MANAGEMENT'S ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2009

1. Comparative analysis and principal trends

		Indicators		
		June 2009	December 2008	June 2008
Liquidity				
Current ratio (current assets/current liabilities)	times	2.26	2.73	2.66
Acid test (available funds/current liabilities)	times	0.79	0.87	0.89
Debt				
Debt ratio (liabilities/shareholders' equity)	times	1.50	1.30	1.40
Short-term/total debt	%	34	32	31
Long-term/total debt	%	66	68	69
Net financial debt ratio (1) (net financial debt/shareholders' equity)	times	0.55	0.50	0.54
Net financial expense coverage (2) (EBITDA/net financial expenses)	times	4.63	12.20	12.89
Total financial debt	ThUS$	875,392	880,031	884,010
Activity				
Total assets	ThUS$	2,448,419	2,484,533	2,431,178
Inventory turnover (cost of sales/average inventories)	times	1.16	3.66	2.18
Inventory permanence	days	155.7	99.9	83.3
Results				
Operating income	ThUS$	11,363	346,507	182,267
Financial expenses (3)	ThUS$	-34,605	-58,080	-22,667
Non-operating result	ThUS$	-73,376	-1,341	17,454
EBITDA – Income before taxes, interest, depreciation & extraordinary items	ThUS$	7,578	476,601	258,633
Net income (loss)	ThUS$	-34,038	292,981	160,135
Profitability				
Return on equity	%	-3.43	30.47	17.32
Return on assets	%	-1.38	12.91	7.14
Return on operating assets (operating income/average current assets)	%	1.00	34.09	18.58
Earnings (loss) per share	US$	-0.2278	1.9604	1.0715
Dividend yield (4) (dividends last twelve months/closing share price)	%	2.82	8.15	1.72

(1) Net financial debt relates to total financial debt plus leasing obligations, guarantees granted to third parties and deferred customs duties, and less cash, time deposits and marketable securities**.**

(2) For the 12-month periods ended on those dates. EBITDA = Earnings before taxes, net interest, depreciation & extraordinary items.

(3) Includes all costs, charges and expenses of a periodic, regular and continuous nature including interest on all kinds of debt from whatever source. It also includes payments of non-recurring commissions and financial costs charged to income that were incurred when restructuring debt at long term. Because of the occasional nature of these commissions and costs, they are not included in the calculation of the net financial expense coverage ratio, as stipulated in certain long-term loan agreements which define financial expenses as being "periodic, regular and continuous".

(4) Only takes into account the dividends distributed by CAP S.A.

CAP produced a consolidated result of ThUS$ (34.038) in the period to June 30, 2009 in an extraordinarily unfavorable global business climate. This required significant adjustments to reflect the impact of the fall in raw-material and finished-product prices as a result of the international crisis, on our inventories and other aspects of our operations. These relate to (1) a reduction in the value of inventories to their net realization value, of ThUS$ (77,529), which does not affect the CAP Group's cash flows, and (2) severance payments as a result of the reduction in the workforces in the different group companies of ThUS$ (13,127). Following these charges, the consolidated loss of ThUS$ (34,038) compares with a net income of ThUS$ 160,135 in the first half of 2008, which was the highest in the company's history.

The deterioration in the results is the consequence of an abrupt fall in economic activity as a result of the financial crisis originating in the United States which, toward the end of September 2008, began to be transmitted to the rest of the world, affecting all CAP's business operations and causing a substantial fall in both volumes dispatched and in prices, a process whose most critical peak was reached in the second quarter of 2009.

The Group's operating income in the first half of 2009 fell by 41.4% compared to the same period of the year before, to ThUS$ 595,205, due to the adverse conditions present in the three CAP Group business areas, especially steel production and processing.

The six-month reduction in sales of our mining subsidiary CMP (CAP-Mining) was the result of a 0.4% decline in physical deliveries and a 7.2% reduction in the average price of the products. In quarterly terms, physical deliveries in the second quarter rose by 32.5% to 2,094 ThMT and the average price fell by 8.9% to US$ 46.76 per ton, compared to the respective figures for the first quarter.

The six-month reduction in our steel-making subsidiary CSH (CAP-Steel) was of greater importance as it was produced by a 41.9% fall in the tonnage delivered and a 24.8% decrease in its average price. On a quarterly basis, the second quarter shows an increase in physical dispatches of 13.3% to 207.727 MT and a fall in the average price of 18.2% to US$ 642.50, compared to the figures for the first quarter.

In the steel-processing group (GPA), the reduction in the half-year's sales reflected a 36.2% reduction in deliveries and an 8.9% fall in the average price per ton, compared to the figures for the first half of 2008. On a quarterly basis however, there was a 19.0% increase in deliveries to 69 thousand tons and a decline in the average price of 12.7% to US$ 1,001.37, compared to the corresponding figures for the first quarter.

The common cause of the deterioration in sales, whether mining or steel production and processing, was the severity of inventory adjustment processes in each of these businesses. This occurred in response to the illiquidity caused by the financial crisis which induced customers to reduce their purchases and adjust their stocks to the new levels of demand, with a knock-on effect on deliveries and prices.

As the fall in sales was greater than the fall in the cost of sales, and because the latter occurs with months of delay in the integrated steel business due to the annual price fixing in the month of April of its principal inputs, consolidated cash generation (operating income plus depreciation and dividends received in cash) reduced by 65.7% to ThUS$ 85,349.

The non-operating result to June 2009 fell by ThUS$ (90,830) to ThUS$ (73,376) due to (1) the decrease in income from related companies of ThUS$ 35,788, (2) the increase in net financial expenses of ThUS$ (7,670) and (3) higher expenses in other non-operating items of ThUS$ (58.940), influenced mainly by items reflecting particular effects of the international crisis on our activities, like ThUS$ (77,529) for adjustments of inventories to their net realization value and ThUS$ (13,127) of costs related to severance payments in the various group companies, figures partially compensated by the increase in other non-operating income of ThUS$ 11,568, the positive effect of ThUS$ 22,659 from exchange differences and ThUS$ 9,057 relating to other concepts.

Despite the difficult panorama for the CAP Group's businesses, the consolidated net financial debt reduced at the end of June 2009 to ThUS$ 495,755 due to an increase in cash balances of ThUS$ 5,116 and a reduction in gross financial debt of ThUS$ 8,618.

2. Summary of the period January–June 2009 and recent events and trends

The CAP group produced a loss of ThUS$ (34,038) to June 2009.

The sharp global economic contraction, which first became evident in the last quarter of 2008 as a result of the financial crisis that began in the United States and then spread to Europe and the rest of the world, was strongly felt in the first half of this year

In the steel industry, this phenomenon has forced down both the prices and physical deliveries of our steel company. This required us to start reducing steel production last November when the Blast Furnace No.1 was closed down, a situation that remained unchanged during the first half of this year before re-initiating operations on July 2.

Something similar occurred in the steel-processing business where volumes and prices both fell in the period analyzed.

The situation in mining is different. There were delays in performing our shipment program, with postponements into the second half of the year, and a fall in the average price of our mining product sales, both due to the change in the mix of products to others of higher value added, and to the reduction in benchmark sale prices, of between 28.2 and 48.3%, depending on the type of iron product.

Prospects for the second half of the year indicate a normalization of mining shipments to reach the programmed volume for the year, with prices, weighted by type of products and markets, much below those of the previous year (approx. 33.0% lower), with a return higher than that considered as possible at the beginning of this year.

The steel-making and processing businesses have begun, since last May, to demonstrate rising purchasing activity, very possibly indicating the end of the inventory adjustment process in the domestic market and the incipient effect of improved economic expectations in Chile.

With respect to steel prices, these have risen by more than 20% above their lowest point and begun to show a certain stability with a slightly rising trend.

Toward the second half of the year, there will also be a progressive reduction in the average cost of raw materials (carbon, iron, ferro-alloys and freight rates) and the increased production of the plant with the start-up of the Blast Furnace No.1, which had been detained throughout the whole of the first half year to protect the Company's cash position and reduce inventories of steel products.

Overall, we expect the progressive normalization of the steel-making business, as well as steel processing, and its return to profitability toward the last quarter, in the absence of events outside our control.

The CAP Group has met the complex international situation and weak domestic demand with a strong cash position. As of June 30, 2009, this amounts to ThUS$ 379,637, even higher than as of December 31, 2008 of ThUS$ 378,530, and the consolidated current ratio was 2.26 times.

Our net financial debt position is moderate and long term, with an average life of approximately 12 years, with loan repayments for the rest of 2009 amounting to approximately ThUS$25,000.

This financial position is possible thanks to the CAP Group's policy applied for several years, of supporting its activities with a high degree of liquidity, pre-financing its investments and inclining to ensure that its net financial debt is held at a low level and well within its agreed covenants.

Nevertheless, actions have been started in order to prevent any occasional effect on compliance with our covenants as a result of the conditions faced and of a crisis which it would be wise not to consider as finished.

3. Market analysis

Iron:

The annual price fixing in our mining business set increases for the period April 2008 - March 2009 of 79.88% for fines and pre-concentrates, 96.5% for lumps and 86.67% for pellets. For the period April 2009 - March 2010, negotiations closed with reductions of between 28.20% and 32.95% for fines and pre-concentrates (according to the respective benchmarks of Brazil or Australia), of 44.47% for lumps and 48.30% for pellets.

Total iron deliveries to June 2009 reached 3,674 ThMT, 0.4% down on the 3,688 ThMT delivered in 2008. Export shipments were 3,237 ThMT, 8.4% more than the 2,987 ThMT delivered in the same period of the previous year, while the 437 ThMT were delivered to the domestic market, representing a decrease of 37.7% compared to the 701 ThMT to June 2008.

As a result of the reduced deliveries and the above-mentioned reduction in the average price of the iron products mix (plus the sale of other products and services like oil, earth-movement, administration and finance, with a net decrease of ThUS$ 36,323), the sales of Compañía Minera del Pacífico S. A. (CMP) reached ThUS$ 215,237, 19.1% less than in the same period of 2008.

With respect to the average price for iron products, it should be remembered that the tonnage sold by our subsidiary CMP to Compañía Minera Huasco S.A. is priced at cost plus a spread. The average price of CMP's total shipments is the result of weighting this price with that of other sales (international customers and Compañía Siderúrgica Huachipato S.A.).

On the other hand, CMH sells the pellets received from CMP at the international-market price, obtaining the international prices agreed in the supply contracts for iron products mentioned in the first paragraph of this section. The contribution of CMH to the net income of CAP is therefore also seen through the equity in the earnings of related companies, of which CMH contributed ThUS$ 26,594 in June 2009 and ThUS$ 59,865 in June 2008.

It therefore follows that a complete evaluation of the performance of our mining business necessarily requires taking into account both the return on direct sales and that arising from the business of CMH.

Steel:

Average prices to June 2009 and 2008 were US$ 709.68 and US$ 943.93 per metric ton respectively.

Total steel deliveries were 391,067 MT, 41.9% less than to June 2008. Domestic market deliveries amounted to 388,810 MT, 42% less than the 670,477 MT delivered in the same period of the year before, while the 2,257 tons exported represented a fall of 8.5% with respect to the 2,467 tons exported in 2008**.**

Consequently, the sales of our subsidiary Compañía Siderúrgica Huachipato S.A. (CSH) reached ThUS$ 278,020, reflecting a fall of 56.5% from the first half of 2008.

Steel processing:

The steel-processing group delivered 127 thousand tons to June 2009, 36.2% less than in 2008, at an average price of US$ 1,067.61 per ton, 8.9% lower than the average to June 2008. With this, the sales of Novacero S.A., the company that consolidates this steel-processing business, amounted to ThUS$ 135,396 to June 30, 2009, compared to ThUS$ 233,017 in the 2008 period.

Cost of Sales

As the fall in sales was greater than that of the cost of sales, these increased from 76.9% at June 2008 to 88.6% at June 2009.

An independent analysis of each of the businesses shows the following:

In the iron business, the average price declined by 7.2% compared to the June 2008 period. This, together with the reduction, although lower, in the average cost, translates into the cost of sales as a percentage of sales reaching 84.6% in June 2009, 2% higher than the 82.6% to June 2008.

In the steel-making business, the fall in the average price was immediate and on this occasion very pronounced in comparison with the slow reduction in the average unit cost. Consequently, the value of inventories had to be adjusted to their net realization value. The cost of sales as a percentage of sales in the first half of 2009 therefore reached 95.6%, compared to 78.1% in the same period of 2008.

In the steel-processing business, the cost of sales to June 2009 as a percentage of sales rose to 93.8%, from 78.3% in 2008, as a result of both a larger fall in prices than in costs in the period and additional adjustments to the values of inventories and other assets.

Administrative and Selling Expenses

Administrative and selling expenses rose as a percentage of sales from 5.1% to 9.5% in the June 2009 period, mainly due to the sharp fall in the amount of sales and the effect of reductions caused by the exchange rate.

Financial Expenses and Exchange Differences

CAP's consolidated financial expenses rose from ThUS$ 22,667 to June 2008 to ThUS$ 34,605 in 2009, mainly the result of the increase in gross financial debt in May 2008 when bonds were placed on the domestic market amounting to UF 2,000,000 and ThUS$ 171,480. With respect to financial income, this has risen from ThUS$ 6,202 to June 2008 to ThUS$ 10,470 in 2009 due to the higher average cash balances invested by the Company.

This resulted in an increase in net financial expenses, from ThUS$ 16,465 at June 2008 to ThUS$ 24,135 in 2009.

Regarding exchange differences, these produced a gain of ThUS$ 16,723 in the first half of 2009, compared to a loss of ThUS$ (5,936) at June 2008. The variation in the exchange rate in both periods, applied to temporary mismatches between assets and liabilities at the monthly closings, is the cause of this result.

4. Analysis of the statement of cash flows and of liquidity

Operating Activities

In operating activities, the positive balance of ThUS$ 74,380 was mainly the result of sales receipts of ThUS$ 757,640 to June 2009, 43.5% below the level of the same period of 2008, reflecting the reduction in economic activity. This is partially offset by (1) payments to suppliers and personnel of ThUS$ (672,094), (2) interest payments of ThUS$ (30,704) and (3) the net expense of other operating items of ThUS$ (19,538).

Financing Activities

Cash flow from financing activities shows a negative balance of ThUS$ (56,585) due to dividend payments of ThUS$ (52,170), declared against the earnings of 2008, plus loan repayments of ThUS$ (97,442), partially offset by loans and other financing obtained of ThUS$ 93,027.

Investment Activities

Investment activities generated a net positive flow of ThUS$ 55,274, mainly produced by the liquidation of time deposits for ThUS$ 98,948 and sales of other assets for ThUS$ 7,176, partially offset by the acquisition of property, plant and equipment of ThUS$ (50,850) of which 71.3% corresponds to investments by CMP, 22.7% to CSH and 6% in the steel-processing business.

This all resulted in a net total cash flow for the period of ThUS$ 73,069.

The Company's current ratio is 2.26:1 at the end of June 2009, which compares with 2.66:1 at the end of June 2008.

5. Book and economic values of the principal assets

There are no significant differences between the market or economic value and the book value of the assets of the CAP Group.

Inventories are valued by including not only direct acquisition costs but also the costs of steel and mining products including their total fixed or variable production costs and the corresponding depreciation of the property, plant and equipment used in processing, and other indirect production costs.

The Company's books show part of its property, plant and equipment at their restated cost following a technical appraisal made in 1988 in accordance with Circular 829 of the Superintendency of Securities and Insurance. This implied a permanent reduction in their net book value, with the accounting adjustments made in accordance with that Circular.

This technical appraisal was made precisely to show the real residual value of the property, plant and equipment in the market, being the US dollar value of these between a free buyer and free seller provided the assets are used in their present location and for the purpose for which they were designed and built.

This residual value does not intend to reflect the liquidation value in the open market but the real cost as integrated units, whether for building them or acquiring them as on-going economic units, according to their present state of preservation or use.

6. Market risk analysis

Accounting in dollars and the exchange rate

CAP S.A. and four of its five subsidiaries in Chile are authorized to maintain their books in dollars. This enables them to value a large part of their assets, liabilities and equity in that currency.

The same happens with the income statement accounts. Revenues and expenses are credited and charged respectively in that currency in the income and expense accounts from which they accrue or occur.

This relieves these companies from the need to carry out monetary correction as occurs with those entities that maintain their books in Chilean pesos, thus avoiding the distortions this creates while allowing a comparison of figures from one year to another without having to make restatements in line with changes in the consumer price index.

In CAP therefore, assets and liabilities that are booked and controlled in pesos and currencies other than the US dollar generate an "exchange difference" at the date of the balance sheet if the value of the US dollar (the exchange rate) changes with respect to those currencies. This exchange difference is credited/charged to income for the period.

The Company therefore tries to maintain its assets and liabilities in different currencies matched or satisfactorily balanced according to the state of international and domestic foreign exchange markets and thus avoid its results being adversely affected for this reason. It therefore occasionally carries out currency swap transactions or purchases currency futures contracts.

Commodities

CAP's businesses, all traded internationally, reflect in their prices the cyclical variations in global and domestic supply and demand.

However, neither iron nor steel are commodities, except in a very restricted sense, as the specific chemical composition of each kind of iron or steel, an essential element in the buying decisions of a large number of customers, generates a wide variety of types. This is why there are no exchanges for trading these products, although there are some variably-liquid exchanges and limited types of products where steel product futures are traded.

Debt in other currencies and interest rates

In addition to the cyclical nature of its sales, CAP's income statement is exposed to the effects of its financial policies which determine the proportion of debt to be held in different currencies and the applicable, fixed or floating, interest rates.

CAP has historically preferred to borrow in US dollars, with the exception of its bond placements in UF on the domestic market. These instruments are covered by cross-currency swaps to dollars on the same date as their placement.