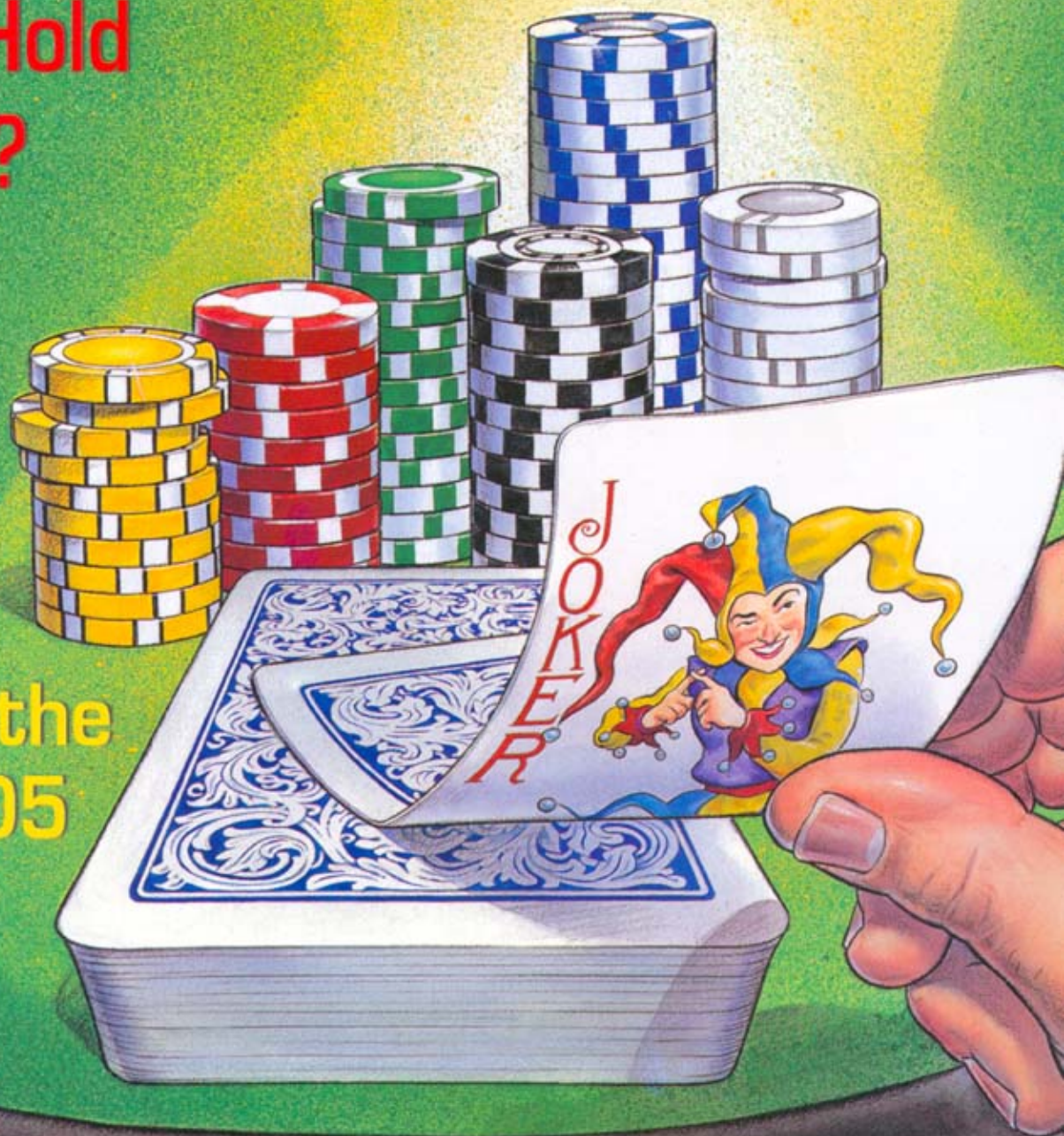


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The Big Gamble

Fold or Hold
in 2006?



PLUS
Deals of the
Year 2005

Spotting Great Deals

Large or small, great deals are what drive the capital markets in Latin America. And every year at the end of the year, *LatinFinance* takes stock of the top equity and bond issues, acquisitions, loans and structured finance deals for its Deal of the Year awards. For the 2005 contest, we received more than 100 entries from investment banks, private equity firms, corporates and multilateral institutions.

We carefully analyze each transaction on its own terms. At the same time, we ask investors, market analysts, rating agencies, top bankers and business executives to rate the main market deals of the year in discreet off-the-record discussions. We select as our winners those deals that are innovative, well-timed and in their own way help to advance the development of Latin America's capital markets. Size alone usually counts for little. All the same, we did pick some deals as winners because of their sheer size –

***LatinFinance* gave out 20 awards for outstanding deals and dealmakers across Latin America. Here is the full list of winners and how we chose them.**

LatinFinance Deals of the Year Organizations

Category	Winner
Corporate Issuer	Cia. Vale do Rio Doce
Investment Bank	Credit Suisse
Sovereign Issuer	Brazil

such as Argentina's controversial \$81.8 billion debt restructuring that won this year's Deal of the Year award for Sovereign Liability Management or Brazil's landmark \$1.5 billion global *real* issue, which took our award for Best Sovereign Local Currency Bond of the year. Still, plenty of deals we chose were

not the largest in their category, such as the \$398 million IPO of Chile's Aguas Metropolitanas.

We also made awards for individual issuers and investment banks. We chose Brazil as Best Sovereign Issuer for its role in developing local currency bonds, its stylish asset-liability management deals and its successful transition of foreign bond issues from the Central Bank to the Treasury, led by Treasury Secretary Joaquim Levy. We picked Brazilian mining company CVRD for its sophisticated approach to the markets and for achieving investment grade status. Credit Suisse took our prize for Best Investment Bank in recognition of its work in the primary equity markets and Mexico's corporate bond market. **LF**

LatinFinance Deals of the Year Transactions

Category	Client	Bookrunner/Adviser	Transaction
Sovereign Dollar Bond	Brazil	JP Morgan, Credit Suisse	\$4.5 billion 8% 13-year A-Bond
Sovereign Local Currency Bond	Brazil	JP Morgan, Goldman Sachs	R\$3.4 billion 12.5% 10-year global bond
Quasi-Sovereign Bond	Codelco	Credit Suisse, Celfin Capital	\$210 million 4% 20-year UF local bond
Corporate Bond	Eletropaulo	Merrill Lynch	\$474 million 19.125% five-year bond
Financial Institution Bond	Bradesco	Merrill Lynch	\$300 million 8.87% perpetual bond
Sovereign Liability Management	Argentina	Merrill Lynch, UBS, Barclays	\$81.8 billion debt restructuring
Corporate Liability Management	TFM	BBVA Bancomer, Morgan Stanley	\$106 million 3-year loan facility; \$460 million 9.375% seven-year notes
Initial Public Equity Offering	Aguas Metropolitanas	Celfin Capital, UBS, Santander Investments, Banchile	\$398 million IPO
Secondary Equity Offering	PIBB ETF	Banco Itau, Banco Santander	\$1.104 billion offering
Cross-Border M&A	SABMiller	Citigroup, Merrill Lynch, JP Morgan, Lehman Bros., Morgan Stanley	\$7.8 billion purchase of Bavaria
Domestic M&A	Embratel	Citigroup, ABN Amro	\$547.5 million purchase of Telmex do Brasil and 37.1% stake in Net Serviços de Comunicação
Hostile Takeover	Cencosud	Celfin Capital	\$602 million purchase of 71.1% of Almacenes Paris
Syndicated Loan	Techint	Citigroup, HSBC, HypoVereinsBank, BNP Paribas	\$1.38 billion loan with 16-bank syndicate
Corporate Restructuring	Globopar	Houlihan Lokey, Goldman Sachs	\$1.3 billion debt exchange
Project Finance	Mexico City Int'l Airport	Citigroup, BBVA Bancomer, Nafin	\$400 million financing
Asset-Backed Transaction	Unibanco	Unibanco, Sumitomo Mitsui	\$200 million standby loan backed by asset-backed bonds
Derivative Transaction	Venezuela	Citigroup	Credit default swaps

sovereign financing into its local debt market. However, unlike Mexico, Brazil has not made it easy for foreign investors to access – or exit – its domestic capital markets. Investors are deterred by a costly withholding tax and the bureaucratic headache of having to establish accounts in Brazil. Mexico threw open its markets to foreign investors, helping the government plot a liquid, long-dated domestic yield curve with maturities spanning 20 years. Mexico plans to issue a 30-year bond in coming months.

Brazil took steps to make its *real* global bond as accessible to international investors as possible. The instrument is structured around the standard conventions of the international bond market rather than around Brazil's domestic bond market. That means it is governed by the laws of New York State and can be settled with the international clearing houses Euroclear, Clearstream and DTC, making it quick and easy for international investors to settle the instrument.

Brazil announced the *real* deal two days before coming to market, to give global investors, many of whom had never bought Brazilian debt before, an opportunity to understand the issue. When the leads opened the book, orders flooded in. The issue was more than five times oversubscribed, enabling the offering to close in just two hours. Consequently, the bookrunners priced the deal aggressively at a yield to maturity of 12.75% and a coupon of 12.5%.

Although Brazil locked in impressively tight pricing, the issue alienated some investors who thought it too expensive, and the bond performed poorly in the aftermarket, trading down in the days following pricing. It priced at R\$98.636, equivalent to a \$42.90 cash price. Six days later on Sept. 28, it closed at R\$95.30 for a yield of 13.63%. It had recovered value by mid-December with the yield to maturity tightening to a bid price of 99.5 cents on the dollar on Dec. 16, for a yield of 12.59%.

Levy says the bond was an important first step in opening up Brazil's domestic bond market to foreign investors. Developing Brazil's bond market is a central feature of Brazil's financing plans for 2006. Levy says Brazil's Treasury is working to enable investors to trade Brazilian government debt electronically. The country also wants to encourage investors to benchmark their debt through domestic debt indices. **LF**

Quasi-Sovereign Bond

Thinking Globally, Issuing Locally

Why would Codelco, the Chilean state-owned copper giant, issue a bond locally? Its revenues and financial liabilities are in dollars. In April, however, Codelco issued \$201.7 million-equivalent in 20-year bonds denominated in UFs, Chile's inflation-protected currency. The bonds, which pay an annual 4% coupon, win our Deal of the Year award for Quasi-Sovereign Bond.

Codelco mandated Santiago-based investment bank Celfin Capital and Credit Suisse to issue the bond, which was a hit with local investors. Sold at 108 cents on the dollar, the yield at issue was 3.29%, only 20 basis points over comparable sovereign bonds.

Oscar Molina, director of corporate finance at Celfin, says Codelco had two reasons for issuing locally. First, interest rates in UF-denominated instruments are attractive – swapped into dollars they were lower than dollar rates – and secondly because Codelco wanted to diversify its investor base.

Copper prices climbed 39% in 2005, the fourth straight year of increases, thanks mainly to heavy demand in China. Codelco is a key global copper supplier, giving it pre-tax income of \$3.3 billion in the first nine months of 2005. And Codelco is well

managed by a corps of professional executives.

Although Chile has a large mining industry, it is hard for investors to gain exposure to local mining companies. All the major copper companies are either state-owned (such as Codelco), owned by large multinationals (such as Noranda) or do not list locally (such as Antofagasta). And because copper is priced in dollars and mainly sold for export, most companies issue debt not in pesos but in dollars, to match their revenues. Chile's privately managed pension funds – the AFPs – have limits on exposure to offshore investments. According to Molina, Codelco's UF issue offered the AFPs a great opportunity to diversify their portfolios.








Codelco's 20-year bond is a benchmark for the Chilean domestic capital market. In August, the Chilean government had less than \$1 billion in local-currency debt with tenor longer than 10 years, all of it in UFs. The issue by Codelco of a 20-year bond denominated in UFs adds liquidity to the long end of the yield curve in the domestic market.

The bond came with a cross-currency swap allowing Codelco to swap the proceeds into dollars. "The cross-currency swaps market has been growing, and will continue to grow," says Molina. He says three-to-five year cross-currency swaps are common, and that 10-year swaps are becoming more frequent. Twenty-year swaps are currently rare, but "there is increasing demand for 20-year swaps," says Molina.

Codelco has made a concerted effort to diversify its investor base and the maturity profile of its bonds. In October 2004, it raised \$500 million through a 10-year bond marketed aggressively in Asia. The deal priced at 4.75%, the lowest coupon ever for a Latin American corporate bond. A month later, Codelco issued its first UF-denominated bonds, raising \$165 million. Last year Codelco issued \$500 million in 30-year bonds, denominated in dollars.

That bond was originally going to be issued in two tranches – one with a

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<p>Brazil January 2006</p>  <p>CAMARGO CORRÊA</p> <p>USD 453,379,590 Standby Letter of Credit Facility</p> <p>Mandated Lead Arranger and Joint Bookrunner</p> <p>WestLB</p>	<p>Brazil December 2005 February 2005</p> <p>Schahin</p> <p>as Drillship Operator Turatoria – Borrower</p> <p>USD 104,413,000 Senior Secured Drillship Financings</p> <p>Sole Lead Arranger</p> <p>WestLB</p>	<p>Argentina November 2005 October 2004</p>  <p>Vicentin S.A.I.C.</p> <p>Vicentin S.A.I.C. de C.V.</p> <p>USD 95,000,000 Export Backed Facilities</p> <p>Sole Lead Arranger</p> <p>WestLB</p>	<p>Brazil November 2005</p>  <p>Votorantim</p> <p>Votorantim Participações S.A.</p> <p>USD 300,000,000 Stand-by Liquidity Facility</p> <p>Joint Bookrunner and Lead Arranger</p> <p>WestLB</p>
<p>Mexico September 2005</p> <p>ICA FLUOR</p> <p>Sponsored by ICA Fluor Minatitlan – Package II</p> <p>USD 20,000,000 Revolving Working Capital Facility of USD 750,000,000 Expansion Lazaro Cardenas Refinery</p> <p>Structurer & Arranger</p> <p>WestLB</p>	<p>Mexico & Argentina August 2005</p>  <p>SIDERAR</p> <p>Industrial Investment Inc. and Siderar S.A.I.C.</p> <p>For the Acquisition of  USD 1,380,000,000 Acquisition Financing</p> <p>Arranger</p> <p>WestLB</p>	<p>Brazil May 2005</p>  <p>PETROBRAS</p> <p>PB Special Trust 2001</p> <p>USD 227,000,000 Charter Financing Program</p> <p>Sole Lead Arranger</p> <p>WestLB</p>	<p>Mexico February 2005</p>  <p>MINERA AUTLAN</p> <p>Compañía Minera Autlan S.A. de C.V.</p> <p>USD 25,000,000 Autlan Export Receivables Master Trust Series 2005 A</p> <p>Sole Lead Arranger</p> <p>WestLB</p>

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Moses Dodo, Managing Director,
Head of Latin America, Tel + 1 212 852-6002

Carl W. Adams, Head of Structured & Corporate
Finance, Latin America, Tel + 1 212-852-6068

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10-year maturity, and one with a 30-year maturity. The popularity of the 30-year bond in the US, however, meant that Codelco was able to raise the funds solely in the longer-tenor bonds. While issuing a 30-year bond is a sign of maturity for any company in the emerging markets, issuing in dollars is easy for a company like Codelco. Being able to issue in local currency when you do business in dollars is a true sign of financial sophistication. **LF**

Corporate Bond

Shocking Development

Global local currency bonds allow borrowers to eliminate exchange risk, transferring this to investors. There was a time when investors insisted on owning dollar bonds, but declining bond yields and the recent strength of Latin America's currencies has changed that.

A major step in expanding the asset class came last June, when Brazilian utility Eletropaulo issued R\$474 million (\$200 million) in *real*-denominated globals. It was the first such issue by a non-financial company located in Brazil. Previous Latin American local globals were issued either by governments or financial institutions through offshore vehicles. That a utility successfully launched a *euro-real* bond was a sure sign of the market's rapid advance. The five-year deal was also Latin America's largest global local currency bond at the time, and has since been beaten by América Móvil's \$465 million *euro-peso* bond in September.

The attractions of a local currency global for the issuer are obvious, because they are able to borrow in their own currency at tenors and rates that are rarely available in their local capital markets. Investors are attracted by

coupons no longer available in the dollar bond market and feel confident that yields will outpace currency depreciation in the years ahead or at least amply cover the cost of swapping their local currency exposure into dollars. The Brazilian *real* appreciated 13% in 2005. Despite the eruption of a corruption scandal in June and a series of interest rate cuts, the currency still rose 6% against the dollar in the second half. Eletropaulo mandated Merrill Lynch for the issue, which priced the bond at par with a 19.125% coupon.

Merrill Lynch says it was a complex challenge to price the deal, since there were no precedents in the market. Initial price guidance had been set at above 19.5%, but strong demand allowed Eletropaulo to issue with a coupon of 19.125%. "Credit-oriented investors saw value in the yield and foreign exchange mitigation," says Michael Lucente, head of Latin American capital markets at Merrill Lynch.

The deal was all the more remarkable because Eletropaulo had suffered one blow after another following its privatization in 1998. A severe drought in 2001 forced Brazil's hydro-dominated electricity industry to ration power, cutting into its revenues, profits and capacity to service debt. Eletropaulo, a subsidiary of troubled Virginia-based AES, was forced to default on loans from BNDES, Brazil's government-owned development bank, in 2002.

Given that context, the bond was a major milestone on Eletropaulo's road to recovery. "The power sector has undergone a recent restructuring," says Lucente. "The sector is on a better financial and regulatory footing." Eletropaulo has worked hard to improve its debt profile. Concurrent with this issue, Fitch upgraded Eletropaulo's foreign currency rating to 'B' from 'B-', citing improved credit protection measures and a reduction in annual debt service.

Lucente is optimistic about the future of local currency globals as an asset class. "It will continue in a stable macroeconomic environment," he says.

Brazilian issuers will continue to be interested in *reais* to avoid currency mismatches and investors will be attracted to locking in some of the highest interest rates on the planet. But if Latin America's hard-earned economic stability is called into question, dragging currencies down, many investors could rue the day they ever heard of local currency globals. Lucente is more sanguine: "If you see a flux in the exchange rate, a jump in emerging market risk, or the interest rate, then there'll be a weakening in [this] market." **LF**

Financial Institution Bond

Thinking Long-Term

Just as Latin American perpetual bonds were starting to look commonplace, Banco Bradesco, Brazil's biggest private-sector bank, issued a \$300 million perpetual bond in March. It was the first of its kind from a Brazilian issuer and the first by a non-investment grade issuer, setting a new landmark in this rapidly evolving market segment. Merrill Lynch pitched the idea to Bradesco after it had led successful transactions for corporates in investment-grade Mexico. Merrill priced the bond at 445 basis points over 30-year US Treasuries with an 8.875% coupon. The bond was issued at par and is callable after five years.

Strong demand enabled Merrill to price the bond aggressively, with coupon guidance running around 9.5%. The book was two-and-a-half times oversubscribed, so Bradesco and Merrill upsized the deal size from \$250 million.

While the bond was marketed as a Tier-One issue, which Bradesco would use to bolster its capital structure and so increase domestic market lending in Brazil, there was some confusion over that definition.