Metals & Mining/Chile
Credit Analysis

CAP S.A.

Ratings

Security Class	Current Rating	Previous Rating	Date Changed
National Scale	A+	A	8/5/05
FC IDR	BBB–	NR	9/01/06
LC IDR	BBB–	NR	9/01/06

FC – Foreign currency. LC – Local currency. IDR – Issuer default rating. NR – Not rated.

Rating Watch......None
Rating Outlook......Stable

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Profile

CAP is the leading producer of flat and long steel in Chile. Almost all of the steel produced by its subsidiary CSH is sold within Chile either directly or via the company's steel-processing subsidiary, Cintac. CAP augments its domestic-focused steel operations with an export-oriented iron ore business that it operates through CMP. The controlling shareholder of CAP is Invercap, with a 31.32% stake in the company. The next largest shareholder group is composed of the Chilean pension funds, which own about 20% of the company. Almost 40% of CAP's shares are listed on the Santiago Stock Exchange.

Key Credit Strengths

- Integrated steel operations that benefit from a high and stable local market share.
- Abundant iron ore reserves.
- Positive global outlook for iron ore industry underpins CAP's growing mining operations.

Key Credit Concerns

- Steel market is cyclical and the recent emergence of China as the global steel leader makes downside less predictable.

■ Rating Rationale

The investment-grade credit ratings of CAP S.A. (CAP) are supported by the company's dominant presence in the Chilean steel industry, the favorable outlook for its iron ore business and moderate financial leverage. Further factored into the 'BBB–' ratings are CAP's long-term relationships with both its steel and iron ore clients. Balanced against these credit strengths are the volatile nature of the steel industry in terms of prices and volumes, rising production costs for the company's steel business and a relatively aggressive capital-expenditure program.

CAP produced 995,000 tons of steel and sold approximately 1.1 million tons of finished steel during 2005. The company's steel business is focused almost exclusively on the Chilean steel market, as more than 95% of CAP's sales were made in the country. The company ended 2005 with market shares of 52% in the overall Chilean steel market and more than 60% in the segments of the market it targets. Imports into Chile account for about 32% of the market and are primarily focused on the steel products CAP does not produce, such as plates or specialty steel. A larger presence by imports is not expected to develop due to the small market size and the fragmentation of end users, which makes large shipments of most products uneconomical. It is also highly unlikely that another steel company would establish greenfield operations in Chile because of the combined market presence of CAP and the second-largest producer, which collectively have a market share of 65%.

Like all steel companies, CAP competes in a cyclical market. Consumption of steel drops during downturns in the Chilean economy, and prices follow those of the international market relatively closely. As a result, the revenues and profitability of the company's steel operations can vary greatly. CAP has worked to offset most of the volatility in demand by establishing close relationships with key clients that allow them to maintain just-in-time inventory levels.

CAP produces many products in relatively small quantities due to the limited size of the Chilean steel market. Consequently, the company is not able to produce any given product in a quantity that would give it a low cost structure on a global basis. The company's cost structure has also risen in recent years due to rising energy costs in Chile and the increasing cost of coking coal, which is a result of the rapid growth of the Chinese steel industry.

While the cost structure of CAP's steel business has been negatively affected by the growth of the Chinese steel industry, China's effect upon the company's overall business has been very positive due to China's insatiable demand for iron ore, which has led to record prices for these products. The overall outlook for iron ore is favorable due to the continued construction of integrated steel mills in China and the substitution by Chinese steel companies of domestic iron ore for higher quality imported ore. The seaborne iron ore industry is one of the most consolidated commodity industries in the world with three companies maintaining a market share of about 75%. As a result, supply is managed in a reasonable manner that ensures profitability for all participants. The concentration of the three leading companies also creates demand by steel companies for iron ore from smaller producers, such as CAP, as they seek to diversify their supplier risk. Similar to other companies in the industry, most of CAP's sales are covered under long-term supply agreements. Fitch Ratings views these arrangements to be positive for iron ore companies from a credit perspective.

In the past, CAP's iron ore business has been a relatively small part of the company's cash operating profits (EBITDA). In the past two years, the changing dynamics of this market have resulted in approximately 50% of the company's cash flow coming from iron ore. In contrast to CAP's steel business, approximately 80% of its iron ore sales are to the export market. These sales act as a natural hedge to the changes in the exchange rate of the Chilean peso versus the U.S. dollar. CAP has several iron ore mines that have not been developed. The development of a few of these mines in the next couple of years could result in CAP's iron ore output increasing from 8.5 million tons per year to 15.5 million tons per year. As a result, in 2010, nearly two-thirds of the company's operating profits may be generated from iron ore sales. Due to the overall stability of the pricing and demand for this product, this change in the overall composition of the company's cash flow is positive from a credit perspective in the long term. In the short term, however, the cost of these projects could result in significantly higher consolidated leverage for the company if the global steel market turns downward.

During 2005, CAP generated $255 million of adjusted operating EBITDA, an increase from $208 million in 2004. The upturn in EBITDA was due to higher revenues and volumes, which were offset to some extent by the higher costs of producing steel. The 2005 adjusted EBITDA figure also included the receipt of $49 million of cash dividends from CAP's iron ore joint venture, Compañía Minera Huasco (CMH). This dividend was the first paid by CMH to its shareholders (CAP and Mitsubishi Corporation [Mitsubishi) since the mine was started in 1998. In prior years, extra cash was used to repay all of the debt at this joint venture.

As of June 30, 2006, CAP had $88 million of cash and marketable securities and $375 million of debt. Fitch believes CAP's net debt could double in the near future as the company embarks upon an aggressive investment program that could result in about $1 billion of capital expenditures between 2006 and 2010. If the market were to turn sharply downward during the middle of these projects, the company's net debt-to-EBITDA ratio could increase to about 3.0 times (x).

■ Industry and Operational Overview

List of Companies

- Compañía Siderúrgica Huachipato (CSH) produces and sells steel.
- Compañía Minera del Pacífico (CMP) manages both the production and sale of iron ore.
- CMH is an iron ore joint venture with Mitsubishi. It currently mines the Los Colorados mine and delivers its preconcentrate production to CMP, which in turn produces iron pellets that are resold to CMH.
- Cintac S.A. (Cintac) manufactures and sells steel products.
- Compañía Minera Carmen de Andacollo (CMCA) owns a copper mine with a life span of 12 years.
- Manganesos Atacama S.A. (MASA) handles manganese mining and iron alloy production.
- Armacero Industrial y Comercial Ltda is a steel derivative products company. Since 2002, it has been jointly owned by CAP and Gerdau AZA (50% each).

Steel Industry Overview

The global steel industry has been very vibrant in the past few years. Since 2001, the annual output of crude steel produced globally has increased from 861 million tons to 1.1 billion tons. China's large investments in infrastructure and manufacturing have led to most of this growth, as steel production in that country surged to 352 million tons from 170 million tons during this time period. The past five years have also been marked by significant consolidation in the highly fragmented steel industry, which has been driven by a number of factors. These factors include the need for producers to increase their size relative

Cash Generation
(US$ Mil.)

	2005	2004	2003	2002	2001
CSH (Steel Subsidiary)	152	181	90	52	54
CMP (Iron Ore Subsidiary)	73	35	31	27	37
Dividends Received by CMP from CMH	49	0	0	0	0

US$ – U.S. dollar. CSH – Compañía Siderúrgica Huachipato. CMP – Compañía Minera del Pacífico.

to suppliers, such as iron ore companies, and customers, such as the auto manufacturers; the need for product and geographic diversification; and the bankruptcy of several producers in North America.

The consolidation will continue to move forward in the next five years, as the top 10 steel producers only accounted for about 26% of total world production in 2005. As the consolidation occurs, the leading companies are expected to exhibit more production discipline during downturns in the market. This should improve the credit profile of the whole industry during the trough of the price cycle.

The Latin American steel industry represents a relatively small segment of the global steel industry. In 2005, Latin American steel production accounted for 5.6% of the total world steel production, with 63 million tons of crude steel. The main steel producing countries in Latin America are Brazil and Mexico, accounting for 50% and 26% of all steel output in the region. The most globally competitive companies in Latin America are located in Brazil. These steel producers have modern equipment and global production scale and enjoy access to the high-quality iron ore that is prevalent in the country.

Chile is a relatively small market for steel due to the low population in the country, moderate income levels and absence of steel-consuming manufacturing industries, such as automobiles or appliances. The total consumption of finished-steel products in Chile was 2.174 million tons of steel, or about 123 kilograms per person. This figure compares with total consumption figures of about 315 million tons in China, 104 million tons in the United States and 17 million tons in Brazil, or relative consumption figures of 241, 350 and 92 kilograms per person per year, respectively, in these three countries.

CAP Steel Overview

The size of the Chilean steel industry has both positive and negative implications for CAP. Positively, it is not economical for most market participants to export their product to Chile, because the market is so small and the customers are so fragmented that it is difficult to achieve shipping economies of scale. Second, the size of CAP and the second-largest producer in the market—Gerdau AZA (Gerdau)—in relation to the size of the overall Chilean market make it highly unlikely that another company would build a steel mill in Chile. In 2005, CAP produced 995 million tons of finished–steel, while Gerdau produced 306 million tons. Negatively, the relatively small Chilean steel market restricts CAP's size to some extent and forces the company to produce a wide variety of steel products. Consequently, the company is not able to operate with the scale that is necessary to have a low production cost structure globally. As a result, when global prices turn downward, CAP's profit margins are pressured more than those companies with lower cost structures.

CAP operates two blast furnaces at its Huachipato mill that have a combined capacity of 1.3 million tons of pig iron per year and a basic oxygen furnace (BOF) that has an output of 1.2 million tons of liquid steel per year. The company is currently expanding its annual output of liquid steel to 1.45 million tons.

This expansion should help the company meet the growth of its target markets. Unlike most steel companies, CAP is self sufficient in its key steelmaking raw material, iron ore. The company imports coking coal, the second most important raw

Cash Generation
(%)

	2005	2004	2003	2002	2001
Steel	56	84	74	66	59
Iron Ore	44	16	26	34	41

material in the production process, from Australia and Canada.

The liquid steel that is produced by CAP's BOF furnace is continuously cast into both slabs, for flat steel, and billets, which are used for long-steel products. As the only producer of flat products in Chile, CAP has dominant positions in key flat products such as hot-rolled coil (HRC), cold-rolled coil (CRC), tin plate and galvanized steel. Imports account for the balance, including those by CAP's steel service center, Cintac. These imports often are of products in dimensions not produced by the company.

In terms of long-steel products, CAP is the leading provider of grinding bars and wire rods. The company splits the largest segment of this market, rebars, with Gerdau. Similar to other steel companies, CAP maintains close relations with a number of its clients, allowing them to maintain low inventories. This helps the company maintain its sales volumes during market downturns. Some of these clients have even built facilities that are in close proximity to the company's steel mill.

CAP owns 33.4% of Cintac, and together with its controlling shareholder Invercap S.A., 62%. Cintac, which acts as a holding company for CAP's downstream investments in the Chilean steel sector, is the largest producer of tubes and pipes in Chile.

Iron Ore Industry

Iron ore is not considered a pure commodity due to the variety of products available (e.g., lump ore, pellets, fines) and their characteristics (e.g., size, iron content, amount of contaminants, etc.). Prices can fluctuate significantly over long periods but have not been as volatile as most commodities because unlike copper or aluminum prices, the prices for seaborne iron ore products are not determined on a daily basis by the supply-and-demand dynamics in the international metals market. Instead, benchmark seaborne iron ore prices are set annually based on negotiations between the world's largest iron ore producers in Brazil and Australia and the world's largest steel producers in Europe, Japan and China.

In Fitch's view, the global seaborne iron ore market is an above average industry in terms of a credit outlook for the near to medium term for a number of reasons. First, the industry is extremely consolidated. Companhia Vale do Rio Doce (CVRD), BHP Billiton and Rio Tinto account for about 75% of the market. As a result of this concentration, merger and acquisition risk is low. In addition, these companies are able to coordinate the increase in production in a way that prevents the industry from having too much capacity. Second, integrated-steel producers are completely reliant upon these iron ore producers for their most important input, iron ore. Therefore, their ability to push back in the price negotiation period is relatively weak. Third, the leading iron ore companies have established long-term supply contracts with their steel clients due to the importance of not frequently changing the mix of inputs into the blast furnace. The steel companies have also sought these agreements as a way of ensuring their supply of iron ore during periods of market tightness. Finally, the growth fundamentals for the industry are strong. Since 2001, the seaborne iron ore industry has grown from 452 million tons to 675 million tons in 2005. Most of this growth has been driven by China, whose consumption of seaborne iron ore has grown from 92 million tons to 275 million tons in 2005. China's voracious demand for iron ore has been driven by the country's rapidly growing steel industry, whose output of crude steel has increased from 152 million tons in 2001 to 349 million tons in 2005, and by a shift from its low-quality domestic iron ore to higher quality imported ore. The potential for growth in steel consumption by China remains. Future growth rates, however, should fall from current levels of 20% per year to less than 10% annually. Given the size of China, this translates into increases in demand for iron ore of about 200 million tons per year by the end of 2010.

CAP Iron Ore Overview

CAP is the only producer of iron ore in Chile. Its mines, which are operated by its subsidiary CMP, are located in the Elqui Valley within Region IV (El Romeral mine) and the Huasco Valley in Region III (El Algarrobo and Los Colorados mines). Both of these areas are located in the north of the country, while the company's steel plant is in the south.

The El Romeral mine has a low-grade (34.4% iron) magnetite ore with few impurities. The products produced by this mine after the grinding and concentrating of the ore are lump ore and fines. The company also has a secondary grinding and crushing plant that it uses to make pellet feed. About one-half of the output from the El Romeral mine is used to supply CSH. In 2005, the company produced 1.9 million tons of iron ore products in the Elqui Valley. As a result of an investment in a new grinding and concentration plant in 2005, production of iron ore at this site is expected to jump to about 2.9 million in 2006. The increase in output is mainly in pellet feed, which will account for about 66% of the company's production at El Romeral.

CMP operates a 50/50 joint venture with Mitsubishi at Los Colorados through CMH. The ore mined at this site is delivered via rail to CMP's Huasco pellet plant, which in turn produces iron pellets and resells them to CMH. Last year, the output of the Los Colorados mine and a smaller mine in the region, Algarrobo, was 5.3 million tons. This figure should not change in 2006. The Los Colorados mine has recoverable reserves of 103.4 million tons, equivalent to 16 years of production.

Additionally, the company owns other mining properties that are not currently being developed: El Laco, in Region II; Cerro Negro Norte and Distrito Algarrobo (Alcaparra D, Algarrobo Este, Ojos de Agua and Domeyko II) in Region III; and El Tofo and El Romeral in Region IV.

The company is currently undertaking a $174 million project to extract pellet feed from the copper tailings of the Candelaria mine (which is owned by Phelps Dodge). This project, called Hierro Atacama Phase I, is scheduled to be completed at the end of 2007. Once operational, the company will be able to sell an additional 3 million tons of pellet feed per year. The life of this mine is estimated to be more than 15 years. The Hierro Atacama Phase I project represents an increase in the company's iron ore production capacity from 8.5 million tons per year to 11.5 million tons per year.

The company is also likely to approve a $265 million project to develop the Cerro Negro Norte mine. This project (Hierro Atacama Phase II) would allow the company to increase its output of pellet feed by 4 million tons per year, which would give it an overall capacity of 15.5 million tons. If approved within the next 12 months, this project could be completed by 2010. At some point in time, the company is also likely to finalize plans for a $230 million pellet plant at Punta Totoralillo. If approved as currently being discussed, this plant would also come online in 2010 and could process pellet feed into 5 million tons of pellets per year.

In the future, the company may consider developing the El Laco mine, most likely with a partner. This mine, which is considerably north of the company's existing mines, would be rather expensive because of the need to develop the infrastructure in the region. It is appealing, however, because the ore has an iron content of 61.9%. This mine could support annual output of 4 million tons for more than 15 years.

Similar to other companies in the industry, CMP has long-term supply agreements with its key customers. The additional capacity that the company is planning to bring online is needed in the industry. The company is also appealing for its clients as they try to diversify their suppliers away from the three largest suppliers of iron ore in the industry: CVRD, BHP Billiton and Rio Tinto. Key customers include Posco, JFE Steel, Kobe Steel, Jinan Iron & Steel and Hangzhou Iron & Steel. In terms of sales destinations, China accounted for 26% of the company's 2005 sales, followed by Chile (22%), Japan (17%), Indonesia (12%) and Korea (11%).

Other Operational Activities

Through CMP, CAP participates in the copper mining business with the 27% stake in CMCA, owner of the Andacollo-Copper mine, which is located in Andacollo in Region IV. The mine produces 22,000 tons of fine copper every year. Like other copper producers, CMCA has been extremely profitable during the past couple of years and should continue to be in the near to medium term. CAP does not receive dividends from this investment, because it is saving its cash for an expansion slated to increase its annual output to 80,000 tons.

Through MASA, CAP participates in the exploitation of manganese mining yields located in Region IV and in the production of iron alloys based in manganese.

Financial Profile

2005 Results

CAP's steel sales rose 15.7% in 2005 to $647 million, 97% of which were generated in the local market. The increase in sales versus 2004 was related to a 2.1% sales volume increase, reaching 1.065 million metric tons and a 14.75% increase in the average price to $593 per ton from $517 in the prior year. Steel sales made up 74% of CAP's consolidated sales in 2005. Including the sales of Cintac, which is not consolidated, this figure is higher.

Iron ore sales reached $258 million in 2005, a 38.3% increase versus 2004. Sales volumes were up 3.6% in 2005, reaching 7.579 million metric tons, of which 78% was directed to the external market. Benchmark prices for fines increased by 71.5%, while pellet prices shot up by 86.7%.

Due to the aforementioned, consolidated sales increased by 21% in 2005. This increase comes on the heels of a 37% rise in revenues in 2004. Operating income was relatively flat, increasing to $155 million from $153 million in the previous year. The squeeze in the operating income was hurt by the decreased profitability of the company's steel business, which suffered from higher energy and metallurgical coal costs, as well as a strong Chilean peso. Offsetting this decrease was a sharp upturn in the profitability of the company's iron ore business. CAP's base EBITDA was $206 million in 2005,which was nearly identical to the $208 million figure in the prior year. The composition of the company's EBITDA was changed considerably, however, as iron ore accounted for about one-half of the figure in 2005, a sharp increase from about 30% in the prior year.

CAP's income was complemented by the high profits of CMH, a 50/50 iron ore joint venture with Mitsubishi and by CMCA, a copper company in which CAP has a 27% stake. The dividends received by CAP from these companies totaled $49 million in 2005. This increased the company's adjusted operating EBITDA to $255 million in 2005, an increase from $208 million in 2004. CMH accounted for almost all of the dividend received. Its profits were up by 341% in 2005, reaching $136 million. This resulted in a dividend payable to CAP from this company of $68 million for its performance in 2005, of which about $49 million had been received by year-end. In prior years, CAP had not been receiving dividends from CMH as it was using all of its free cash flow to eliminate debt.

Indebtedness and Liquidity

CAP's debt increased to $411 million at the end of 2005 from $331 million at the end of the prior year. Net debt was relatively unchanged, however, as cash totaled $154 million at the end of the year, an increase from $62 million at the end of 2004. The increase in cash and debt was due to the issuance of a new bond in October 2005 for UF4 million (equivalent to $135 million). The balance of the company's debt is composed primarily of a $150 million syndicated loan from ABN AMRO Bank, which begins amortizing in October 2009 in semiannual installments of $25 million, and two loans with Kreditanstalt fur Wierderaufbau Bank (KFW) for a total of $17 million.

At the end June 2006, CAP had $88 million of cash, $375 million of debt and $687 million of shareholders' equity. EBITDA in the first half of 2006 totaled $116 million, a decline from $159 million during the same time period in 2005. The fall was mainly attributable to a decline in the company's iron ore sales and higher steel input costs.

Legally, Chilean companies are required to pay 30% of net income as dividends. CAP pays 50% but has in the past paid lower when its liquidity was tight. The company likes to balance its debt between fixed and floating rate and between bank and bond debt. Due to the export nature of iron ore and the link between steel prices and dollar prices, CAP maintains most of its debt in U.S. dollars.

To maintain liquidity, CAP intends to hold about $50 million of cash and keep about $150 million of undrawn bank lines. These lines are not committed, however.

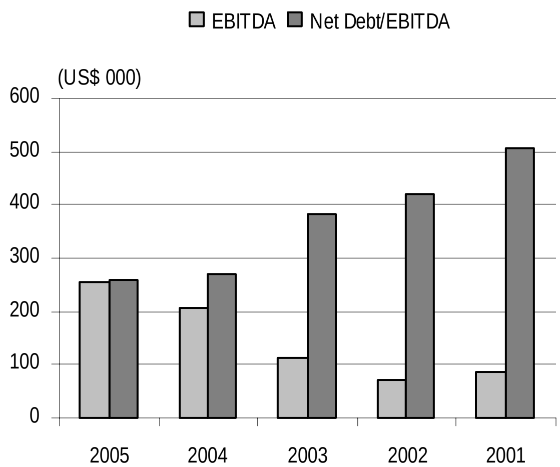
Investments and Financing

After being privatized in 1988, CAP invested heavily in modernizing its plants and expanding into forestry. As a result, its debt climbed to $655 million in 1994, when its forestry and nonrelated businesses were spun off. At that time, CAP embarked upon a debt-repayment program. This program was temporarily stalled by the Asian Crisis in 1998 and the ensuing downturn in commodity markets.

At the end of 2001, the company had $508 million of debt. In subsequent years, CAP maintained a relatively modest investment program as it sought to repay debt. The company invested $55 million in 2005 in its fixed assets. The projects included a 1 million ton expansion of CMP's pellet feed plant at the El Romeral mine for $32 million and the expansion of the company's finished-steel capacity to 1.15 million tons per year, a $20 million project that is to be finished in 2006.

Between 2006 and 2010, the company is expected to spend approximately $1 billion on capital expenditures. Maintenance capital expenditures total about $200 million; approved projects total nearly $250 million and potential projects account for about

CAP Leverage



EBITDA – Operating income plus depreciation, amortization and cash dividends received. EBIT equals operating income.
US$ – U.S. dollar. Source: CAP.

$500 million. The expenditures are projected to occur at a pace of about $200 million per year, with the highest year being 2008, when the company projects spending will be about $300 million. These projects are projected to be funded with a balance of debt and cash flow from operations. They could result in a doubling of the company's net debt to more than $500 million.

Approved Projects

Candelaria Tailings (Hierro Atacama Phase 1)

CMP plans to produce about 3 million tons of pellet feed per year from the tailings of the copper production of Minera Candelaria (which is owned by Phelps Dodge). This project started construction in the second half of 2005 and will start operations in the second semester 2007, reaching normal operation levels in 2008. This project will increase the company's annual output of iron ore from 8.5 million tons per year to 11.5 million tons per year. This investment is projected to cost $174 million.

Huachipato Expansion

CSH is spending about $85 million to increase the production capacity of crude steel of the Huachipato plant by 200,000 tons to 1.450 million tons per year. The project will start operations in 2007, gradually increasing capacity.

Likely Projects

Cerro Negro Norte (Hierro Atacama Phase II)

This project should be approved during 2006 and would start operations in 2010, adding 4 million tons to CMP's iron ore capacity and reaching a productive capacity of 15.5 million tons per year. Total expenditures would be about $265 million.

Punta Totoralillo Port Pellet Plant (Hierro Atacama Phase III)

This 5 million ton pellet plant would cost about $230 million. If approved, it should begin operations in 2010. A decision on whether to proceed with construction of this plant should be reached in the second half of 2006 or the first half of 2007. The pellet feed for this plant would come from the Hierro Atacama Phase I and II projects.

■ Financial Outlook

In the near term, the projections for both the steel and iron ore industry are positive. The increasing demand for steel, generated mainly from China, will keep price levels above the historical average in the short term. China's demand also positively affects producers of coal and iron ore and sustains a strong pricing environment for these products.

For CAP, the higher value of iron, complemented by its large investment program in mines, bodes well for the company's financial future. During the period of heavy capital expenditures, however, a steel market downturn could result in CAP's leverage increasing to the high end of the 'BBB–' rating category.

Financial Summary — CAP S.A. (Chilean GAAP)

(US$ 000, Years Ended Dec. 31)

	Six Months Ended						
	6/30/06	6/30/05	2005	2004	2003	2002	2001
Credit Ratios (x)							
EBITDA/Interest Expense	8.8	18.9	13.2	10.0	5.2	2.8	2.1
[EBITDA – Capex]/Interest Expense	4.1	15.8	10.4	8.6	4.5	2.1	1.0
Total Debt/EBITDA	1.6	0.9	1.6	1.6	3.5	5.9	6.1
Net Debt/EBITDA	1.2	0.6	1.0	1.3	3.4	5.9	5.9
Total Debt/Capitalization (%)	35	31	39	37	46	48	54
Income Statement							
Revenues	482,842	452,922	879,784	725,103	530,187	481,380	462,018
% Change	7	—	21	37	10	4	N.A.
EBITDA	115,843	159,456	255,472	208,266	114,290	71,723	86,209
EBITDA Margin (%)	24	35	29	29	22	15	19
DD & A	28,032	27,045	51,115	54,540	54,332	49,006	46,706
Dividends and Other Distributions Received	39,130	20,167	49,416	453	123	0	257
EBIT	48,681	112,244	154,941	153,273	59,835	22,717	39,246
Interest Expense	(13,133)	(8,440)	(19,307)	(20,822)	(21,938)	(25,681)	(40,108)
Implied Financing Cost (%)*	6.7	5.4	5.2	5.7	5.3	5.4	—
Net Income	62,049	121,779	187,025	124,820	21,043	3,352	(11,139)
Return on Average Equity (%)	18.6	40.7	31.0	24.1	4.5	0.7	—
Cash Flow							
From Operations	76,111	128,462	190,654	173,328	91,840	45,512	40,962
Change in Operating Working Capital	(5,279)	2,456	(13,939)	(13,144)	(10,797)	78,224	(6,223)
Other, Net	(287)	2	(5)	1	(11)	(1)	(4)
Net from Operating Activities	70,545	130,920	176,710	160,185	81,032	123,735	34,735
Capital Expenditures	(61,921)	(25,819)	(55,251)	(28,851)	(16,077)	(18,943)	(46,360)
Acquisitions and Divestitures, Net	1,004	2,269	2,392	4,428	896	(2,246)	1,170
Other Investments, Net	(209)	3,734	3,520	19,110	(7,959)	(14,170)	(18,370)
Net Debt Proceeds	(27,684)	(38,602)	65,667	(75,798)	(45,525)	(95,067)	3,305
Net Equity Proceeds	0	0	0	0	0	0	0
Dividends	(44,994)	(31,315)	(96,023)	(25,154)	(1,689)	(17)	(6,043)
Other Financing, Net	(3,047)	(210)	(10,726)	(1,019)	(325)	(7,989)	(8,664)
Net Change in Cash	(66,306)	40,977	86,289	52,901	10,353	(14,697)	(40,227)
Free Cash Flow**	(3,620)	107,486	117,559	144,996	65,355	105,323	(6,739)
Balance Sheet							
Cash and Marketable Securities	87,618	108,632	159,945	61,655	14,754	4,401	20,219
Total Assets	1,305,345	1,185,518	1,341,360	1,118,546	1,010,078	1,008,515	1,087,262
Short-Term Debt	76,598	109,481	135,947	108,545	105,921	184,368	201,123
Long-Term Debt	298,448	179,647	275,193	222,617	292,609	239,846	326,780
Total Debt	375,046	289,128	411,140	331,162	398,530	424,214	527,903
Total Equity (Including Minority Interest)	686,639	636,561	645,757	561,819	472,849	453,385	451,301
Total Capital	1,061,685	925,689	1,056,897	892,981	871,379	877,599	979,204
Liquidity (x)							
Short-Term Debt/Total Debt (%)	20.4	37.9	33.1	32.8	26.6	43.5	38.1
Cash and Marketable Securities/ST Debt	1.14	0.99	1.18	0.57	0.14	0.02	0.10
EBITDA/(ST Debt + Interest Expense)	4.67	3.62	2.22	2.60	1.69	0.49	0.51
Other Key Measures							
Sales of Iron Ore (000 of Tons)	3,280	3,712	7,579	7,312	7,320	7,493	7,294
Sales of Steel (000 of Tons)	603	529	1,065	1,043	935	922	847
Average Steel Sales Price (US$/Ton)	584.6	630.2	593.1	516.9	390.8	342.2	358
Average Iron Ore Sales Price (US$/Ton)	33.4	26.8	27.0	21.1	19.7	19.5	19.1

Long-Term Debt Maturity Schedule (as of June 30, 2006)

Year	2006	2007	2008	2009	2010+
Maturities	45,900	2,098	2,098	27,098	267,155

*Implied financing cost equals interest expense divided by average total debt. **Free cash flow equals EBITDA less interest expense plus change in working capital less capital expenditures. Operating EBITDA – Operating income plus depreciation, amortization and dividends received. Capex – Capital expenditures. EBIT – Operating income. DD & A – Depreciation, depletion and amortization. US$ –- U.S. dollars. N.A. – Not available. ST – Short term.