mix, increasing the weight of long term corporate bonds. This allows them to better match their liabilities with securities that offer attractive rates with high rating standards.

- Life insurance companies have increased their portfolio weight towards corporate bonds from 6.9% in Dec-99 to 33.4% as of Dec-08
  - Their portfolio has grown approximately 143% in the same period
- Recent legislation modifications have allowed them to expand investment limits on an specific issuer

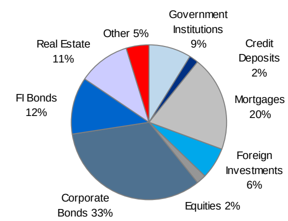
Life Insurance Companies Portfolio

December 1999



US$ 11.0 billion

December 2008



US$ 26.7 billion

Source: SVS.

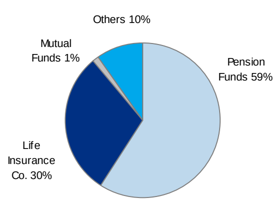
The Chilean Bond Market

The local bond market has been the preferred financing alternative for Chilean issuers during the last 5 years, lead by the rapid development of pension funds and life insurance companies. Almost 80% of these issuances have been placed within the last five years, evidencing a market under quick development

- The local corporate bond market in Chile has the equivalent to US$22.2 billion in outstanding issues
- Outstanding issues are held mainly by pension funds (approx. US$10.8 billion), life insurance companies (approx. US$ 8.9 billion), mutual funds (approx. US$1.8 billion) and other players such as banks and stock brokers

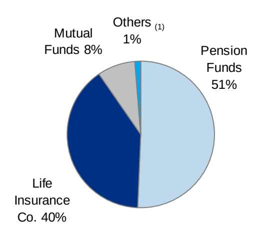
Local Market Bondholders

December 1999



US$ 2.7 billion

June 2009



US$ 22.9 billion

(1) "Others" includes investment funds, FICE and banks.
Source: SVS, SAFP and Superintendencia de Bancos e Instituciones Financieras ("SBIF").

Recent Local Issues

Transactions 2009 YTD

Date of Issuance	Issuer	Industry / Sector	Tenor (years)	Amount US$ MM	Risk Rating	Spread (*)	Yield
Jun-09	Ripley	*Retail / Dept Store*	21	33.9	A+ / AA-	1.68%	**5.04%**
Jun-09	Ripley	*Retail / Dept Store*	7	67.8	A+ / AA-	1.70%	**4.45%**
Jun-09	Cencosud	*Retail / Dept Store*	6	33.9	AA	1.30%	**3.85%**
Jun-09	Cencosud	*Retail / Dept Store*	21	152.6	AA	1.46%	**4.95%**
May-09	Aguas Andinas	*Utilities / Water*	6.5	67.8	AA+	0.99%	**3.88%**
May-09	Aguas Andinas	*Utilities / Water*	9.5	33.9	AA+	1.03%	**4.27%**
May-09	Mall Plaza	*Retail / Shopping Center*	21	101.8	AA- / A+	1.34%	**4.70%**
May-09	Mall Plaza	*Retail / Shopping Center*	5	67.8	AA- / A+	1.28%	**3.94%**
May-09	Falabella	*Retail / Dept Store*	6	49.0	AA	1.63%	**6.28%**
May-09	SQM	*Industrial / Chemicals*	5	50.9	AA- / AA-	1.35%	**3.67%**
May-09	SQM	*Industrial / Chemicals*	5	82.2	AA- / AA-	1.67%	**6.14%**
Apr-09	Falabella	*Retail / Dept Store*	24	118.7	AA	1.41%	**4.40%**
Apr-09	Falabella	*Retail / Dept Store*	6	101.8	AA	1.39%	**3.29%**
Apr-09	Carozzi	*Food*	21	84.8	A+	1.86%	**4.48%**
Apr-09	Carozzi	*Food*	7	33.9	A+	1.70%	**3.55%**
Apr-09	Telefónica CTC	*Telecom*	5	31.6	AA- / AA	1.51%	**5.99%**
Apr-09	América Móvil	*Telecom*	5	135.7	AA+	1.44%	**3.31%**
Apr-09	Caja Los Andes	*Holding / Financial Services*	4	47.4	A+ / AA-	1.94%	**5.99%**
Apr-09	Telefónica CTC	*Telecom*	5	169.6	AA- / AA	1.37%	**3.23%**
Apr-09	AES Gener	*Power / Generation*	10	183.0	A	5.62%	**8.50%**
Apr-09	CCU	*Beverage / Beverage*	21	101.8	AA	1.30%	**4.30%**
Apr-09	CCU	*Beverage / Beverage*	5	67.8	AA	1.32%	**3.18%**
Mar-09	CMPC	*Forestry / Derivatives*	21	237.4	AA+	1.35%	**4.55%**
Mar-09	CMPC	*Forestry / Derivatives*	5	101.8	AA+	1.25%	**3.25%**
Mar-09	Sigdo Koppers	*Holding / Industrial*	10	33.9	A	2.62%	**4.97%**
Mar-09	Sigdo Koppers	*Holding / Industrial*	21	67.8	A	2.48%	**5.48%**
Mar-09	Arauco	*Forestry / Derivatives*	5	67.8	AA	1.70%	**3.35%**
Mar-09	Arauco	*Forestry / Derivatives*	21	67.8	AA	1.54%	**4.54%**
Mar-09	Cencosud	*Retail / Dept Store*	5	47.4	AA / AA	3.42%	**6.83%**
Jan-09	Esval	*Utilities / Water*	21	67.8	A+ / AA-	1.85%	**4.70%**
Jan-09	Esval	*Utilities / Water*	5	17.0	A+ / AA-	1.73%	**4.79%**
Jan-09	Cencosud	*Retail / Dept Store*	21	101.8	AA / AA	2.85%	**5.70%**
Jan-09	Indura	*Industrial / Gas*	21	101.8	A- / A-	3.15%	**6.10%**
Jan-09	Indura	*Industrial / Gas*	5	17.0	A- / A-	2.90%	**6.06%**
Jan-09	Sodimac	*Retail / Home Center*	7	50.9	AA- / AA	1.86%	**7.26%**
Jan-09	Enap	*Oil & Gas*	10	330.7	AAA	1.41%	**4.33%**
Jan-09	SQM	*Industrial / Chemicals*	5	33.2	AA- / AA-	1.80%	**7.50%**
Jan-09	SQM	*Industrial / Chemicals*	21	135.7	AA- / AA-	1.90%	**5.05%**
Jan-09	Masisa	*Forestry / Derivatives*	21	101.8	A / A	3.22%	**6.42%**
Total				**3,592.4**			

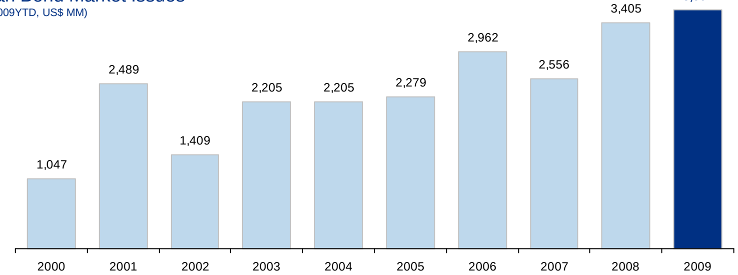
* Over PRC or BCU equivalent in duration.
Source: SVS. Includes corporate and infrastructure bonds.

Primary Market Evolution

Market depth has been improving during the last years, with capacity to absorb bond placements for up to US$ 450 – 500 million in a single transaction

- The Chilean Market is an investment grade market, providing much longer tenors than other countries in the region (up to 30 years)
- During the last twelve months[(1)], a total of UF 150.6 million (app. US$ 5.3 billion) were placed in the local bond market in 36 issues. All of these issues correspond to corporate issues, given that the last infrastructure transaction was placed on January of 2007

Chilean Bond Market Issues
(2000 – 2009YTD, US$ MM)



Source: SVS. Includes corporate and infrastructure bonds.

(1) As of June of 2009.

Bureaucratic and Regulatory Barriers

- The Chilean Economy ranks 40th in the World Bank Doing Business Report 2009. This implies there is still room to further eliminate bureaucratic and regulatory barriers in the Chilean Economy.
- Delays in first time registration processes of bond issuances, which until recently took up to 4 months but have now been reduced to 30 days indicate a clear improvement toward enhancing the market's dynamism in 2009.
- There are still problems related to the bureaucratic interpretations regarding the exemption of bond issuances from capital gains taxes. Issues of stocks are exempt from said tax.
- A pending matter is the exclusion of companies which do not have an investment grade (the high yield market) from the possibility of issuing bonds in the local market.
- More coordination among the Regulator, Tax Authorities and the Central Bank is necessary in local, regional and international markets.

Tax Barriers

- "Stamp Duty" currently levied a rate of 1.2% down form a previous 1.60% which has now been suspended until January 2010. The proceeds are 0.6 of annual GDP.
- "The Additional Tax" levied on profit remittances by foreign companies has a maximum rate of 35%. Variable income instruments would be exempt, while a duty would be placed on bonds or fixed-income instruments.
- "Tax on Interest" (Withholding Tax) levied on remittances of interests at a rate of 4%
- Tax on overseas credits with terms of less than one year, levied at a rate of 3.6%
- Tax on stock dividends, and sub-sequentially on income received from AFPs (Double Taxation Case)
- Inheritance Tax. A case of double taxation. Proceeds are equivalent to 0.1 of GDP. With a maximum rate of approximately 25%.


ABAC Chile
August, 2009