



Latin American Energy Sector

Economic Climate and its Impact on the Sector

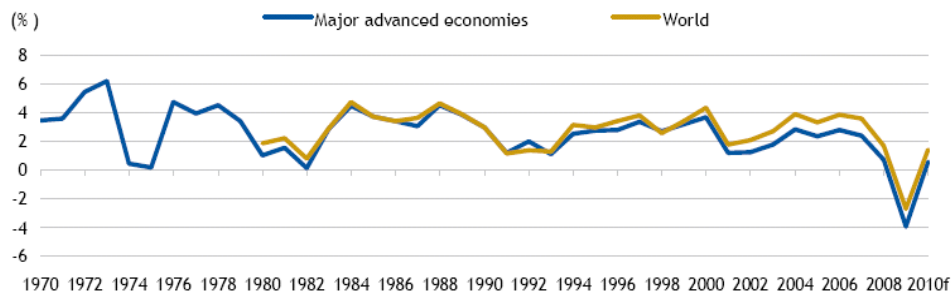
Ana Paula Ares
Senior Director

La Jolla, May 12th, 2009



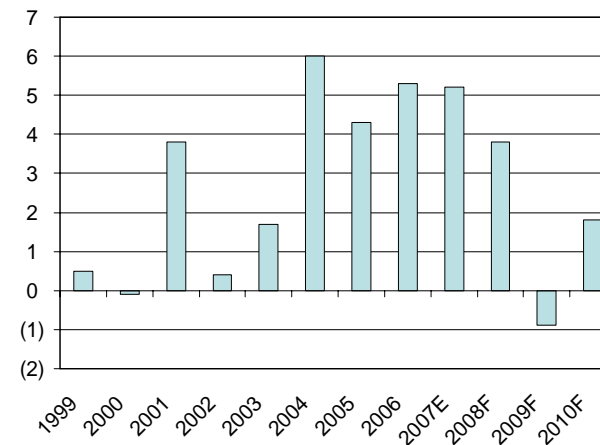
Global and Regional Economic Slowdown

Chart 1: World Economic Growth



Source: EC AMECO database, OECD, IMF, Fitch projections

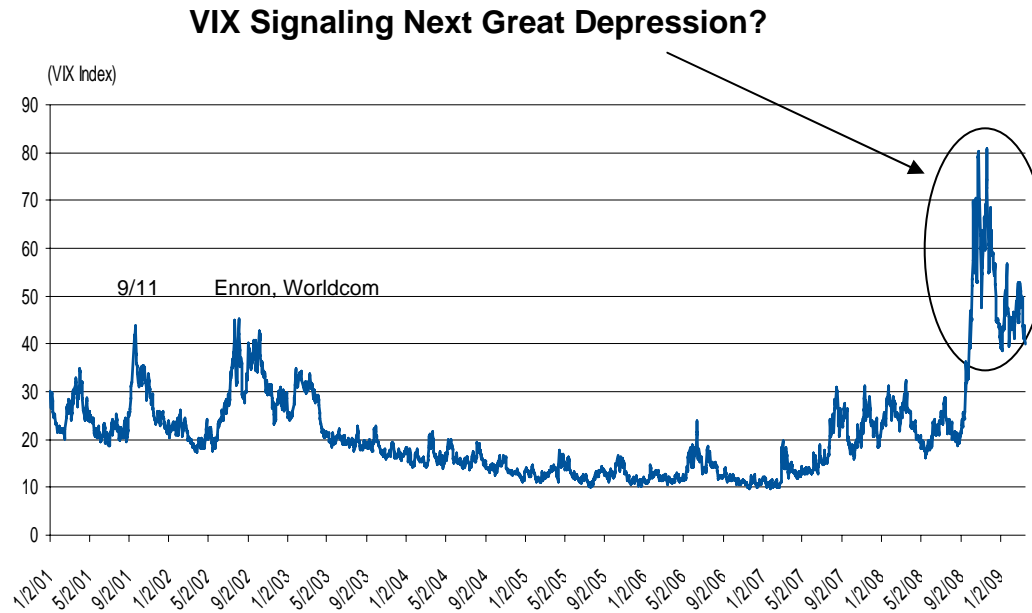
Latin American GDP Growth (%)





Unprecedented Risk – Fear and Panic Strike

- > **Volatility Off the Charts**
- > **Pricing Dislocations**
- > **Global Government Intervention**
- > **'09 Outlook Bleak**



Source: Bloomberg



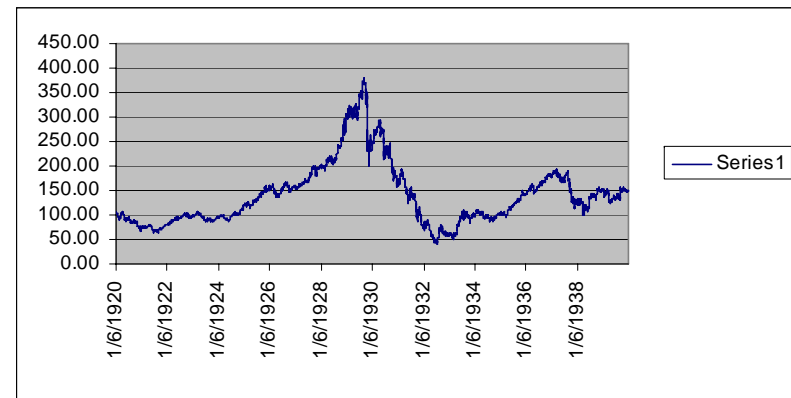
Dow Jones Industrial Average

(Number of Days Over +/- 5.0% Change)

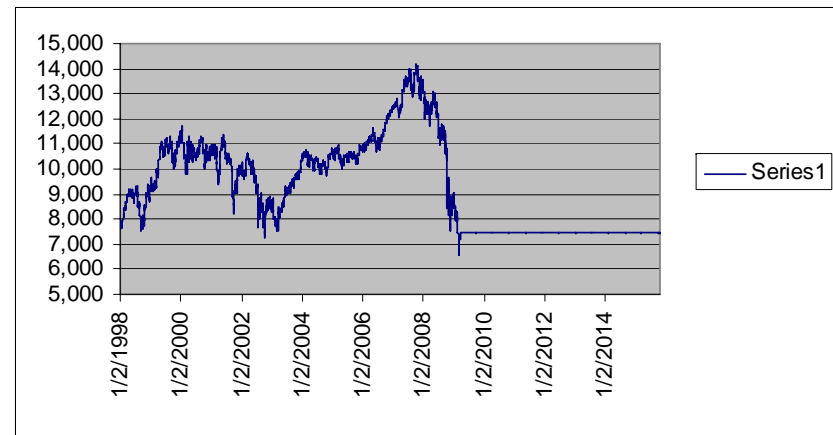
Since 1920	129
1929	13
1930	3
1931	13
1932	37
1920-1940	100
2008-YTD 2009	14
Number of Observations	22,504

Source: Bloomberg

DJIA 1920 – 1939



DJIA 1998 – 2008

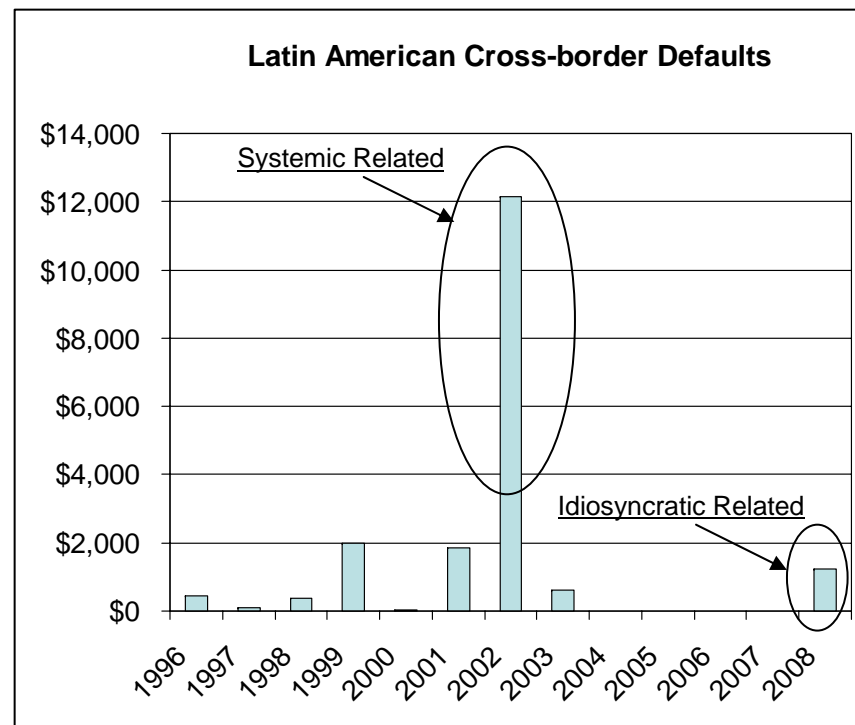




Defaults On the Rise

> Recent Defaults

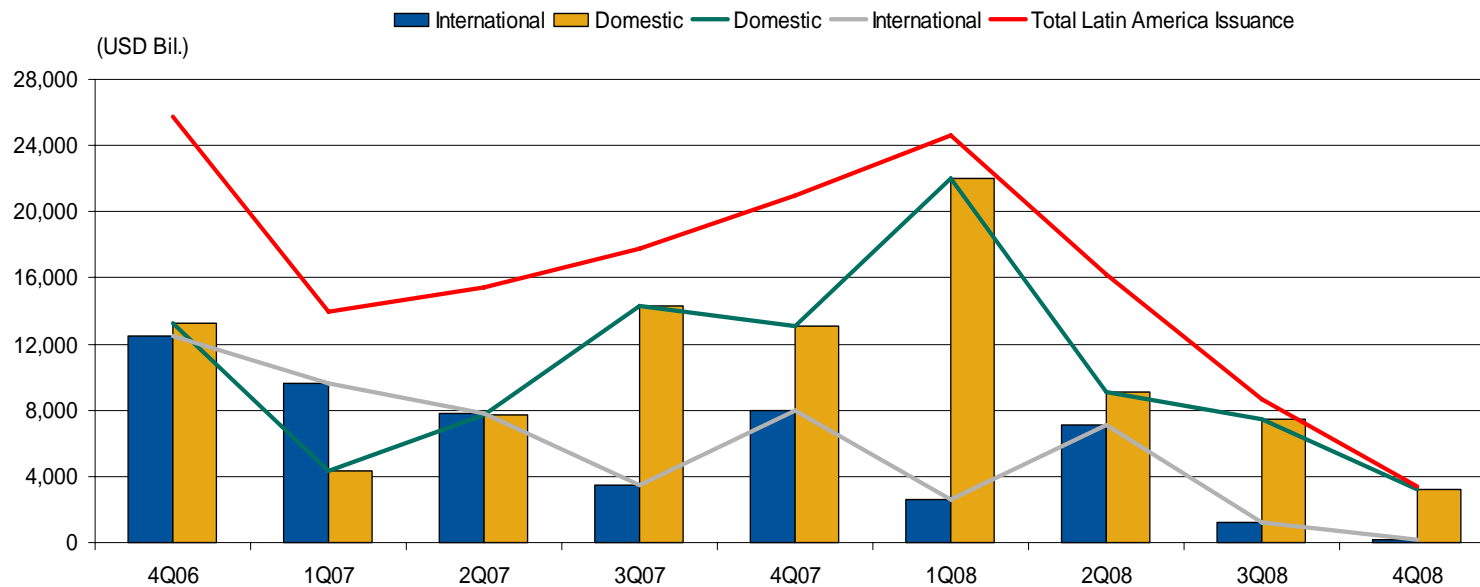
- Arantes (Liquidity/Trade Lines)
- CCM (Derivatives/Bad Bets)
- Transtel (Undercapitalized)
- Durango (Economy/Undercap)
- TGN (Lost Customer)
- Vitro
- Near Misses ????? (Gruma, Aracruz)



Source: Fitch



Contagion in Latin American Debt Markets

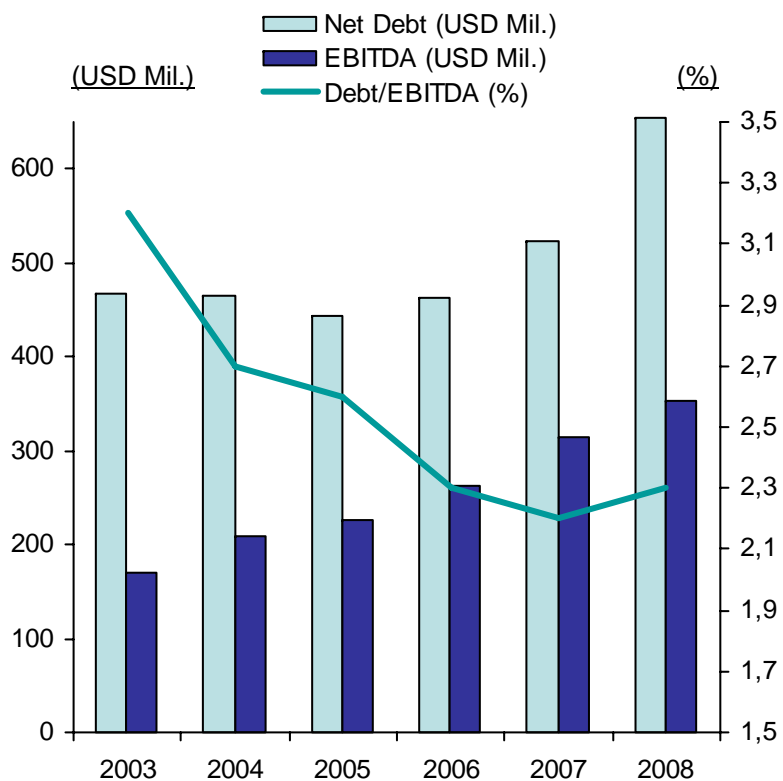


Source: Dealogic

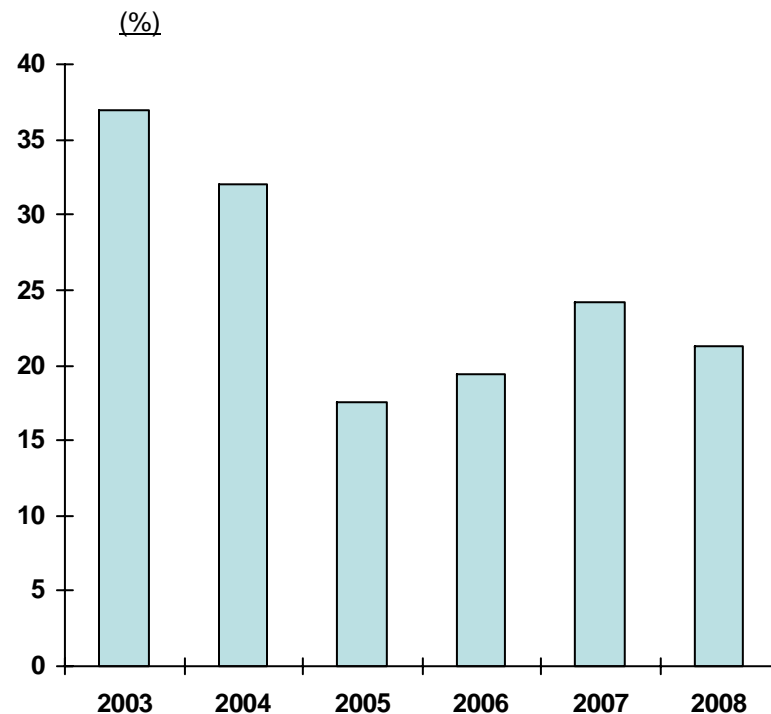


Prepared Like Never Before

De leveraging



Better Debt Composition (Short Debt/Long-Term Debt)

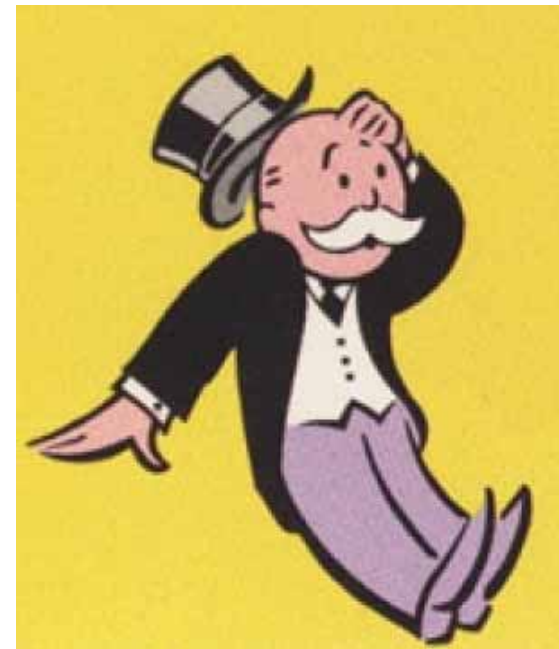


Source: Fitch Data Base, median values



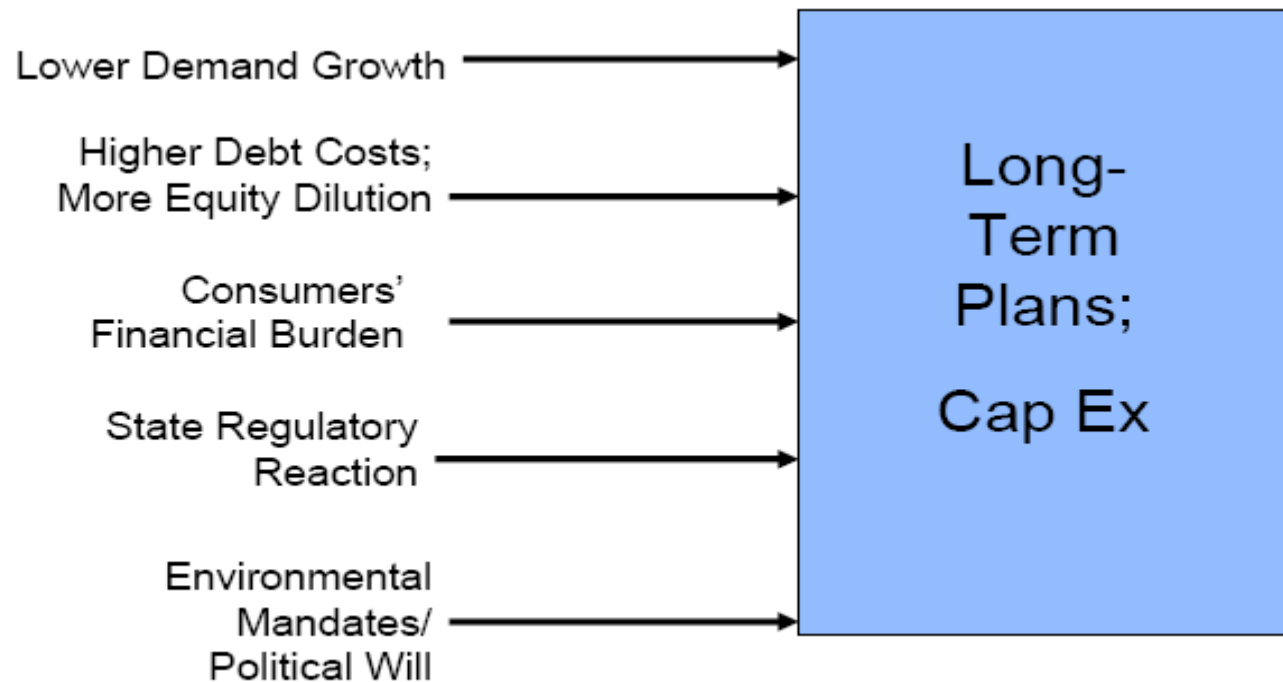
Investing in an Unpredictable World

- > Electricity reserve margins remain tight
- > Electricity demand continues to grow albeit at a slower rate
- > Large capital spending cycle likely to continue
- > Discretionary capex is a small component of total ongoing investment
- > Slowing growth will provide some opportunity to cut/slow investments





Short-Term Drivers Conflict with Long-Term Planning





External Funding

- > Reduced liquidity and access to capital and credit markets
- > Limited financing options
- > Higher cost of capital
- > Multilaterals to play a bigger 'key' role
- > IPOs subject to equity market conditions
- > Back to the Basics - Liquidity



Back to the Basics - Liquidity

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Investment Grade						
Cash/STD	1.4	1.2	1.3	1.2	0.9	1.0
STD/LTD	23%	37%	16%	17%	24%	23%
Cash+EBITDA/STD	4.3	4.1	5.2	4.3	2.9	3.5
Speculative Grade						
Cash/STD	0.4	0.9	2.4	2.2	2.4	1.5
STD/LTD	45%	27%	20%	19%	21%	19%
Cash+EBITDA/STD	1.1	2.9	6.5	5.4	5.0	3.6
Highly Speculative Grade						
Cash/STD	0.5	1.1	0.7	1.5	2.5	2.3
STD/LTD	97%	23%	21%	16%	14%	15%
Cash+EBITDA/STD	1.1	2.5	2.4	3.8	5.3	4.8

Source: Company Reports, Various Other Data Sources, Fitch Estimates



Concluding Observations

- > Market Volatility at Levels Not Seen Since the Great Depression
- > Liquidity Crunch and Dramatic Economic Slowdown are Real
- > Default and Downgrade Risks Remain High – Expect More Defaults
- > Corporate Balance Sheets and Liquidity Strong for Most Cross-Border Issuers

- > Credit Rating and Outlook Implications
 - Utilities are well positioned => Defensive Sector
 - Short term stresses do not generally affect ratings and outlooks
 - > Expect coverage measures to weaken
 - > Draw-downs on bank revolvers reduce flexibility
 - Credit Rating Activity likely to reflect individual issuer circumstances



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