Latin America
Metal Works Sectors

A Company and Industry Analysis

June 2008

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Current Environment — Key Points

- In 2008, global steel prices hit new peaks, in the wake of rising energy and freight costs, along with tighter supplies due to falling exports from China.
- In Latin America, steadily increasing populations and growing economies helped ensure that demand for steel products rose, with steel consumption strong particularly in the automotive, construction and consumer appliance sectors.
- The second half of 2007 and the first few months of 2008 was an active period for mergers and acquisitions among Latin America's metals companies.
- The share prices of most Latin American industrial metals companies rose in the second half of 2007, with steel prices up and creating an upbeat view of the region's steel sector.

Industry Profile — Key Points

- Latin America is basking in a prolonged economic boom in the wake of global demand for its metals, especially copper and aluminum.
- In February 2008, Latin America's aluminum production rose 8.4% to 207,000 tons compared with 191,000 tons in February 2007.
- In Latin America, finished steel production increased by 11% to 58.6 million tons in 2007, compared with 52.9 million tons in 2006, thanks to an increase in industrial production capacity.
- Latin America has become an even more important location for investment, with the international boom in metal prices a major incentive for international investors, whose capital has been welcomed by mining companies wanting to expand.

Market Trends and Outlook — Key Points

- The Latin American steel industry is expected to see another strong year in 2008, despite some weakening in the US economy. Demand for steel will remain healthy, thanks in part to dynamic economic growth in the world's emerging markets.
- The outlook for the metals industry in Latin America is solid for the rest of 2008, with domestic consumption continuing to rise. Steel companies in Latin America have a competitive advantage over other major metals producing economies due to the lower production costs and high distribution capacity.
- The overall Latin American metals industry is likely to have a good year in 2008, despite slowing growth in the US, other western markets and even emerging markets like China.
- The outlook reflects continued modernization of equipment, increased worker productivity, the creation of more effective management structures and, most importantly, improving domestic economies.

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Current Environment

Sector Overview

Global steel prices hit new peaks in 2008, thanks to skyrocketing raw materials, energy and freight costs, along with tighter supplies because of falling exports from China. High demand for steel is likely to benefit Latin America as a whole for the rest of 2008, however. Brazilian steel producers enjoy advantages over global peers that should help maintain big profit margins in the steel sector this year. The Brazilian steel industry also benefits from barriers to entry for imported steel due to the challenges of transporting steel to and within the vast South American continent, while domestic producers own or enjoy privileged access to large steel distributors. This is important because of expected growth in the nation's steel consumption, estimated by the Brazilian Steel Institute to be as much as 15% in 2008.

Most regions of the world, particularly Latin America, saw a marked increase in steel consumption in 2007 and 2008. In Latin America, a steadily increasing population and a growing economy helped ensure that demand for steel products rose, as steel consumption continued to be strong in the automotive, construction and consumer appliance sectors. The second half of 2007 and the first few months of 2008 was an active period for mergers and acquisitions among Latin America's metals companies as a result.

Deal making remained robust and interest in large deals continued due to overall strong metals and commodities prices. The continued strength in metals prices gave strategic investors cash to make acquisitions. The balance of risk favored the strategic investor and will continue to account for a significant proportion of metal company consolidations in 2008.

Sector Performance

In the second half of 2007, the share prices of most Latin American industrial metals companies rose, as steel prices rose and created an upbeat view of the region's steel sector. Brazilian steel producers continued to benefit from higher international steel prices and strong domestic demand. Companhia Siderurgica Nacional (BVSPA: CSNA3), one of the largest integrated steel companies in Latin America, outperformed its competitors, with its share price surging 69.4% in the second half of 2007. The company reported that its net income jumped more than 500% to R$508 million (US$309.30 million) in the fourth quarter of 2007 compared with R$83 million (US$50.51 million) in the equivalent quarter of 2006, thanks to the healthy performance of the Brazilian economy and the increase in domestic steel product sales.

Metalurgica Gerdau SA (BVSPA: GOAU3) and Southern Copper Corp (BVL: PCU) saw their share prices rise by 9.6% and 6.8% respectively in the second half of 2007. Gerdau reported that its net earnings were up 16.4% to R$1 billion (US$608.47 million) in the third quarter of 2007, compared with R$889 (US$542.37 million) million in the equivalent quarter of 2006, thanks to higher sales. Meanwhile, Southern Copper's net income for the third quarter swelled 20% to US$627.8 million, or US$2.13 per share, compared with US$521.6 million, or US$1.7 per

Table 1: Stock Performances of Leading Latin American Metal Works Companies

Companies	% Increase in Share Prices (July – December 2007)
Companhia Siderurgica Nacional	69.4%
Metalurgica Gerdau SA	9.6%
Southern Copper Corp	6.8%
Madeco SA	(17.7%)
Grupo Simec SAB de CV	(21.2%)

Source: Mergent Analysis, 2008

Current Environment

share, in the third quarter of 2006. The increase was due principally to the higher sales volume and the higher sales price for molybdenum.

However, Madeco SA (BSAN: MADECO) and Grupo Simec SAB de CV (AMEX: SIM) performed less impressively in the second half of 2007, with their share prices falling by 17.7% and 21.2% respectively. Madeco reported that its net income dropped 25.9% to CLP$2,163 million (US$4.46 million) in the fourth quarter of 2007, compared with CLP$2,921 million (US$6.03 million) in the same quarter of 2006. The drop was mainly due to a reduction in operating income of CLP$2,005 million (US$4.14 million) in the fourth quarter of 2007 and higher non-operating losses of CLP$1,554 million (US$3.21 million). Grupo Simec saw its net income fall 35% to MEX$361 million (US$34.65 million) in the third quarter of 2007, compared with MEX$555 million (US$53.27 million) in the same quarter of 2006, which was explained by lower sales and shipments during the quarter.

Leading Companies

Metalurgica Gerdau SA (BVSPA: GOAU3)

Metalurgica Gerdau SA, headquartered in Porto Alegre, Brazil, is a Brazilian holding company engaged in steel production, predominantly the production of specialty steels and recycling of steel. In February 2008, it announced it had signed a US$59 million purchase and sales agreement to buy 50.9% of the shares of Cleary Holdings Corp, a company controlling a metallurgical coke production unit and cokable coal reserves located in Colombia. The agreement is subject to approval by Colombian regulatory agencies.

In Brazil, expansion in construction and industry, Gerdau group's major customers, resulted in 15.5% growth in physical sales, with volumes totaling 4.9 million tons in 2007. To meet the rise in domestic market demand, exports from Brazil fell 10.3% to 2.1 million tons, and export revenues totaled US$1.4 billion, including shipments to controlled and associated companies.

Companhia Siderurgica Nacional (BVSPA: CSNA3)

Companhia Siderurgica Nacional (CSN), based in Sao Paulo, Brazil, primarily operates as an integrated steel producer in Brazil. Its net income climbed 0.5% to R$767 million (US$468.24 million) in the first quarter of 2008, from R$763 million (US$465.80 million) in the same quarter of 2007. Its revenue was up 22% to R$3.03 billion (US$1.85 billion), compared with R$2.48 billion (US$1.51 billion) in the first quarter of 2008, thanks to a growth in sales in the domestic market.

Steel product sales volumes grew 17% to 1.4 million tonnes, compared with 1.2 million tonnes in the equivalent quarter of the previous year. On the other hand, export volume has been falling, due to the increased routing of sales to the domestic market. In the first quarter, exports accounted for 20% of total sales, down from 40% in the corresponding quarter of the previous year.

Madeco SA (BSAN: MADECO)

Madeco SA, headquartered in Santiago, Chile, manufactures and sells finished and semi-finished non-ferrous products based on copper, aluminum, and related alloys. Its first quarter 2008 net profit plummeted 68% to CLP$2.28 billion (US$4.70 million), from CLP$7.01 billion (US$14.46 million) in the corresponding quarter of the previous year. This was due to 18.6% lower operating income, 65.9% higher charges in non-operating income and a 51.4% increase in income tax, minority interest and other charges. However, revenues were up 4.7%, totaling CLP$172.45 billion (US$355.75 million) in the first quarter of 2008, due to higher prices of copper and aluminum and an increase in sales volumes.

Its operating income was down 18.6% to CLP$9.43 billion (US$19.45 million), compared with CLP$11.59 billion (US$23.91 million) in the first quarter of 2007. This was mostly attributable to 7.1% higher selling, general and administrative expenses and 8% lower gross income, compared with the first quarter of the 2007. On February 21, 2008, Madeco and Nexans, a French cable company, signed a purchase agreement in which Madeco agreed to the transfer of all its cables unit assets in Colombia, Peru, Brazil, Argentina and Chile to Nexans for US$448 million in cash and 2.5 million shares of Nexans. The transaction must be closed no later than September 30, 2008.

Mergers, Acquisitions and Alliances

Gathering Latin America metals companies together would give the region more bargaining power and boost their competitiveness in overseas metal markets. Consolidation

Current Environment

helps companies secure supplies for the world's top consumers of industrial metals and to compete with international metal firms. In recent months, it was clear that a number of companies contributed significantly to the consolidation of the metals sector. As an example, Grupo Simec SAB de CV (AMEX: SIM), the main subsidiary of Industrias CH SAB de CV (BMV: ICHB), announced in February an agreement to acquire 100% of the shares of Corporacion Aceros DM SA de CV and one of its affiliates, Grupo San. Grupo San is a long products steel mini-mill and the second largest corrugated rebar producer in Mexico. The transaction was valued at US$850 million, 85% of which will be paid with cash generated by the company's operations and by the company's public offering, which took place in February 2007.

The deal made ICH and Simec the second largest producer of rebar and the largest steel producer in Mexico, with a production capacity of about 4.5 million tons of liquid steel and 3.8 million tons of finished products. With the strategic acquisition, ICH and Simec achieved a more diversified product and sales mix, with 50% of sales in Mexico and 50% overseas. This will allow them to address better the natural cycles of the steel industry at domestic and global levels. Both companies have already identified significant synergies and economies of scale that will boost their operating margins.

Gerdau Group and Corporacion Centroamericana del Acero, Central America's largest steel manufacturer, announced a strategic alliance in April. As a result of the alliance, the Gerdau Group now holds 30% of the company's shares, and has committed to investing US$180 million in the operations of Corporacion Centroamericana del Acero in Central America. The transaction involves a steel mill (Guatemala), four rolled product mills (Guatemala and Honduras), sales offices (Guatemala, Honduras, and El Salvador), and distribution units (Guatemala, Belize, El Salvador, Honduras, and Nicaragua).

Industry Profile

Industry Size and Value

Latin America is basking in a prolonged boom because of global demand for its metals, especially copper and aluminum. International Aluminum Institute (IAI) figures show that, during the second month of 2008, the global aluminum industry churned out 2.02 million tons, compared with 1.87 million tons in February the previous year. Daily global output reached 69,800 tons, compared with 66,800 tons a year earlier. Latin America's aluminum production was up 8.4% to 207,000 tons in February, compared with 191,000 tons in February 2007.

Table 2: Brazil's Steel Production for the First Two Months of 2008

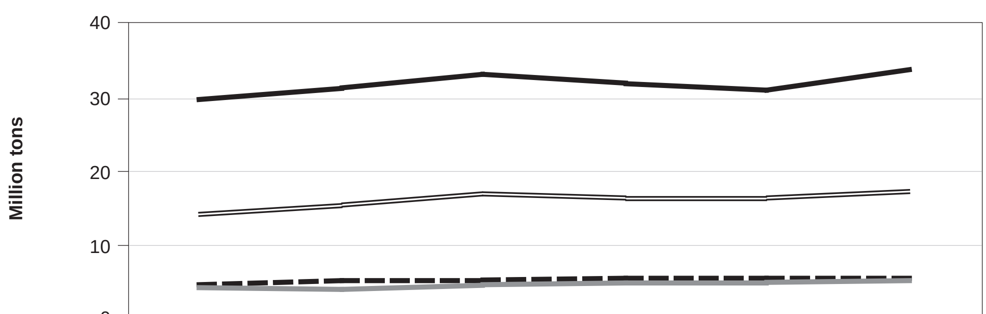
Product	Output
Crude Steel	5.68 million tons
Flat Products	2.55 million tons
Long Products	1.74 million tons
Rolled Products (Domestic sales)	3.53 million tons

Source: Brazilian Iron and Steel Sector Association

Steel continues to be the material of choice in the construction, machinery, automotive and other industries. Despite potential threats from substitute materials such as aluminum, glass, ceramics and plastics, especially in the automotive industry, steel continues to have economic advantages. The International Iron and Steel Institute (IISI) estimates that global finished steel demand was 1.18 billion tons in 2007, an 8.5% increase from 2006.

Brazilian Iron and Steel Sector Association (IBS) data shows that Latin America's largest steel producer, Brazil, turned out 5.68 million tons of crude steel in the first two months of 2008. In February alone, crude steel production increased by 8.1% to 2.71 million tons compared with a year earlier. Rolled steel production amounted to 4.29 million tons in the first two months of 2008, comprising 2.55 million tons of flat products and 1.74 million tons of long products, up 9.8%, 4.8% and 17.9% respectively. Flat steel is used largely to make other steel products which, in turn, are used for making consumer durables and automobiles. Long steel products are those used by the construction and infrastructure industry. Domestic sales of

Table 3: Steel Producers in Latin America



	2002	2003	2004	2005	2006	2007
Brazil	29.6	31.1	32.9	31.6	30.9	33.8
Mexico	14	15.2	16.7	16.2	16.3	17.2
Argentina	4.4	5	5.1	5.4	5.5	5.4
Venezuela	4.2	3.9	4.6	4.9	4.9	5

Source: International Iron and Steel Institute

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rolled products by the Brazilian steel industry rose 27% to 3.53 million tons and by 28% year-on-year in February to 1.75 million tons.

Brazil has consistently exported a substantial portion of its large steel production. According to the IBS, Brazil's steel production last year totaled 34 million tons, an increase of 9.7% compared with 31 million tons in the previous year. Exports are estimated at 12.4 million tons, a 17.9% increase, due to the increase in industrial production capacity.

In 2007, Mexican steel production grew 5.5% to 17.2 million tons, compared with 16.3 million tons in 2006. Argentina's steel production reached 5.4 million tons in 2007, a slight drop of 1.8% from 5.5 million tons the previous year. Meanwhile, Venezuela's steel production climbed 2% to five million tons, compared with 4.9 million tons in 2006.

Steel production also picked up in Chile, which accounts for the lion's share of global metal output as a whole. Most of its production output, however, is copper — with the country the world's top producer, providing more than a third of the global annual supply of copper.

Last year was a favorable one also for Peru, as exports rose to record levels, thanks to surging copper, zinc and natural gas sales. Promperu, the Government's export promotion agency, reported that exports grew 16% to US$27.6 billion in 2007, from US$23.4 billion in 2006. Copper sales surged 21% to US$7.2 billion, while zinc sales rose 27% to US$2.5 billion. Rising prices for commodities such as copper, zinc and gold have helped triple Peru's annual export values in five years.

Table 4: World Aluminum Smelter Production

Country	Production (000 tons)	
	2006	2007
China	9,350	12,000
Russia	3,720	4,200
United States	2,284	2,600
Brazil	**1,498**	**1,700**
Venezuela	**610**	**630**
Other countries	16,252	16,650
World Total	**33,714**	**37,780**

Source: US Geological Survey

Production Levels

Aluminum

Global primary aluminum production continued to surge as capacity expansions outside the US came on stream. Data from the US Geological Survey (USGS) shows that global aluminum smelter production rose 13% to 38 million tons in 2007, compared with 33.7 million tons the previous year. In Latin America, Brazil's aluminum smelter production grew 13% to 1.7 million tons in 2007, up from 1.5 million tons in 2006, thanks to growing demand internationally and domestically. Venezuela's aluminum smelter production totaled 630,000 tons, an increase of 20,000 tons from 610,000 tons in 2006.

Table 5: Finished Steel Production in Latin America

Year	Production (million tons)	Imports (million tons)	Exports (million tons)
2005	51.0	9.3	11.4
2006	52.9	12.2	12.8
2007	58.6	12.7	14.5

Source: Latin American Iron and Steel Institute

Finished Steel

Latin America's growing economy is benefiting steel companies, as well as steel consuming industries such as machinery and equipment, durable consumer goods, construction and automotive. Global consumption of finished steel products rose 6.8% to 1.2 billion tons in 2007, with the USGS expecting this to rise by a further 6.8% in 2008. The increase is likely to be due to stronger demand in Brazil, China, India and Russia, which together accounted for about 41% of global steel consumption in 2006.

In Latin America, finished steel production increased by 11% to 58.6 million tons in 2007, compared with 52.9 million tons in 2006, according to the Latin American Iron and Steel Institute (ILAFA). The jump in production was due to higher industrial production capacity. Imports for finished steel grew by 5% to 12.7 million tons, while exports rose by 13% to 14.5 million tons in 2007.

Raw Steel

Economic growth is considered a predictor of the health of the steelmaking and steel manufacturing industries

Industry Profile

worldwide and domestically. USGS statistics show that global raw steel production picked up by 12.8% to 1.32 billion tons in 2007, compared with 1.17 billion tons in 2006. The world's leading steel producer, China, continued to be an important influence on the world economy and steel markets. China's raw steel production was 482 million tons in 2007, an increase of 15% from 419 million tons in 2006. While output in China rose, raw steel production in Brazil decreased by 3% to 32 million tons in 2007, compared with 33 million tons in 2006, owing to rising operational costs.

Table 6: World Raw Steel Production

Country	Production (000 tons)	
	2006	2007
China	419	482
Japan	116	120
United States	98	98
Ukraine	41	43
Brazil	*33*	*32*
Other countries	463	549
World Total	**1,170**	**1,324**

Source: US Geological Survey

Table 7: World Copper Mine Production

Country	Production (000 tons)	
	2006	2007
Chile	5,360	5,700
United States	1,200	1,190
Peru	1,049	1,200
China	890	920
Mexico	338	400
Other countries	6,287	6,215
World Total	**15,124**	**15,625**

Source: US Geological Survey

Copper

The International Copper Study Group estimates that world copper mine production climbed 3% to 15.5 million tons in 2007, an increase of 465,000 tons compared with 2006. Latin America is well known for its huge reserves of copper, with copper mine production up 6% to 7.1 million tons in 2007, compared with 6.7 million tons the previous year. Chile, the world's largest copper producer, saw its production increase by 6.3% to 5.7 million tons in 2007, compared with 5.4 million tons in 2006. In 2007, Peru's copper mine production totaled 1.2 million tons, an increase of 14%, compared with one million tons in 2006. Mexico showed an 18% increase in copper mine production, from 338,000 tons in 2006 to 400,000 tons in 2007.

Sector Investment

Latin America has become an even more important location for investment, with the international boom in metal prices a major incentive for international investors, whose capital has been welcomed by mining companies wanting to expand. For example, steel producer Gerdau invested US$6.3 billion last year in acquisitions, technological updates and expansion of its industrial plants. Through investment, its installed steel production capacity grew by 24%, from 20 million tons to 24.8 million tons. By the end of the decade, Gerdau's investment is expected to total US$6.4 billion, which it plans to allocate US$4.4 billion for operations in Brazil, US$785 million for Canada and the US, US$859 million for the other Latin American countries, and US$295 million for Spain.

Table 8: Gerdau's Investment for 2008 to 2010

Year	Investment Amount
2008	US$1.5 billion
2009	US$2.8 billion
2010	US$2.1 billion

Source: Gerdau Group

In December 2007, Companhia Siderurgica Nacional (CSN) signed a Letter of Intent with the Minas Gerais State Government, envisaging investments of around R$9.5 billion (US$5.80 billion) in the state over the next six years, including projects in mining, steel and cement production. In addition to expanding its largest mine, Casa de Pedra, from a current annual capacity of 16 million tons of iron ore to 65 million by 2011, CSN plans to build a new integrated steel mill with a total annual capacity of 4.5 million tons, and an iron ore palletizing facility, with an annual capacity of six million tons of pellets, in the same region. It also plans to build a clinker factory and a limestone plant, geared toward cement production, and a steel processing and distribution center as part of its investments in Minas Gerais.

Industry Profile

The municipality of Congonhas will host the main projects, which total around R$9 billion (US$5.49 billion) — R$6.2 billion (US$3.79 billion) of which will go to the installation of a new steel mill, R$850 million (US$518.92 million) to the palletizing plant and R$2.2 billion (US$1.34 billion) for the expansion of the Casa de Pedra mine. The clinker factory and limestone plant will be located in the city of Arcos. These two facilities are expected to absorb joint investments of R$205 million (US$125.15 million). The steel processing and distribution center, an investment of about R$20 million (US$12.21 million), will be installed in the metropolitan region of Belo Horizonte, the capital city of Minas Gerais.

Market Trends & Outlook

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Strong Steel Production in Latin America

The Latin American steel industry is expected to see another strong year in 2008, despite some weakening in the US economy. Demand for steel will remain healthy, thanks in part to dynamic economic growth in the world's emerging markets. In the first eight months of 2007, Latin America produced 43 million tons of crude steel, which accounted for 5% of total world output. The construction, capital goods and automobile sectors are likely to be the main drivers behind the economy and the metal industry in 2008.

Brazil currently dominates Latin America's steel market, where steel production grew by 6.3% in March to 8.6 million tons. Iron and Steel Statistics Bureau (IBS) data shows that March production growth was 8.1% higher than in the corresponding month in 2007. It forecasts that steel production in Brazil will reach 63 million tons by 2013, up from its 2007 level of 34 million tons. The Brazilian steel industry invested US$15.9 billion between 1993 and 2005, and the IBS estimates another US$11.2 billion will be invested up to 2010. Brazilian steel production should increase further, with investment forecast in new units, as the steel sector continues its modernization and expansion process.

In light of this, the steel industry in Brazil is ready to supply the country's strong demand for consumer goods for years to come. According to the IBS, the industry is now working with a capacity 60% above the current demand. Additionally, the industry is expecting production growth of 11.4% in 2008, with semi-finished products accounting for 55.3% of the total.

The IISI estimates that Venezuela's steel output totaled 5.02 million tons in 2007, an increase of 3.3% on 2006. Chile's steel production in 2007 was 1.67 million tons, a 2.5% increase on 1.63 million tons in 2006. However, steel production in Peru decreased by 2% to 881 million tons in 2007, compared with 896 million tons the previous year. The decline in the country's steel production was partly due to a national strike.

In Mexico, CANACERO, the Mexican Iron and Steel Producers Association, forecasts a 78% surge in steel production, from 18 million tons in 2006 to 32 million tons in 2020. The steel sector expects to see investments of about US$19 billion and the creation of an additional 30,000 direct and up to 300,000 indirect jobs. Mexican steel production is expected to grow to 17.8 million tons in 2008. CANACERO said that Mexico's steel sector could jump from 12th to 7th place in the world in terms of cost competitiveness if it reduces its cost structure by 10%.

Table 9: Latin America's Steel Production

Country	2006 (millions tons)	2007 (million tons)
Brazil	30,901	33,784
Venezuela	4,864	5,020
Chile	1,627	1,666
Peru	896	881

Source: International Iron and Steel Institute

Metals Consumption Continues to Grow

The outlook for the metals industry in Latin America is solid for the rest of 2008, with domestic consumption continuing to rise. Steel companies in Latin America have a competitive advantage over other major metals producing economies due to its lower production costs and high distribution capacity. The region has current players adding steel capacity. Newcomers such as ThyssenKrupp AG (FSE: TKA), one of the world's top steel producers, Dongkuk Steel Mill Co Ltd (KSE: 001230), a South Korean steel company, and Baosteel Group Corp (SSE: 600019), China's largest iron and steelmaker, are also looking to boost supply. In its quest, Baosteel agreed in February to pay 65% more for iron ore to Brazil's Cia Vale do Rio Doce (BVSPA: VALE 3) for 12 months beginning April 1, 2008.

Latin America boasts an immense population, rising investment levels in infrastructure, an improving economy, improving profitability of local companies and, most importantly, growing steel consumption. In the first quarter of 2008, steel consumption in Latin America rose 10% to 62.4 million tons, compared with 56.8 million tons in the equivalent quarter of the previous year.

Market Trends & Outlook

Latin America's biggest steelmaker is Brazil, with crude steel output at 11.5 million tons in January to April 2008, compared with 10.7 million tons in the same period of 2007. A Mergent analysis suggests that the Brazilian steel market has been very healthy, thanks to the automobile, energy, and shipbuilding and construction industries. The market is likely to continue its growth, with IBS forecasting consumption of steel products to reach 40 million tons per year in 2015, up from the current 22 million tons per year, a yearly growth of 7.7%.

Consumption for steel manufactured goods is likely to be 13.7% higher in 2008 than in 2007, when construction accounted for 30% of total steel consumption, the automotive sector 26.8% and the capital goods market 20.8%. More steel will be needed in future, as the Brazilian auto industry's target is to produce five million vehicles per year from 2.97 million vehicles in 2007. Chile's total consumption of finished-steel products was 2.2 million tons in 2007, while Mexican steel consumption is expected to rise 3.1% in 2008 from 24.8 million tons in the previous year, according to CANACERO.

Copper Demand Continues to Surge

Strong production growth, high international prices and growing investment all bode well for Latin America's copper industry. Over the past few years, the industry has enjoyed dramatic increases in production, with the Chilean Copper Commission (COCHILCO) forecasting that the region is likely to produce 18.8 billion tons of copper a year by 2010, or 57% of global production. Chile will be the leading producer worldwide, with 6.5 billion metric tons, followed by Peru, with 2.42 billion tons, with Mexico producing 624 million tons of copper by 2010. Brazil will be producing 606 million tons and Argentina will be producing 484 million tons.

International prices for copper have been high since 2003. COCHILCO reported that the average price of copper in 2007 was US$3.23 per pound on the London Metal Exchange, 5.9% higher than the average for 2006, the highest nominal value in history and the third highest in real terms after 1966 and 1969. High copper prices were triggered by the unexpected rise in Chinese demand for copper, which is used in building infrastructure, and the inability of its mining industry to meet local demand.

Chile, the world's largest producer and which holds the biggest global copper ore reserves, is expected to benefit from the high price environment for copper. The Chilean Government controls 30% of the total output through the National Copper Corporation (CODELCO), while the remaining 70% is in private hands. Chile, with a 36% market share, will outshine the rest of Latin America as its copper industry continues to grow.

New investments in copper have been largely responsible for the increased supply in Latin America. COCHILCO forecasts that overall spending will rise to US$20 billion between 2005 and 2010. As the world's largest copper producer, CODELCO will lead the way in investment, spending US$6.97 billion by 2010. Other copper companies in Chile will spend about US$4.65 billion, and another US$3.59 billion will come from investments in gold mining, of which copper is a by-product.

Market Outlook

The overall Latin American metals industry is likely to have a good year in 2008, despite slowing growth in the US, other western markets and even emerging markets like China. The outlook reflects continued modernization of equipment, increased worker productivity, the creation of more effective management structures and, most importantly, improving domestic economies. Cooperation between authorities and metals companies will also contribute to the strengthening of the region's chain of production, including small and medium-sized businesses.

Brazilian steelmakers as such face a rosy outlook. They operate efficient production facilities, are often close to iron ore sources and benefit from a highly concentrated domestic market, which limits competition based upon prices. However, producers that are not integrated into either coal or iron ore are facing margin pressure this year, as coal prices are expected to rise by 100% and iron ore prices are expected to increase by 65%. Iron ore and coking coal account for more than one third of a typical integrated steelmaker's cost of goods sold.

Country Profile

Brazil

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Sector Overview

Brazil is blessed with abundant raw materials, cheap labor and sophisticated mining and production technology. The country is one of the main beneficiaries of China's voracious appetite for steel — despite the Chinese Government's efforts to curb its own steel exports to reduce domestic energy consumption and cut pollution. The reduction of Chinese Government support for exporting its domestic steel will benefit steelmakers in the rest of world by reducing supply on the world market. Even so, and with China consuming more of its own steel, Brazil's steel industry is struggling to keep up with Chinese steel demand, and is investing billions of dollars to boost its production capacity by more than 30% over the next four years.

Meanwhile, Brazilian producers of non-ferrous metals, which include products like sanitary metals, locks and household appliances, are competing to acquire greater market share in the Middle East. In February 2008, the Non-Ferrous Metal Artefact Union of the State of Sao Paulo (Siamfesp) and the Brazilian Export and Investment Promotion Agency (Apex-Brazil) signed an agreement to promote steel sector products in six Arab countries: Saudi Arabia, Qatar, Bahrain, Oman, Kuwait and the UAE. The investment should total R$3.22 million (US$1.96 million) over the next two years, helping to make artifacts made in Brazil better known globally.

Sector Performance

The Brazilian metals sector continued to show resilience in 2007, helped by a booming domestic economy and growing levels of investment within the sector. The Brazilian economy expanded by 5.4% in 2007, exceeding the global growth average. This helped boost the metal industry, with almost all sectors posting excellent performances, especially those related to consumption, such as in the automotive sector. Also strong were those linked to investments in infrastructure and capacity expansion, such as industrial equipment, road and agricultural equipment, large-diameter pipes and civil construction, and in forming business alliances.

Brazilian Steel Institute figures show that domestic demand for flat rolled steel grew by 22% in the fourth quarter of 2007 and by 18% for the whole year, owing to high demand from the local construction industry. Also contributing to the growth was an increase in demand of steel from the automotive sector, which is also experiencing a boom. The automotive sector is expected to continue providing a boost to the Brazilian metal industry, with most leading steel companies reporting favorable financial results. The Brazilian motor vehicles association, Anfavea (Associacao Nacional dos Fabricantes de Veiculos Automotores), estimates the automotive sector outperformed other sectors, with record production of around 2.97 million vehicles in 2007. Domestic sales of vehicles rose 28% in comparison with 2006 to 2.46 million units in 2007.

Leading Companies

Metalurgica Gerdau SA (BVSPA: GOAU3)

Brazil's Gerdau SA, Latin America's largest steelmaker, reported gross revenue up to R$10.0 billion (US$6.10 billion) in the first quarter of 2008, an increase of 23.8% compared with the same period in 2007. Its EBITA grew 30.4% from the first quarter of 2007 to R$2 billion (US$1.22 billion) in the first quarter of 2008, while its EBITA margin reached 22.2% compared with 20.8% in the same quarter of the prior year. However, net income dipped 7.5% to R$1.1 billion in the first quarter of 2008, compared with the first quarter of 2007, primarily due to a lower exchange gain on the financing contracts in foreign currency executed by the Brazilian operation, and also from the acquisitions carried out during the period.

Usinas Siderurgicas de Minas Gerais SA – USIMINA (BVSPA: USIM3)

Usinas Siderurgicas de Minas Gerais SA is a Brazilian-based company that is principally engaged in the steel industry and produces non-coated steel including slabs, heavy plates, hot and cold-rolled sheets and coils, and galvanized sheets and coils. The company posted revenues of R$3.6 billion (US$2.19 billion) for the first quarter of 2008, up 7% from R$3.3 billion (US$2.01 billion) in the first quarter of 2007. Its gross profit was R$1.2 billion (US$732.11 million) for the first quarter of 2008, an increase of 8% compared with R$1.1 billion (US$671.52 million) for the corresponding quarter of 2007. Meanwhile, its net profit

Country Profile - Brazil

slightly improved by 1% to R$646 million (US$394.12 million) for the first quarter of 2008, compared with R$642 million (US$391.89 million) for the first quarter of 2007.

Sector Investment

Continuing strong domestic demand is encouraging a new round of investment projects in the Brazilian steel industry, including investments by foreign companies aiming to import more steel from Brazil in the future. In January 2008, China's steel making giant, Baosteel, received approval from Brazil's anti-monopoly authority to build a joint venture steel plant with Companhia Vale Do Rio Doce (CVRD), one of the largest iron ore suppliers in the world. The first phase of the project, representing an investment of US$3 billion, will begin construction in 2009 and start operation in 2011, with an expected annual output of 7.5 million tons.

Market Outlook

Despite the price hikes of key raw materials, the outlook for the Brazilian steel industry in 2008 is promising, thanks to strong demand from booming emerging countries such as Russia, India and China, as well as strong domestic demand. As a result, most of Brazil's leading metals companies are expected to continue making solid profits and enjoy improved cash flows. At the same time, they are all endeavoring to reduce costs and boost productivity in order to maintain their market position and improve margins.

Country Profile

Chile

Sector Overview

Chile is the world's largest source of copper, and the metal, used in electronics, electrical wiring, plumbing, heating, air conditioning, roofing materials and car radiators, among other things, remains the country's main growth driver. China is a major customer in the metals industry, particularly copper, boom, thanks to strong demand and growth in Chinese construction and cable production. Its growing demand for copper has made China the world's largest consumer, taking 25% of global copper production, according to International Cablemakers Federation (ICF).

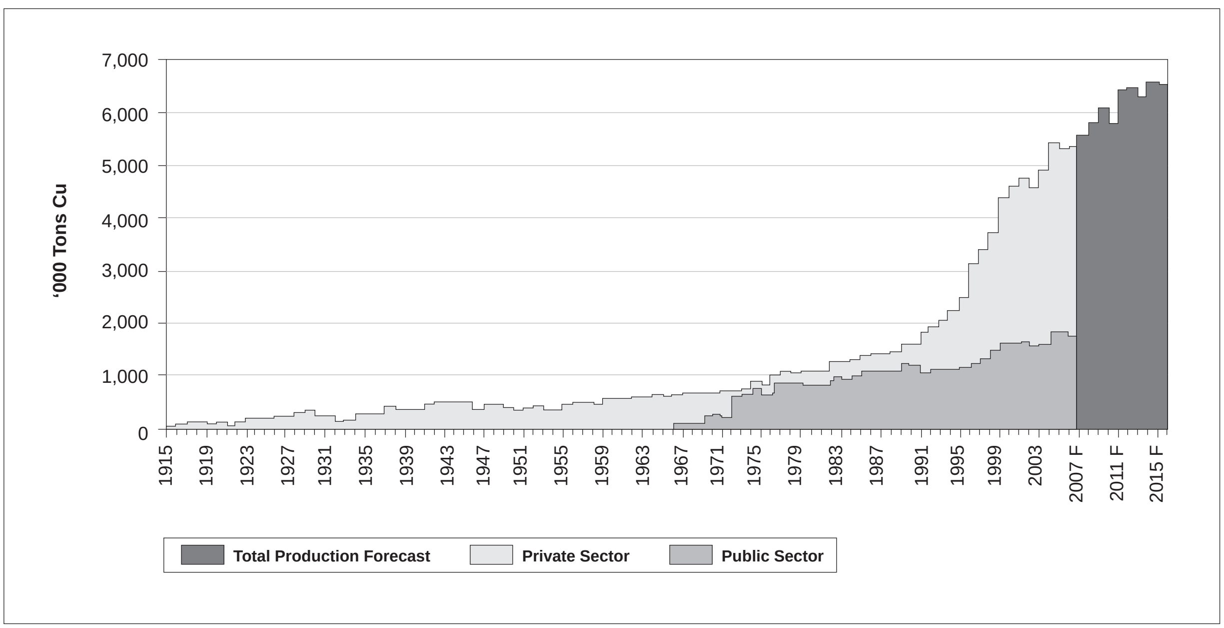
To improve its metals industry, Chile has formed trade agreements with several Asian countries. In January 2007, Asia received 40.5% of Chile's exports, making it the country's most important export market. The figure represented a 76.1% increase from the same month of 2006. Specifically, 26% of Chile's copper exports went to China and another 20% to India, a 163% increase from the previous year, making them the largest consumers of copper exports. With demand still strong, copper companies are likely to enjoy robust profits in 2008.

Sector Performance

Chile is the world's top copper producer, with the metal accounting for over half of Chile's export income, thanks to limited global supplies and booming Asian demand, which have helped push the nation's trade surplus to record levels. In early March, copper prices surged to above US$4 per pound (lb) on the London Metal Exchange, matching record highs in 2006, prompting Chile's state copper commission to announce it would modify its forecast average price of US$3.10 per lb for 2008. The value of Chile's copper exports was US$3.012 billion in February 2008, compared with US$2.538 billion in the same month of 2007.

In a big boost to the sector, Chilean molybdenum producer Molibdenos y Metales SA (BSAN: MOLYMET) announced it would invest US$124 million to build a processing plant in the Melillones industrial complex in Northern Region II. The plant is expected to enter production at the end of 2009 and have a 33.5 million pound (Mlb/y) or 15,195 ton per year (t/y) processing capacity to convert molybdenite concentrate into molybdenum trioxide. Through the

Table 10: Copper Production in Chile



Source: Chilean Copper Commission (COCHILCO)

Country Profile - Chile

investment, the company is expected to boost its production and is likely to see an improvement in financial performance.

Leading Companies

Molibdenos y Metales SA (BSAN: MOLYMET)

Based in Santiago, Molibdenos y Metales SA is a Chilean company engaged in processing molybdenum concentrates. Its products are used in specialty steelmaking, the chemicals industry and metallic and superalloys. Its profit rose 14% to US$151 million in 2007, compared with US$132 million in the previous year. Its revenues for the year were up 29% to US$2.65 billion, compared with US$2.06 billion in 2006. The increase in earnings was due to higher molybdenum prices that offset a slight decline in physical sales. Last year, the company sold 77,374 tons of molybdenum, compared with 77,548 tons in 2006. Prices averaged US$34.29 per kg in 2007, compared with US$27.10 per kg in 2006.

Madeco SA (BSAN: MADECO)

Madeco SA, founded in 1944, has subsidiaries in Argentina, Brazil, Peru and Columbia. The company's net income dropped 26% to CLP$2,163 million (US$4.46 million) in the fourth quarter of 2007, compared with CLP$2,921 million (US$6.03 million) in the same quarter of 2006. The drop was mainly due to a reduction in operating income of CLP$2,005 million (US$4.14 million), a decrease of 31.6% compared with the fourth quarter of 2006, and higher non-operating losses of CLP$1,554 million (US$3.21 million). The reduction was partially offset by a drop in income tax obligations, minority and other charges totaling CLP$2,802 million (US$5.78 million). Revenue for the quarter was down 2.1% compared with the equivalent quarter of the previous year, totaling CLP$139,711 million (US$288.21 million). The slight fall was due to 4.7% lower sales by the Brass Mills unit because of lower market prices, a depressed exchange rate affecting exports and greater products substitution, while sales by its Profiles unit fell 8.6% due to tougher competition from Chinese imports. Sales at the copper rod division plummeted 41.7%, due to lower sales to third parties because of higher utilization for internal consumption.

Market Outlook

The outlook for Chile's metal industry looks bright, particularly the copper market, with the country having the highest number of copper projects in the world. A report published by COCHILCO estimates that between 2006 and 2015, 26 of the world's total 166 projects will be in Chile. Another industry association, SONAMI, has forecast that Chile's copper output would rise by 5.5% in 2008 to about 5.9 million tons.

Chile ranks number one in the world for copper production and should maintain its position in the coming years. In 2005, Chile produced 5.3 million tons of copper, with COCHILCO suggesting that the country will produce more than 6.5 million tons a year by 2015. High demand for copper and the country's political and economy stability will be the influential factors in the metal industry's growth.

Country Profile

Mexico

Sector Overview

The slowdown in the US economy over the last year was also the chief reason why the Mexican steel industry operated in an even more volatile environment. Its leading companies tended to suffer with lower profits and lower sales, despite rising metals prices on the global market. The US is a major customer for Mexican industry across the board so the slowdown in the US affected the metals industry in Mexico significantly over the last year. Nevertheless, escalating demand for steel from the rest of the world, particularly China, helped sustain the Mexican steel industry to some degree and avoid further retraction.

Mexico is also Latin America's biggest consumer of steel in per capita terms, a position it has held since 1998. The country's growing steel consumption is an indicator of its development, with leading players recording considerable improvements in their financial results. While steel sales in Mexico have improved over the past few years, concerns exist over its import levels and balance of trade with key trading partners.

According to the Mexican Steel Producers Association (CANACERO), higher energy costs and a lack of structural reforms in Mexico threaten the survival of the country's steel industry. Iron and steel are the most energy-intensive industrial sectors in Mexico, with energy supply (either gas or electricity) representing about 25% to 40% of production costs. It is therefore vital for Mexican steelmakers to improve their efficiency and manage costs in order to stay competitive in the global market. Yet this is what they struggled to do in the latter part of 2007 and into 2008.

Sector Investment

The year 2007 was nevertheless a solid one for the Mexican metals market, with production levels nearing 17 million tons and sales for the year totaled 26.6 million tons. Mexican steel companies are pinning their investment plans on the Government's progress in improving the tax system, labor laws and the energy sector. As the industry continued to see firm demand, it attracted more foreign investment, particularly from India, helped by preferential trade agreements. Mexico is expected to receive US$10 billion in foreign direct investment from India within the next four years, which will be allocated to several primary industries, including steel. CANACERO projects that by 2012 the industry will receive US$4 billion in investments, of which US$600 million will come from foreign steel companies.

Leading Companies

Grupo IMSA SA de CV (MXN: IMSA)

Grupo IMSA SA de CV, a leading Mexican company that provides processed steel products, steel and plastic construction products, and aluminum and other related products, reported 49% lower net income to MEX$1.32 billion (US$126.71 million) in 2007 compared with MEX$2.59 billion (US$248.60 million) in the preceding year. The drop in net income was mainly due to the weakness in the Mexican automotive industry, which was straddled with high inventory levels in the production chain. Its gross profit dropped 36% to MEX$3.2 billion (US$307.15 million) in 2007 compared with MEX$5 billion (US$479.92 million) in the previous year, primarily as a result of higher operating expenses. Its total operating expenses for 2007 grew 10% to MEX$24.1 billion (US$2.31 billion) compared with MEX$22 billion (US$2.11 billion) in 2006, while unusual expenses for 2007 totaled MEX$737.5 million (US$70.79 million). On a positive note, sales climbed 4% to MEX$26.8 billion (US$2.57 billion) in 2007 compared with MEX$25.8 billion (US$2.48 billion) in 2006, thanks to a revision in product prices.

Grupo Simec SAB de C.V. (AMEX: SIM)

Grupo Simec SAB de CV, based in Guadalajara, Mexico, is a mini-mill steel company, engaged in the manufacturing, processing, and distribution of special bar quality steel and structural steel products in North America. The company's net profit for the third quarter of 2007 was down 35% to MEX$361 million (US$34.65 million), compared with MEX$555 million (US$53.27 million) in the equivalent quarter of 2006 due to weak sales. Its net sales dropped 2% to MEX$5.66 billion (US$543.45 million), compared with MEX$5.77 billion (US$554.01 million) in the third quarter of 2006. The drop was due to lower shipments during the quarter, by 45,000 tons from the third quarter of the previous year.

Country Profile - Mexico

Gross profit for the quarter fell 33% to MEX$789 million (US$75.76 million), compared with MEX$1.19 million (US$114,260.41) in the same period of 2006. The decline was driven by a drop in sales and a rise in cost of goods sold. Its cost of sales grew 6% to MEX$4.59 billion (US$440.78 million) compared with MEX$4.87 billion (US$467.72 million) in the third quarter of 2006. The increase was primarily due to a rise in maintenance costs in plants located in the US and an increase in labor costs per ton sold.

Market Outlook

The outlook for Mexico's steel industry remains solid, with growth nevertheless expected to continue in the coming years at albeit slower rates. Mergent is of the view that Mexican steel consumption could be a lot higher in the coming years if the world economy and the steel industry remain strong and solid. In terms of domestic consumption, CANACERO expects domestic steel consumption in 2008 to rise 3.1% from 24.8 million metric tons in 2007. This is based on 4% consumption growth in the main consumers of steel: the construction and automotive industries, as well as the manufacturers of steel products and home appliances. Meanwhile, production is expected to grow 4.2% to 18.3 million metric tons in 2008, fueled by solid demand from the global construction industry. Overshadowing this growth is the continued slowdown in the US economy and the possibility of prices correction in the global commodity markets.

Country Profile

Peru

Sector Overview

Although Peru's economy relies heavily on its mining and metal industries, it has changed dramatically over the past decade, thanks to more liberal economic policies applied during the nineties, which put Peru on a path to economic recovery. As a result, foreign investment in the country has provided it with more resources to sustain its economic growth rate. Its gross domestic product (GDP) grew by more than 7% in 2007, with recent economic expansion due to construction, mining, export growth, investment and domestic demand.

Over the last year Peru benefited particularly from rising copper prices and strong demand from emerging economies. The country is the world's second largest producer of copper, producing 100,701 tons in February 2008 — 22.06% more than the 82,498 tons produced in the equivalent month of the previous year. The Mining and Energy Ministry estimates that during 2007, copper production surged 13.53% to 1.19 million tonnes, from 1.05 million tones in the previous year. However, despite this leading companies suffered as a result of industrial action over pay and health and safety conditions.

Sector Investment

In 2007, Southern Copper Corp (BVL: SPC.LM) announced US$2,108 million in investment that would increase the company's annual copper production by 27,000 tons by 2011, an increase of 39% from the current production level. Currently, the company is evaluating the best options to finance these projects.

The company also announced in April that it expected to invest about US$1.3 billion in its Peruvian copper project in Los Chancas. This will be in addition to some US$2 billion of investments that the company announced late last year, which the Government has approved. The leading global copper producer has completed a pre-feasibility study for Los Chancas that shows annual copper production of 80,000 tons a year. The full feasibility study, to start in May or June, should be completed by the end of 2008.

Another of the company's copper projects in Peru, Tia Maria, which should see construction start in early 2009, could produce about 120,000 tons of copper per year. Investment in this project will total US$934 million and production is likely to start in 2010. The company is seeing growth in its earnings and is likely to produce 650,000 tonnes of copper this year at its mines in Mexico and Peru, up from 592,000 tonnes last year.

Leading Companies

Southern Copper Corp (BVL: PCU)

Southern Copper Corp, formerly known as Southern Peru Copper Corp, is one of world's largest integrated copper producers and has the largest copper reserves of any listed company. The company estimates that its copper production will be 700,000 metric tons in 2009 and its 2010 production is likely to total 750,000 metric tons, based on contributions from the Tia Maria project in the southern Arequipa province.

The company, listed on both on the NYSE and Lima Stock Exchange (BVL), is 75.1% owned by Grupo Mexico SA. Despite rising copper prices and strong overseas demand, its earnings for the fourth quarter of 2007 fell 53% to US$311.2 million, or US$1.06 per share, compared with US$655.2 million, or US$2.23 per share, in the equivalent quarter of 2006. Its net sales also dropped, by 22% to US$1.29 billion, compared with US$1.65 billion in the fourth quarter of 2006. The drop in earnings was due to a strike at Cananea, which began in the third quarter of 2007, as workers sought improved health and safety conditions and a 10% pay rise. The strike ended on January 11, 2008 as the union leaders and Southern Copper officials signed a settlement pact advocated by the Peruvian Labor Ministry.

In line with this, its operating income for the quarter fell 35% to US$629.9 million, compared with US$968.2 million in the same quarter of the previous year. Copper sales amounted to 292.6 million pounds in the fourth quarter, a drop of 28% from 404.2 million pounds in the corresponding quarter of the previous year. However, molybdenum production increased by 1.2 million pounds, from 8.2 million pounds in the fourth quarter of 2006 to 9.4 million pounds in the same quarter of 2007, thanks to higher grades at Peruvian mines.

Country Profile - Peru

Mergers and Acquisitions

Overseas companies looked for opportunities to consolidate Peruvian copper companies in order to meet rising domestic demand and help diversify earnings. For instance, China wanted to buy a large state-owned, metal and mining firm to secure supplies to meet its surging demand. In August last year, the Aluminum Corporation of China (Chinalco) finished its acquisition for a 91% stake in Vancouver-based Peru Copper Inc. Chinalco entered into an agreement with Peru Copper to acquire all of the latter's outstanding shares for a total of about C$840 million (US$295.47 million) in cash, at a price of C$6.60 per share (US$2.32) in June 2007. The acquisition of the Peru Copper shares was financed through Chinalco's cash on hand. As of August 1, 2007, Chinalco completed its acquisition of a 91% stake of Peru Copper Inc. The company said that it would continue its efforts to obtain the rest of the shares for a complete takeover as soon as possible.

Market Outlook

Peru's metals industry, despite the threat of industrial action, faces a rosy outlook with commodity prices still high on the global markets, demand still strong from key trading partners, and domestic economic robust. Chinese exports to Peru, including high-tech products, are expected to increase fourfold to US$12 billion by 2015. One of the developments which helped boost the sector was a trade and investment agreement between Peru and China ahead of a free trade deal planned for November 2008. The two countries, whose trade totaled US$5.3 billion in 2007, plan to sign a preliminary partnership in the coming months to boost commerce more than fourfold by 2015. The preliminary agreement includes plans to boost Peruvian exports to China, including copper and wood, fivefold to US$15 billion.

Peru's President predicted that Chinese investment in Peru, now largely focused on three mining projects, could soar from less than US$2 billion in 2008 to US$10 billion by 2015, possibly extending to ten mining and petrochemical projects. The Chinese Development Bank and about 80 Chinese businesses agreed in March to pour cash into mining, infrastructure, logging, fishing, and tourism projects. Investment from China will boost the metal industry in the coming year, and most leading players will likely see substantial growth in their production capacity, leading to a positive earnings outlook.

Country Profile

Venezuela

Sector Overview

In line with President Chavez's agenda to divert more profits back into the local economy and privatize key industries major industries in Venezuela have undergone a series of rapid nationalization programs over the past two years. After seizing control of foreign-owned electricity, gas and telecommunication companies, the Venezuelan Government announced in April plans to nationalize the country's largest steelmaker, Ternium Sidor, siding with workers who sought improved salaries and benefits. Luxembourg-based steelmaker Ternium SA (NYSE: TX) owns 60% of Sidor, while the remaining 40% of shares belong to the Government and the company's current and former employees.

The Government claims that the nationalization of Sidor will conclude a 14-month collective contract dispute between Sidor and the United Steel Industry Workers Union (SUTISS), with the main objectives of protecting workers' rights and increasing the company's supply of steel to the domestic market. In mid May, President Chavez signed a law formalizing the nationalization of Sidor and appointed Rodolfo Sanz, Minister of Basic Industries and Mining, as the company's president. In accordance with the nationalization law, Ternium, which is still negotiating terms with the Government, must complete the handover of Sidor by June 30.

The takeover of Sidor will allow the Government to control prices and production as well as speed up work projects. However, investors reacted with alarm to the Government's move and Ternium's share price was down more than 10% following the news. In the short term, the nationalization of Sidor should bring political benefits for the Government, which has made workers' protection its priority. Nevertheless, its complex labor relations with the 10,000 workers of Sidor remain a challenge for the Government in the long run.

Leading Companies

Ternium Sidor

Sidor, the formal name of which is Siderurgica del Orinoco, was privatized in 1997, and is one of the largest steelmakers in Latin America. The company produces about 85% of the five million metric tons of steel produced annually in Venezuela. For the first quarter of 2008, Sidor's operating income totaled US$434.9 million, an increase of 46% compared with US$297.2 million in the previous quarter, mainly due to higher steel prices, partially offset by higher costs and lower volume. Shipments dropped off to 2.7 million tons in the first quarter, down by 3% from the fourth quarter of 2007, as work stoppages led to lower shipments in South and Central America, partially offset by higher shipments to North America.

Industry Size and Value

The Centre for Economics Policy Research, reviewing statistics gathered through 2007, noted that Venezuela's economy has been one of the fastest growing in Latin America and the world over the past five years. Since the first quarter of 2003, the country's real GDP has grown by 87.3%.

This growth has helped Venezuela become one of the world's top aluminum producers. The country produces about 680,000 tons, or 4% of the 17 million tons produced globally each year, with most of its aluminum ore (bauxite) coming from the near the Guyana border. The

Table 11: Production of Crude Steel and Direct Reduced Iron in Venezuela (Tons)

	January 2008	February 2008	March 2008	April 2008	Total
Crude Steel	440	400	380	370	**1,590**
Direct Reduced Iron	670	605	630	610	**2,515**

Source: International Iron and Steel Institute

Country Profile - Venezuela

International Aluminum Institute estimates that as of July 2007, Venezuela possessed aluminum inventories of about 535,000 tons, while production capacity increased from 847 tons in June 2007 to 862 tons in December 2007.

The IISI estimates that Venezuela's production of crude steel ranked 29th in the world and amounted to 1,590 tons in the first four months of 2008. Production of direct reduced iron (DRI) stood at 2,515 tons in the first four months of 2008, accounting for 13% of global production.

Market Outlook

Growth in the Venezuelan metal industry is expected to remain robust in the second half of 2008. In October 2007, President Chavez inaugurated a new steel industry as well as a factory to produce piping for the national oil industry, a product Venezuela has traditionally imported. As huge deposits of iron and bauxite remain important supplies for the new industries, metals companies in Venezuela will expect to see positive growth in their earnings in the near future.

A joint automobile project between Iran and Venezuela currently produces about 20 tractors daily. The company, Veniran Tractor, hopes to produce 70% of the tractors in Venezuela in 2010. Last year, Venezuela produced only 18% of the tractors. The goal is to produce 100% of the tractors inside Venezuela by 2010. As the automobile sector relies quite heavily on the country's steel industry, the country is likely to see larger production and higher demand for steel in the next few years.

Currency Conversion Table

Currency exchange rates as of June 11, 2008

Currency Units	US$ per Unit	Units per US$
United States Dollars ($)	1	1
Canadian Dollars (C$)	0.976553	1.02401
Brazilian Reals (R$)	1.64332	0.608523
Chile Pesos (CLP$)	484.750	0.00206292
Mexico Pesos (MEX$)	10.4135	0.0960292

Source: Federal Reserve Bank of New York
Note: Base currency is United States Dollar (US$)

The Scope Of This Report

This report looks at the metal works industry in Latin America, with a focus on Brazil, Chile, Mexico, Peru and Venezuela. This report aims to paint a picture of the current environment and industry developments in a number of industry segments using available data and examination of key public companies in each segment whose core services fall into the above categories. Some reported key financial results are presented in the comparative data tables on proceeding pages.

Research analysts draw on a range of credible industry and company data sources as well as news and information services to research and analyze the current trading environment, industry landscape and market trends and outlook for a particular sector. Primary sources are used, unless otherwise indicated, and include company data, e.g. annual reports and company financial results; macroeconomic and trade data; data and information from global and country regulatory, industry and trade bodies; government data; and reports from industry organizations and private research organizations.

Industries covered by the industry reports are defined by standard industry classification systems and leading companies are identified on this basis. The following SIC codes are relevant to the industry: 3312 (Steel Works, Blast Furnaces(Including Coke Ovens) and Rolling Mills); 3316 (Cold-Rolled Steel Sheet, Strip and Bars); 3317 (Steel Pipes and Tubes); 3331 (Primary Smelting and Refining of Copper); 3334 (Primary Production of Aluminum); 3339 (Primary Smelting and Refining of Non-ferrous Metals, except Copper and Aluminum); 3341 (Secondary Smelting and Refining of Non-ferrous Metals); 3353 (Aluminum Sheet, Plate and Foil).

Key References

Global and Regional

Asia-Pacific Economic Cooperation (APEC)
APEC is a forum to facilitate economic growth, cooperation, trade and investment in the Asia-Pacific.
http://www.apec.org

International Federation of Chemical, Energy, Mine and General Workers' Unions (ICEM)
ICEM is a global trade union which monitors and negotiates global agreements with multinational companies, mainly on workers' rights, equality at work, the standards of health, safety and environmental issues worldwide.
http://www.icem.org/

International Iron and Steel Institute (IISI)
IISI is an international organization of 190 steel producers established to provide a forum to address the major strategic issues and challenges it faces on a global basis.
http://www.worldsteel.org/

International Aluminum Institute (IAI)
IAI is the global forum for the world's aluminum producers and produce timely publications and reports, compile key industry statistics, host events and provide a global meeting point for its members.
http://www.world-aluminium.org/

International Labor Organization (ILO)
Founded in 1919, the ILO is a non-profit organization which aims to promote human rights at work, encourage decent employment opportunities, enhance social protection and strengthen dialogue in handling work-related issues.
http://www.ilo.org/

London Metal Exchange (LME)
The London Metal Exchange provides a global forum on managing the risk of future price movements in non-ferrous metals. Prices published on LME are seen as a true reflection of demand and supply by trade and industry.
http://www.lme.co.uk/

Metals Economics Group (MEG)
Founded in 1981, the MEG provides research data and analytical tool on global minerals exploration, development, and production, as well as strategic planning issues and acquisitions activity.
http://www.metalseconomics.com/

The Economic Commission for Latin America and the Caribbean (ECLAC)
Established in 1948, the ECLAC aims to contribute to the economic development of Latin America, coordinate efforts, and reinforce economic relationships among countries. Headquartered in Santiago, Chile, it is one of five regional commissions of the United Nations.
http://www.eclac.org/

US Geological Survey (USGS)
An independent fact-finding government agency of the United States Government that collects, monitors, analyzes and provides scientific understanding about natural resource conditions, issues and problems in the US.
http://www.usgs.gov

Council on Hemispheric Affairs (COHA)
Founded in 1975, COHA, a nonprofit, tax-exempt independent research and information organization, was established to promote the common interests of the hemisphere, raise the visibility of regional affairs and increase the importance of the inter-American relationship, as well as encourage the formulation of rational and constructive US policies towards Latin America.
http://www.coha.org/

International Copper Study Group (ICSG)
ICSG, established in 1992, in an intergovernmental organization that serves to increase copper market transparency and promote international discussions and cooperation on issues related to copper.
http://www.icsg.org/

Latin American Iron and Steel Institute (ILAFA)
ILAFA is a civil non-profit non-governmental international organization that gathers and looks after the interests of Latin American iron and steel industry and companies.
http://www.ilafa.org/

Brazil

Instituto Brasileiro de Siderurgia (IBS)
IBS is the Brazilian Steel Institute, founded in 1963, undertakes the goal of bringing together and representing Brazilian steel companies, supporting their interests and promoting their development.

Associação Brasileira do Aluminio (ABAL)
Founded in 1970, ABAL is the Brazilian Aluminum Association to assist development in the aluminum industry together with public authorities and plans that cover the industry in the country.
http://www.abal.org.br/

Departamento Nacional de Produção Mineral (DNPM)
The National Department of Mineral Production was established as a self-governing body in Brazil to provide information and data on mining or mineral production in the country.
http://www.dnpm.gov.br/

Associacao Nacional dos Fabricantes de Veiculos Automotores (Anfavea)
Founded in 1956, Anfavea brings together manufacturers of autoveiculos (cars, light commercial, trucks, buses) and agricultural machines (tractors with wheels and mats, harvesters and backhoe) with industrial plants in Brazil.
http://www.anfavea.com.br/

Chile

Comisión Chilena del Cobre (COCHILCO)
COCHILCO is the national organization to provide reliable information to sustain and reinforce the Chilean mining industry, except for coal, oil and gas.
http://www.cochilco.cl/

Bolsa De Santiago
The Santiago Stock Exchange contains news, statistics, and regulatory information about Chile's main stock exchange.
http://www.bolsadesantiago.com/english/index.asp (English)

Chilean Government portal
A portal for economic and statistical information on Chile.
http://www.chileangovernment.cl/ (English)

Mexico

Cámara Nacional de la Industria del Hierro y el Acero (CANACERO)
The Mexican Steel Producers Association is a self-governing institution that brings together steel producers and transformers in Mexico and consists of 63 associated companies.
http://www.canacero.org.mx/

Instituto Nacional de Estadística Geografía e Informática (INEGI)
The National Institute of Statistics, Geography and Information is a subsidiary of the Secretariat of Property and Public Credit, which provides statistical and geographic information on the territory, the pollution and the economy of Mexico.
http://www.inegi.gob.mx/

Bolsa Mexicana de Valores
The Mexican Stock Exchange is a private institution, legally incorporated as a limited company with variable capital that operates under a concession from Mexico's Ministry of Finance and Public Credit and is governed by the Securities Market Act.
http://www.bmv.com.mx/

Peru

Commission of Promotion of Peru for the Export and the Tourism (PROMPERU)
PROMPERU develops and promotes exports and tourism activities in the country.
http://www.promperu.gob.pe/

Instituto Nacional de Estadística e Informática (INEI)
The Peruvian National Institute of Statistics reports on the state of the Peruvian economy, and social environment that help monitor changes in Canadian society and industry.
http://www.inei.gob.pe/

Venezuela

Association of Metallurgical Industrialists and Mining of Venezuela (AIMM)
AIMM is a civil association that represents the industrial companies of the metallurgical and mining sector in Venezuela.
http://aimm-ven.org/

Company Name	Country	Ticker	Exchange	Primary SIC	Other SICs				
Metalurgica Gerdau SA	Brazil	GOAU3	BVSPA	3312	3315	5051	7374	2421	212
Usinas Siderurgicas de Minas Gerais SA - USIMINA	Brazil	USIM3	BVSPA	3312	3441	2813	2819		
Companhia Siderurgica Nacional	Brazil	CSNA3	BVSPA	3312	1411	4911	4011		
Navarino SA	Chile	NAVARINO	BSAN	3339	3398	7922	4449	6719	
Grupo IMSA SA de CV	Mexico	IMSA	BMV	3399	3316	3325	3711	3714	5039
Molibdenos y Metales SA	Chile	MOLYMET	BSAN	3313					
Acesita SA	Brazil	ACES3	BVSPA	3312					
Siderar SAIC	Argentina	ERAR	BUE	3312	3316				
Caraiba Metais SA	Brazil	CRBM3	BVSPA	3331	3351	2819			
Madeco SA	Chile	MADECO	BMV	3351	3354	3085	3086	3081	

Company Name	Total Revenue - FYE - 1	Total Revenue - FYE - 2	Total Revenue - FYE - 3	EBITDA - FYE - 1	EBITDA - FYE - 2	EBITDA - FYE - 3
Metalurgica Gerdau SA	$11,026,819,948	$9,161,057,178	$7,159,469,438	$2,519,499,883	$2,229,180,601	$1,953,730,873
Usinas Siderurgicas de Minas Gerais SA - USIMINA	$5,813,775,697	$5,577,011,504	$4,472,818,093	$1,925,620,698	$2,418,608,391	$1,814,693,183
Companhia Siderurgica Nacional	$4,233,373,449	$4,292,685,712	$3,580,077,399	$1,240,177,008	$1,624,552,453	$1,371,990,567
Navarino SA	$3,841,669,965	$3,970,664,831	$2,775,406,380	N/A	N/A	N/A
Grupo IMSA SA de CV	$3,472,246,655	$3,140,061,162	$2,888,433,804	N/A	N/A	N/A
Molibdenos y Metales SA	$2,056,939,000	$2,089,597,000	$974,178,000	N/A	N/A	N/A
Acesita SA	$1,661,001,171	$1,366,215,199	$1,166,986,684	$442,117,537	$370,568,362	$364,130,343
Siderar SAIC	$1,655,414,020	$1,453,237,400	$1,232,114,008	N/A	N/A	N/A
Caraiba Metais SA	$1,530,564,739	$850,941,710	$649,224,445	$219,670,803	$39,804,559	$50,240,194
Madeco SA	$1,050,919,040	$725,644,797	$600,708,679	N/A	N/A	N/A

Company Name	Net Income - FYE - 1	Net Income - FYE - 2	Net Income - FYE - 3	EPS - FYE - 1	EPS - FYE - 2	EPS - FYE - 3
Metalurgica Gerdau SA	$630,051,042	$545,517,684	$525,006,735	$3.42	$4.42	$6.36
Usinas Siderurgicas de Minas Gerais SA - USIMINA	$1,177,926,013	$1,675,759,740	$1,102,869,793	N/A	N/A	N/A
Companhia Siderurgica Nacional	$546,722,079	$857,581,149	$724,006,783	N/A	N/A	N/A
Navarino SA	($13,962,176)	$35,207,333	$52,657,405	N/A	N/A	N/A
Grupo IMSA SA de CV	$230,915,235	$192,143,025	$288,816,497	$0.41	$0.34	$0.51
Molibdenos y Metales SA	$132,213,000	$139,313,000	$34,939,000	N/A	N/A	N/A
Acesita SA	$293,742,917	$252,725,484	$248,195,763	N/A	N/A	N/A
Siderar SAIC	$437,633,917	$392,840,374	$451,758,163	N/A	N/A	N/A
Caraiba Metais SA	$170,058,066	$10,166,788	$36,116,898	$5.67	$0.34	$1.20
Madeco SA	$56,769,052	$23,853,432	$15,780,559	N/A	N/A	N/A

Company Name	Total Current Assets - FYE - 1	Total Current Assets - FYE - 2	Total Current Assets - FYE - 3	Long-Term Debt - FYE - 1	Long-Term Debt - FYE - 2	Long-Term Debt - FYE - 3
Metalurgica Gerdau SA	$6,617,701,241	$5,208,128,983	$3,526,711,075	$3,274,032,779	$2,594,832,143	$1,484,656,905
Usinas Siderurgicas de Minas Gerais SA - USIMINA	$3,550,565,675	$2,839,723,731	$2,314,350,394	$1,086,002,810	$980,449,044	$1,281,699,967
Companhia Siderurgica Nacional	$3,712,368,064	$3,491,460,035	$3,144,949,171	$3,907,664,247	$3,136,471,796	$2,446,702,178
Navarino SA	$1,092,003,830	$1,129,694,820	$1,063,575,563	$325,308,753	$331,607,586	$318,088,919
Grupo IMSA SA de CV	$1,377,899,171	$1,595,107,034	$1,396,678,226	$146,104,347	$263,091,037	$377,262,629
Molibdenos y Metales SA	$838,357,000	$748,421,000	$563,773,000	$176,334,000	$272,041,000	$163,625,000
Acesita SA	$848,426,130	$601,868,024	$569,222,270	$139,126,668	$185,626,737	$318,647,843
Siderar SAIC	$695,518,692	$581,779,088	$627,994,930	$232,196,228	$367,252,613	$18,281,846
Caraiba Metais SA	$850,939,827	$534,151,307	$405,482,056	$170,416,764	$140,193,730	$5,551,921
Madeco SA	$436,582,596	$315,527,053	$280,408,076	$125,811,540	$107,925,563	$197,317,343

Company Name	Return on Equity (Most Recent Yr)	Profit Margin (Most Recent Yr)	Date FYE - 1	Date FYE - 2	Date FYE - 3
Metalurgica Gerdau SA	28.31	5.71	31-Dec-06	31-Dec-05	31-Dec-04
Usinas Siderurgicas de Minas Gerais SA - USIMINA	24.15	20.26	31-Dec-06	31-Dec-05	31-Dec-04
Companhia Siderurgica Nacional	19.06	12.91	31-Dec-06	31-Dec-05	31-Dec-04
Navarino SA	-6.36	-0.36	31-Dec-06	31-Dec-05	31-Dec-04
Grupo IMSA SA de CV	12.95	6.65	31-Dec-06	31-Dec-05	31-Dec-04
Molibdenos y Metales SA	35.20	6.43	31-Dec-06	31-Dec-05	31-Dec-04
Acesita SA	22.96	17.68	31-Dec-06	31-Dec-05	31-Dec-04
Siderar SAIC	28.22	26.44	31-Dec-06	31-Dec-05	31-Dec-04
Caraiba Metais SA	43.78	11.11	31-Dec-06	31-Dec-05	31-Dec-04
Madeco SA	12.01	5.40	31-Dec-06	31-Dec-05	31-Dec-04

Notes to Comparative Data

- All figures are in United States dollars.
- All figures are as reported by the company.
- N/A = Data Not Available.
- Companies ranked by total revenue for the full year most recently reported.

Definitions

- Total Revenue = All revenues, including net sales, operating revenues, interest income, royalties, excise taxes etc.
- EBITDA = Earnings before interest, taxes, depreciation and amortization.
- EPS Cont Operations = Earnings Per Share as reported by company excluding extraordinary items.
- Total Current Assets = All assets expected to be realized within the next year, includes cash, accounts receivable and inventories.
- Long Term Debt = Debt due to be paid at a date more than one year in the future.
- Return on Equity = The company's earnings divided by its equity (book value).
- Profit Margin = The company's net income as a percent of revenues.

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