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FitchRatings

Can the Emerging Market Corporate Success Story Endure?

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October 11, 2011

Emerging Markets Comparative Credit Statistics

Key DM Risks

- High government and personal debt levels
- Slow growth
- Poor population demographics

Key EM Risks

- Weak corporate governance and institutional frameworks
- Growing credit culture
- Vulnerability to a downturn in China or a downturn in Developed Markets

EM Median Credit Metrics vs. U.S.

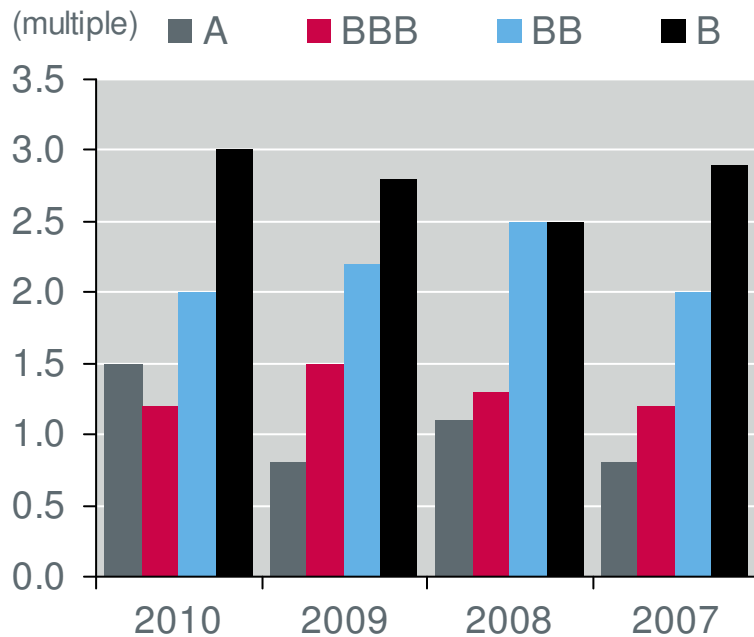
(Median)	'A'	'BBB'	'BB'	'B'
Net Leverage Ratio by Rating Category – 2010				
Emerging Market Corporates	1.5	1.2	2.0	3.0
United States Corporates	1.2	1.9	3.1	5.7
Interest Coverage Ratio by Rating Category – 2010				
Emerging Market Corporates	12.1	8.5	4.3	3.0
United States Corporates	14.0	8.9	4.6	2.7

^a Emerging Markets ratios and rating distribution charts exclude more than 70 companies whose ratings are sovereign linked or country ceiling constrained

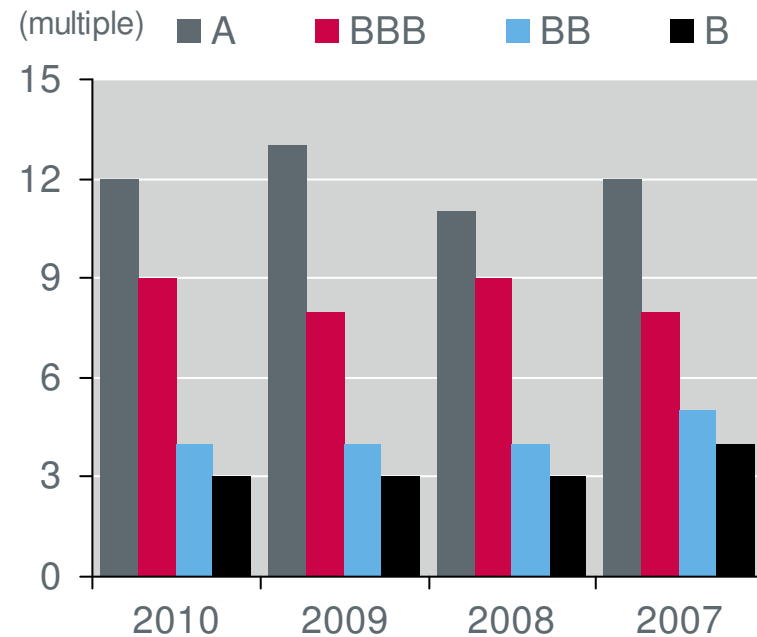
Emerging Markets Comparative Credit Statistics (cont.)

EM Credit Trends Since 2007

Emerging Markets Net Leverage Ratio (Median)



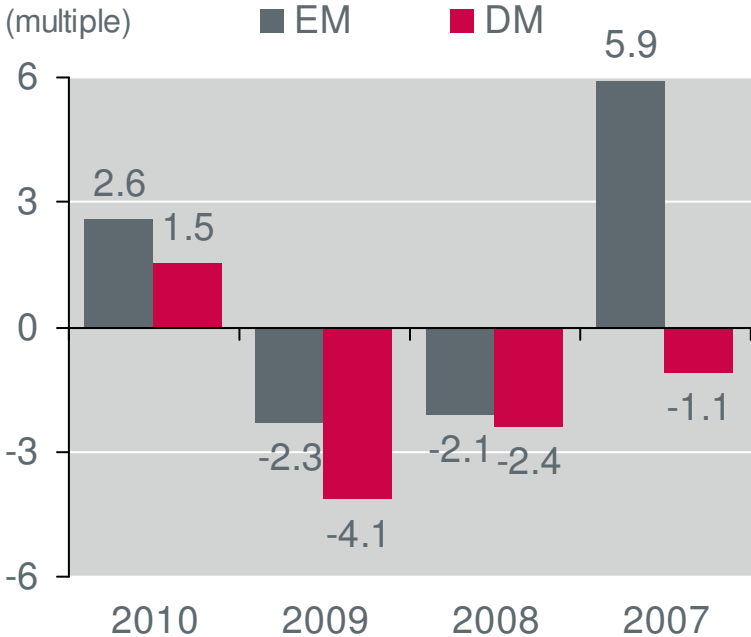
Emerging Markets Interest Coverage Ratio (Median)



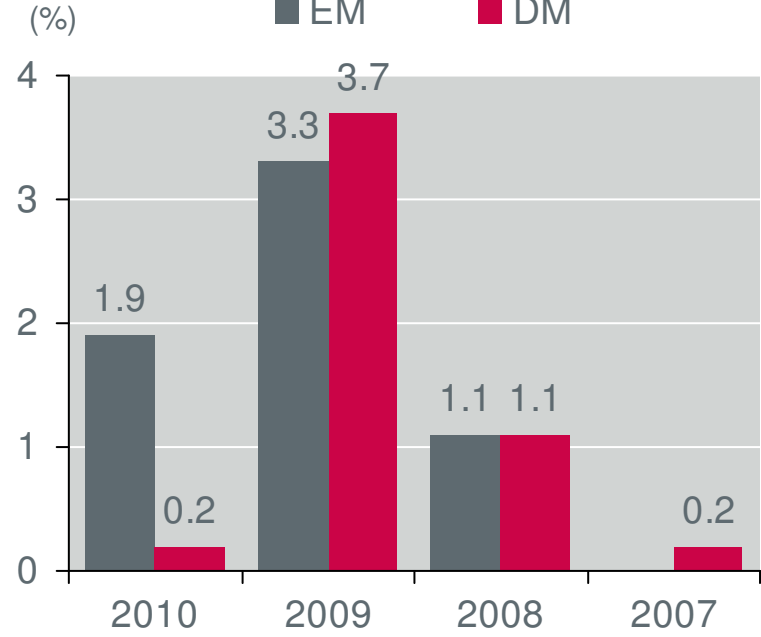
^a Emerging Markets ratios and rating distribution charts exclude more than 70 companies whose ratings are sovereign linked or country ceiling constrained

Credit Performance During Economic Crisis

Upgrades to Downgrade Ratio



Default Rates



Source: Fitch Ratings credit market research

Historical Ratings Transition Statistics

Fitch Ratings Emerging Markets Corporates Finance Transaction Rates

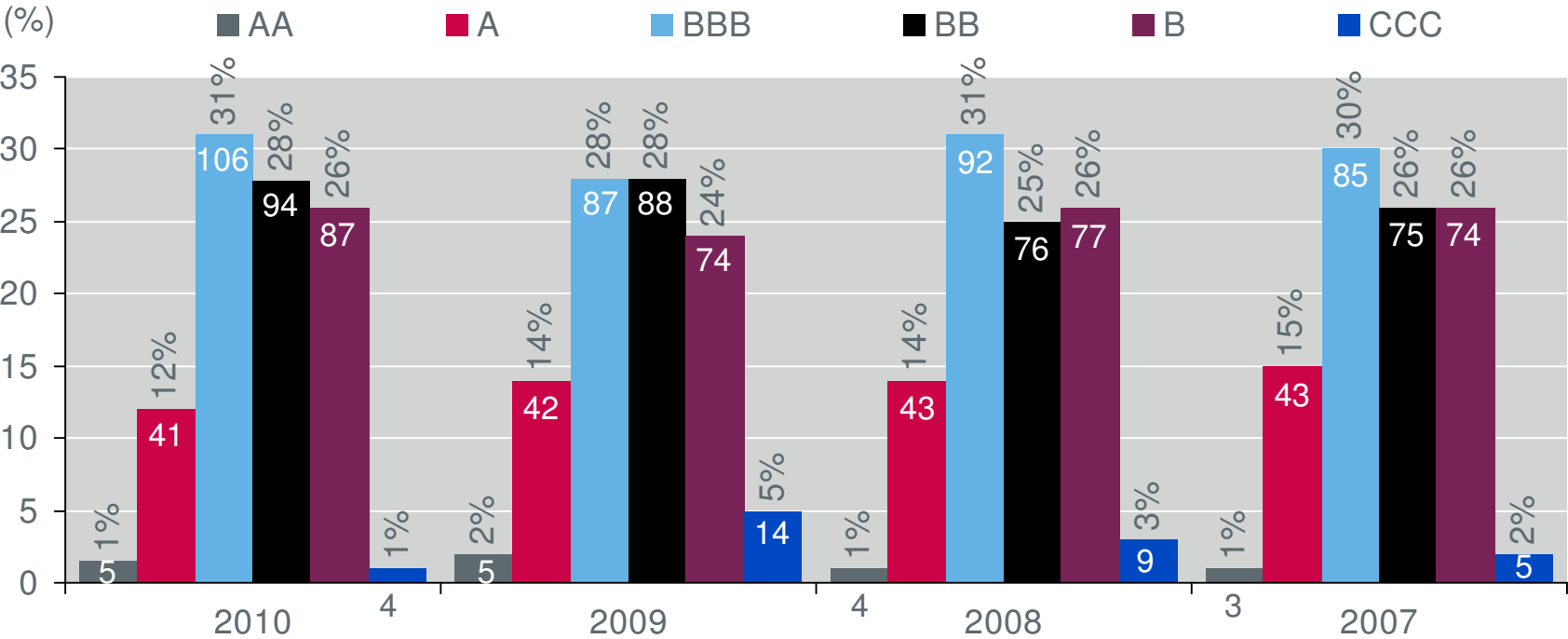
		AAA	AA	A	BBB	BB	B	CCC to C	D	Total
One-year: 2010	AAA	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	AA	0.00	100.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
	A	0.00	0.98	98.04	0.98	0.00	0.00	0.00	0.00	100.00
	BBB	0.00	0.00	0.00	98.38	1.62	0.00	0.00	0.00	100.00
	BB	0.00	0.00	0.00	6.76	91.22	2.03	0.00	0.00	100.00
	B	0.00	0.00	0.00	0.00	7.65	91.18	0.59	0.59	100.00
	CCC to C	0.00	0.00	0.00	0.00	0.67	53.33	6.67	33.33	100.00
Average annual: 1990-2010	AAA	100.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
	AA	0.00	89.66	6.90	1.72	0.00	1.72	0.00	0.00	100.00
	A	0.00	0.73	94.18	4.51	0.58	0.00	0.00	0.00	100.00
	BBB	0.00	0.00	4.71	90.44	3.99	0.62	0.55	0.28	100.00
	BB	0.00	0.00	0.00	8.77	79.78	8.06	2.37	0.95	100.00
	B	0.00	0.00	0.16	0.82	10.53	83.63	3.78	1.56	100.00
	CCC to C	0.00	0.00	0.00	0.00	0.48	26.09	50.72	22.71	100.00

Fitch Ratings Developed Markets Corporate Finance Transition Rates (%)

		AAA	AA	A	BBB	BB	B	CCC to C	D	Total
One-year: 2010	AAA	93.33	6.67	0.00	0.00	0.00	0.00	0.00	0.00	100.00
	AA	0.00	89.60	10.40	0.00	0.00	0.00	0.00	0.00	100.00
	A	0.00	0.65	93.02	6.01	0.32	0.00	0.00	0.00	100.00
	BBB	0.00	0.00	1.80	96.24	1.95	0.00	0.00	0.00	100.00
	BB	0.00	0.00	0.00	8.51	85.64	0.52	0.53	0.00	100.00
	B	0.00	0.00	0.00	0.00	7.69	84.62	7.69	0.00	100.00
	CCC to C	0.00	0.00	0.00	0.00	24.14	20.69	37.93	17.24	100.00
Average annual: 1990-2010	AAA	94.30	5.70	0.00	0.00	0.00	0.00	0.00	0.00	100.00
	AA	0.10	90.87	8.67	0.31	0.02	0.00	0.00	0.04	100.00
	A	0.02	2.18	91.63	5.38	0.52	0.10	0.07	0.10	100.00
	BBB	0.00	0.26	3.58	91.36	3.77	0.58	0.20	0.26	100.00
	BB	0.04	0.08	0.12	8.22	81.68	6.77	1.45	1.64	100.00
	B	0.00	0.00	0.45	0.67	8.00	81.51	5.07	3.50	100.00
	CCC to C	0.00	0.00	0.00	0.39	4.28	12.84	49.42	33.07	100.00

Source: Fitch Ratings

Distribution of Emerging Market Non-Financial Corporates by Rating Category



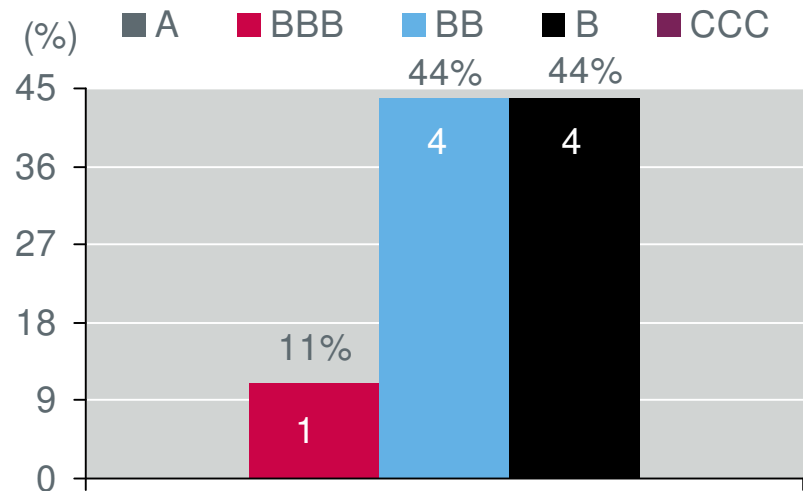
Source: Fitch Ratings

Agriculture

Key issues

- Demand for proteins is strong from Asia and most EM countries
- Agriculture industry in CIS remains very fragmented
- Brazilian producers need to capture synergies from past acquisitions
- Soil and weather conditions will remain long-term strengths

Rating Distribution – 2010



	2010	2009	2008	2007	2006
Interest coverage ratio	4.9	6.6	6.1	7.9	5.1
Net leverage ratio	2.4	2.9	1.6	0.9	3.1

Source: Fitch Ratings

Agriculture – Leading Importers & Exporters of Protein

Key issues

- Poultry producers are best positioned to benefit from increasing wealth in EM countries
- High corn and soybean prices hurt margins of pork and poultry producers
- Brazilian beef producers hurt by high cattle prices

	Chicken	(%)	Beef and Veal	(%)
Exports	Brazil	36	Brazil	20
	United States	35	Australia	18
	EU-27	11	United States	14
	Thailand	5	India	12
	China	4	Canada	7
Imports	Japan	10	United States	15
	Saudi Arabia	8	Russia	13
	EU-27	8	Japan	11
	Mexico	7	EU-27	6
	Russia	8	South Korea	5
	Hong Kong	4	Iran	4
	Vietnam	4	Mexico	4

Source: United States Department of Agriculture

Agriculture – Leading Importers & Exporters of Grain

Key issues

- Rising costs for Brazilian grain and protein producers vis-à-vis US competitors
- Regulatory risk remains high as governments seek to smooth agriculture prices through export restrictions – particularly in the CIS

	Soybeans	(%)	Corn	(%)
Exports	United States	45	United States	52
	Brazil	33	Argentina	15
	Argentina	9	Brazil	12
	Paraguay	7	Ukraine	6
	Canada	3	India	3
Imports	China	58	Japan	17
	EU-27	15	South Korea	9
	Mexico	4	Mexico	9
	Japan	4	EU-27	8
	Taiwan	3	Egypt	6
	Thailand	2	Taiwan	5
	Egypt	2	Colombia	4

Source: United States Department of Agriculture

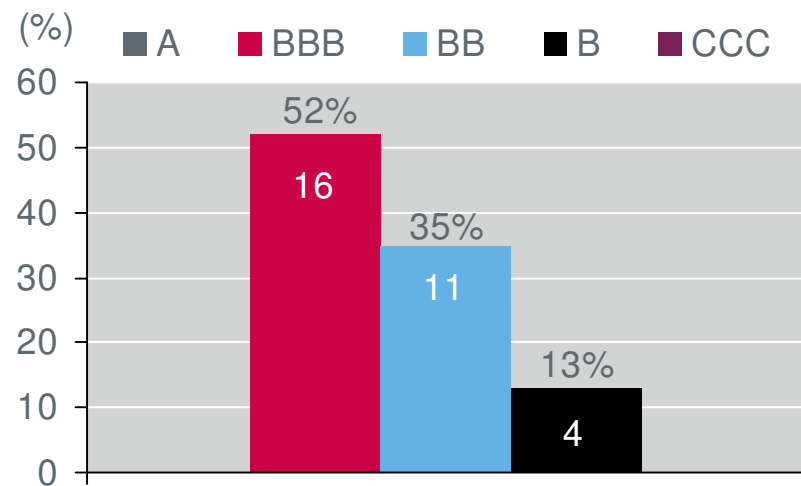
Metals and Mining

Key issues

- Industry continues to orbit around China
- Steel is still largely a regional business
- Strength of currency affects competitiveness of steel exporters and profitability
- Low shipping rates exacerbate problems for high cost producers
- Degree of energy and raw material integration drives profitability of steel producers
- Shortage of iron ore and copper support favorable medium term outlook
- Pressure to increase royalty rates

Source: Fitch Ratings

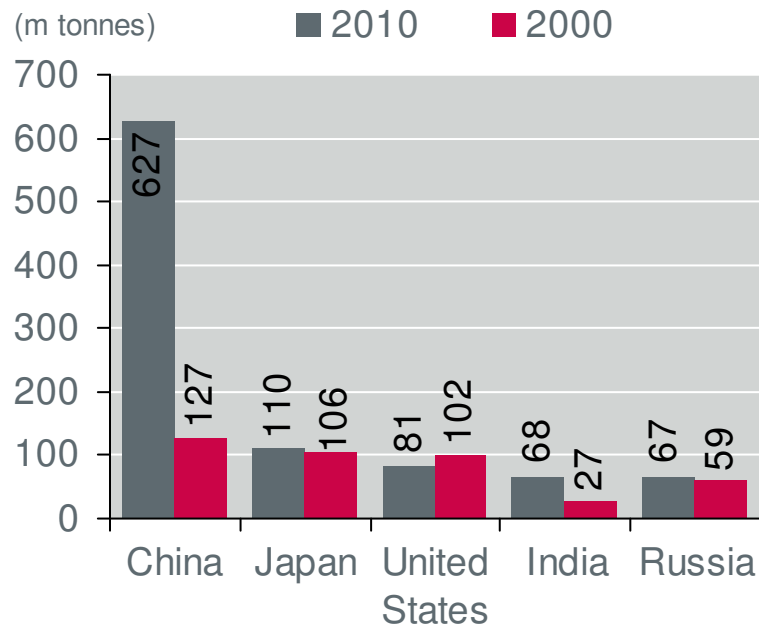
Rating Distribution – 2010



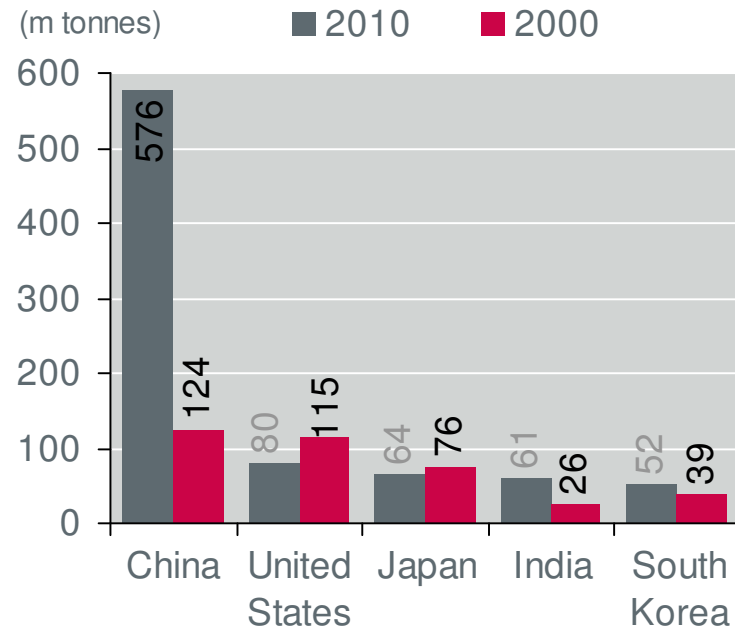
	2010	2009	2008	2007	2006
Interest coverage ratio	6.0	4.7	7.2	10.8	10.9
Net leverage ratio	1.1	1.8	1.2	1.0	1.0

Metals and Mining – Steel Production and Consumption

Top 5 Steel Producing Countries – 2010
(Million metric tons of crude steel)



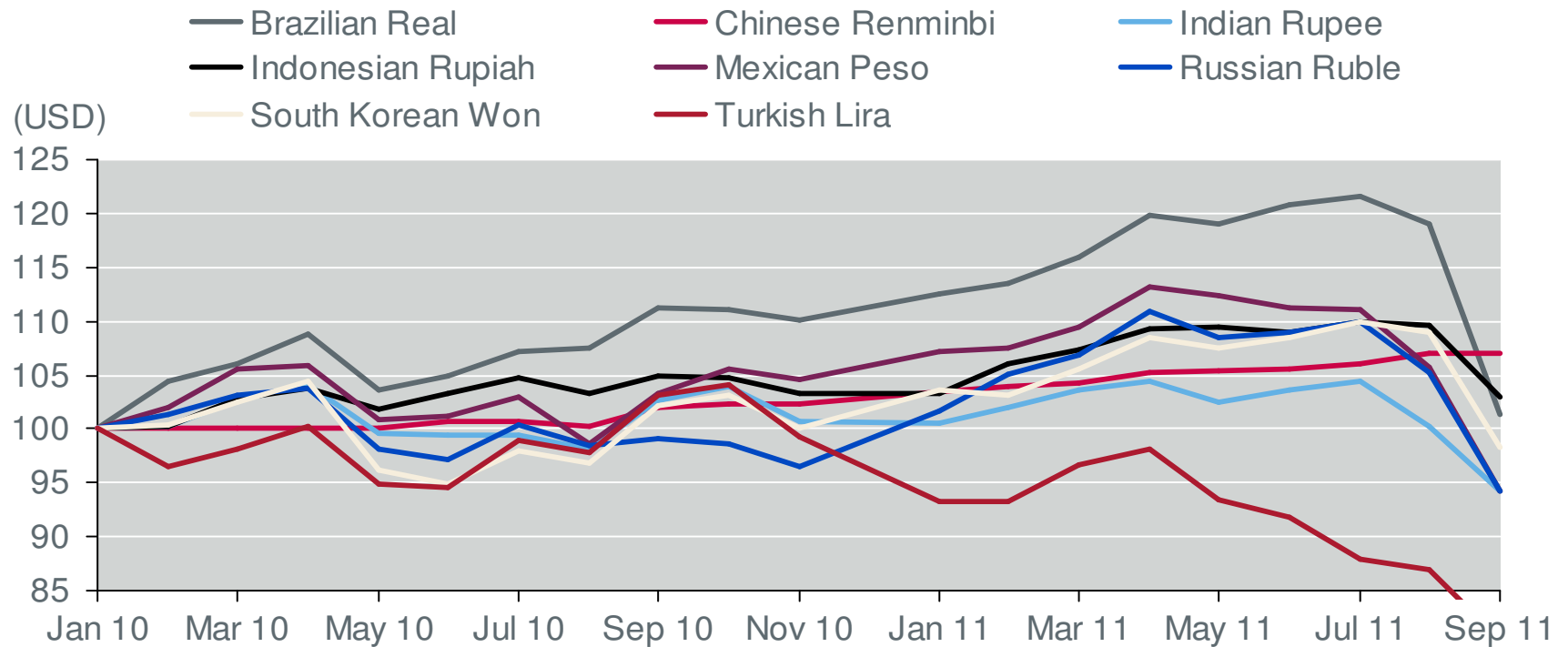
Top 5 Countries in Apparent Steel Consumption – 2010



Source: Worldsteel and ISSB

Metals and Mining – Effect of Currency Upon Steel Trade

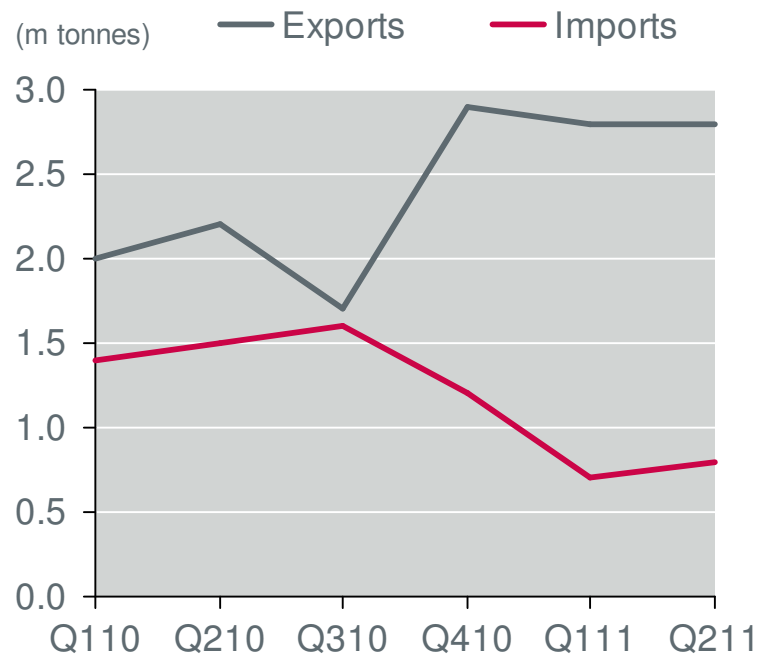
Currency Movements vs. U.S. Dollar



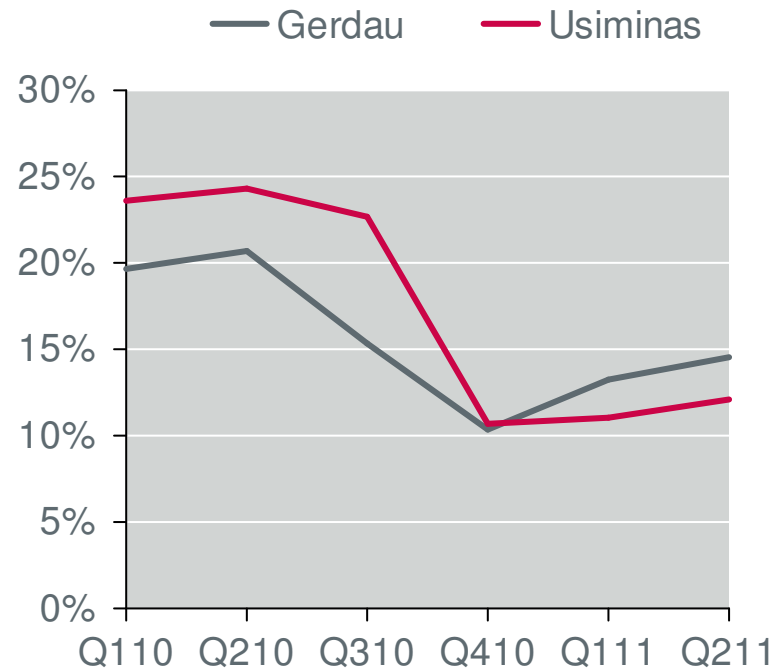
Source: Bloomberg & ISSB

Metals and Mining – Effect of Currency Upon Steel Trade (cont.)

Brazil Quarterly Steel Imports and Exports

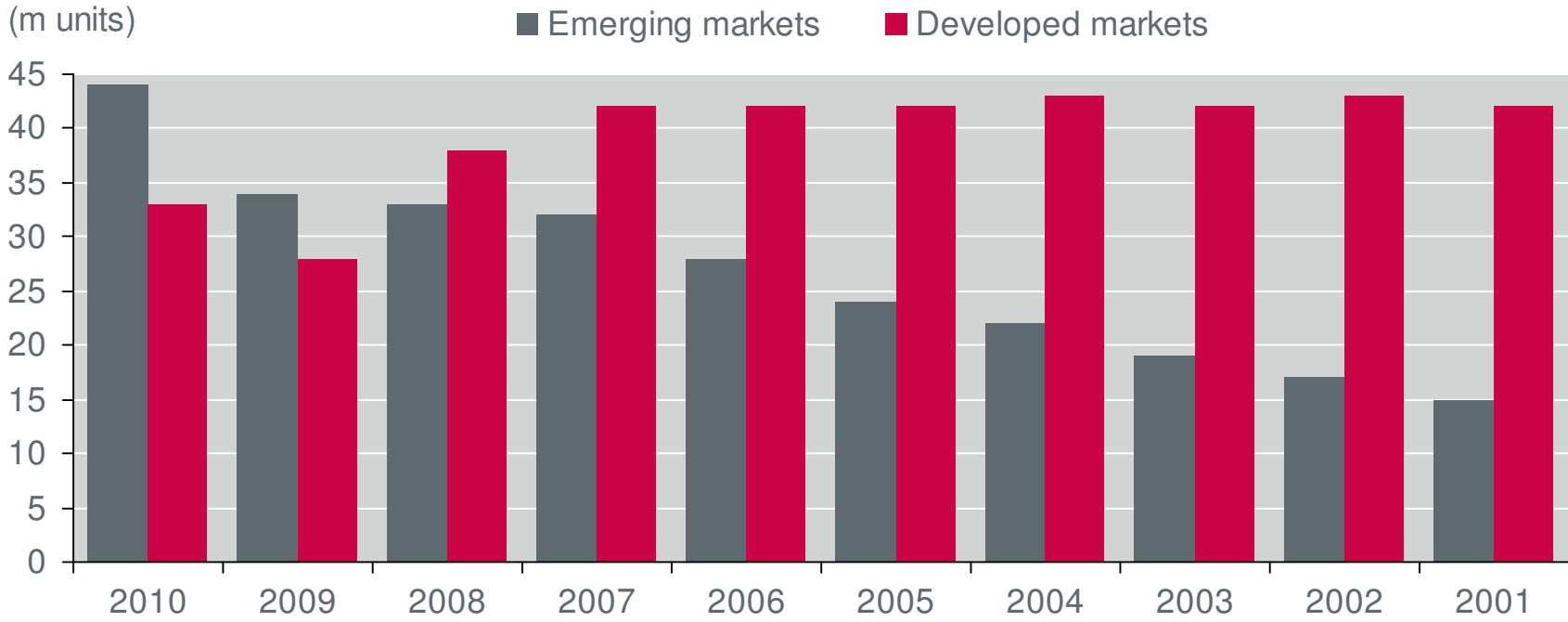


Fitch-Rated Brazilian Steel Company EBITDA Margins



Source: Bloomberg & ISSB, Company information and Fitch Ratings calculations

Metals and Mining – World Automotive Production



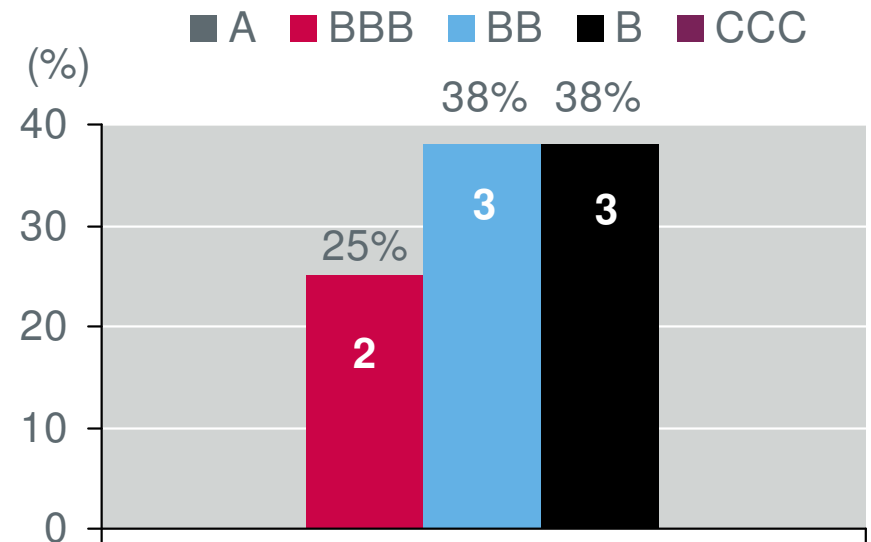
Source: OICA

Pulp and Paper

Key issues

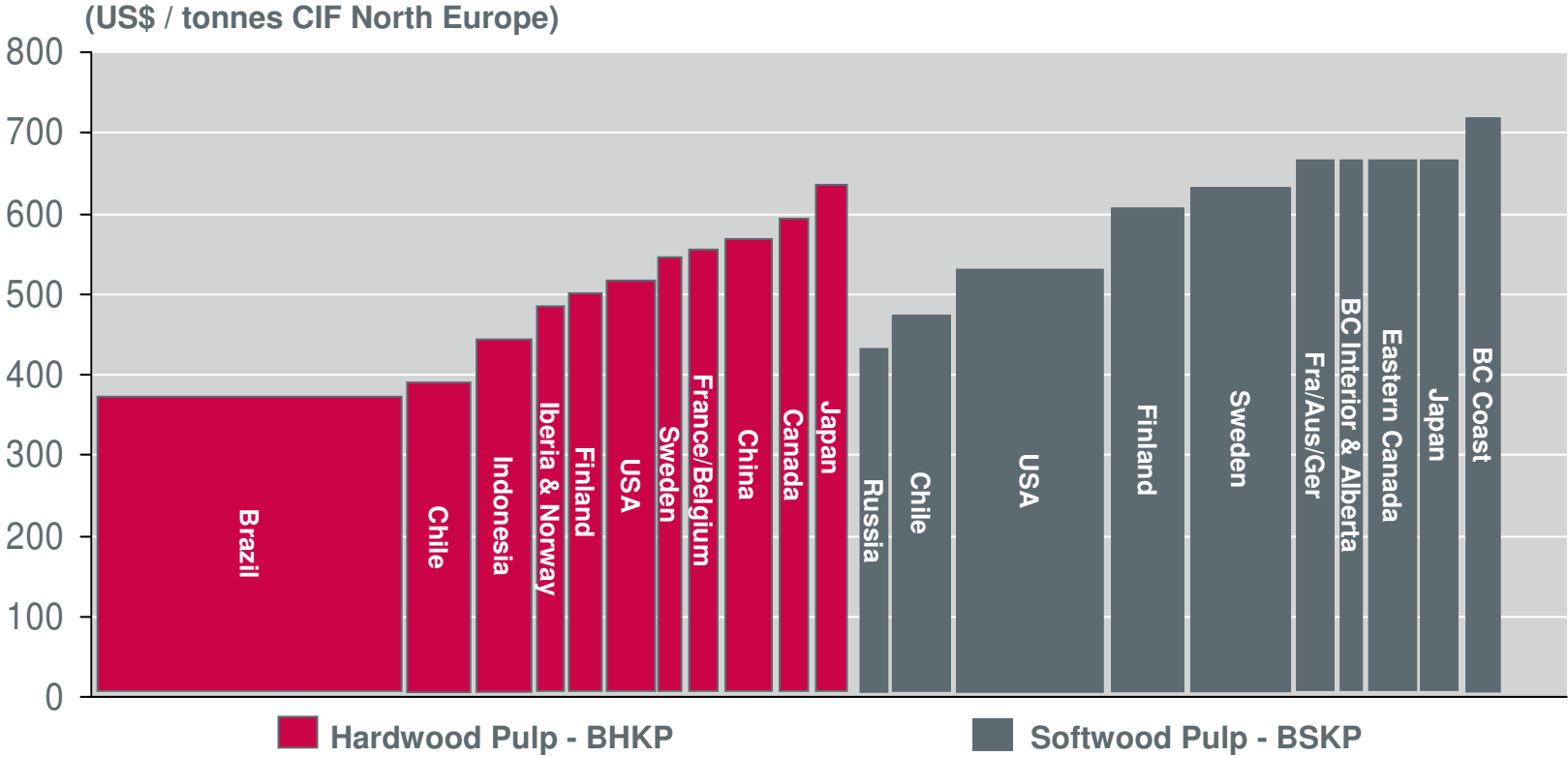
- Evolving Cost Curve
- Rapid Growth in pulp capacity
- Volatility demand from China in fiber
- Self sufficiency is the key to credit quality

Rating Distribution – 2010



	2010	2009	2008	2007	2006
Interest Coverage Ratio	4.3	3.3	4.4	3.8	3.6
Net Leverage Ratio	2.8	3.7	4.5	2.6	3.0

Market Pulp – BHKP & BSKP Cash Cost Curves



Source: Hawkins Wright, 2Q 2011.

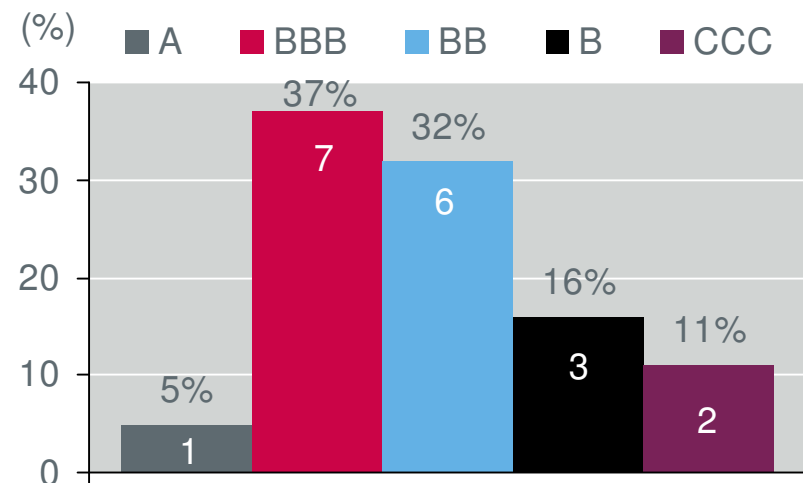
Oil and Gas

Key issues

- Oil and gas demand is relatively independent of inflation but is more closely linked to economic growth
- NOC's face a greater degree of government interference in prices if inflation is rising
- APAC governments are focused on increasing self sufficiency
- EMEA working to sustain production growth and maintaining reserve levels
- Strong cash flow but will need to borrow given capital expenditure plans
- EMEA refiners have weak margins and low capacity utilization
- Downstream margins are tight and could face margin compression

Source: Fitch Ratings

Rating Distribution – 2010

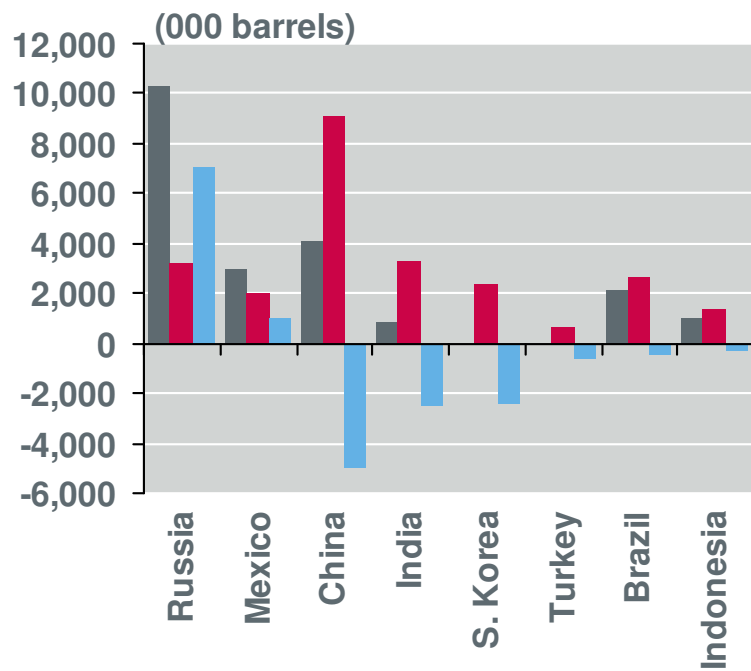


	2010	2009	2008	2007	2006
Interest coverage ratio	10.6	6.0	6.0	9.0	9.4
Net leverage ratio	1.3	1.3	1.6	2.0	1.9

Production and Consumption of Crude Oil During 2010

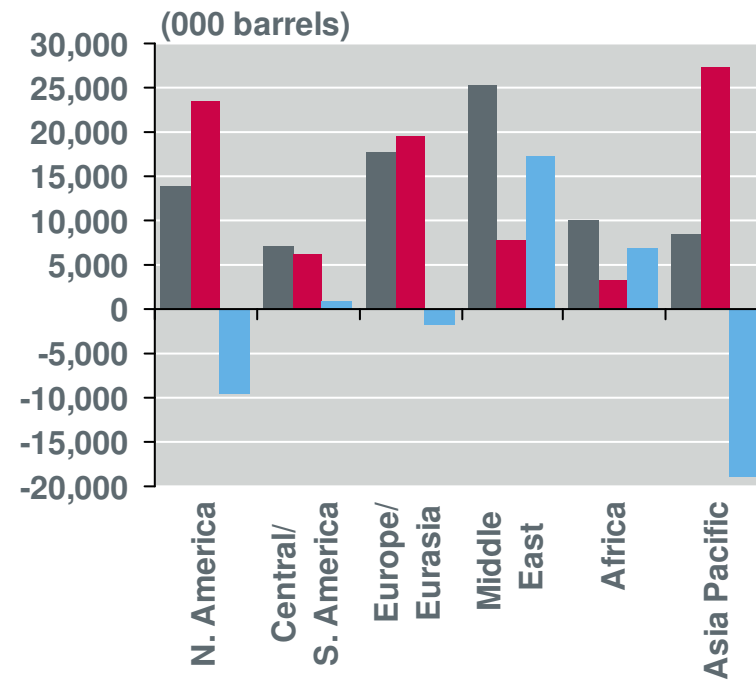
Emerging Markets

■ Production ■ Consumption ■ Surplus/deficit



Region

■ Production ■ Consumption ■ Surplus/deficit



Thousands of barrels per day. Includes crude oil, shale oil, oil sands and NGLs
 Source: BP Statistical Review of World Energy June 2011

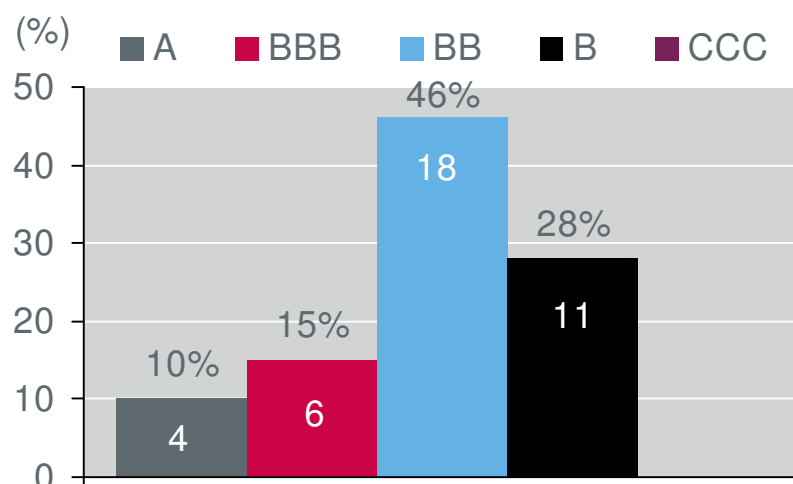
Homebuilding/Construction

Key issues

- Strong housing demand driven by increasing wealth, urbanization, government programs and lack of investment alternatives
- Homebuilders cash flow is negative due to growth
- Heavy reliance upon access to debt and equity
- Bubbles tend to be more regional
- Long-term growth dependant upon development of capital markets
- Management is crucial to credit quality and competitiveness
- Risks are hard to determine – poor government statistics

Source: Fitch Ratings

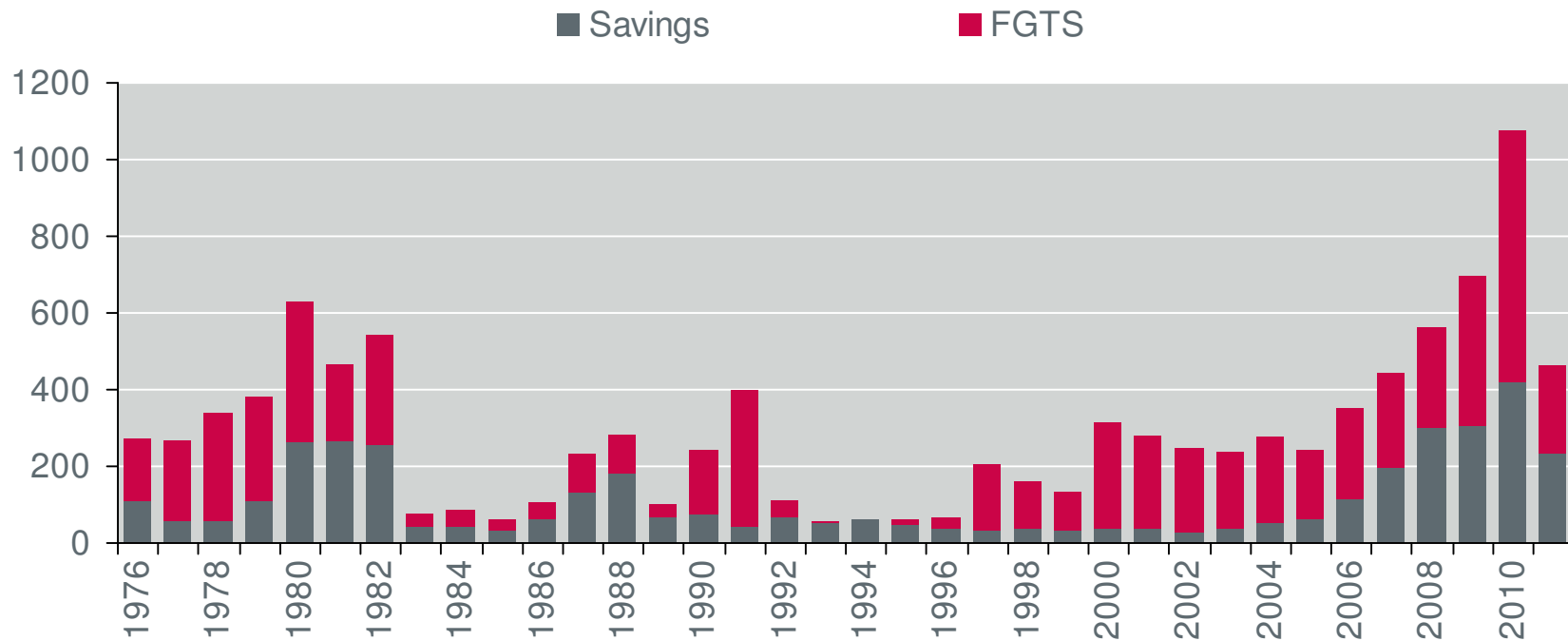
Rating Distribution – 2010



	2010	2009	2008	2007	2006
Interest coverage ratio	3.9	3.7	3.5	4.7	5.9
Net leverage ratio	2.4	2.0	2.5	2.1	1.7

Homebuilding / Construction

Thousands of Residential Units Financed by Funds from Savings and Employment Severance Indemnity Fund (FGTS)



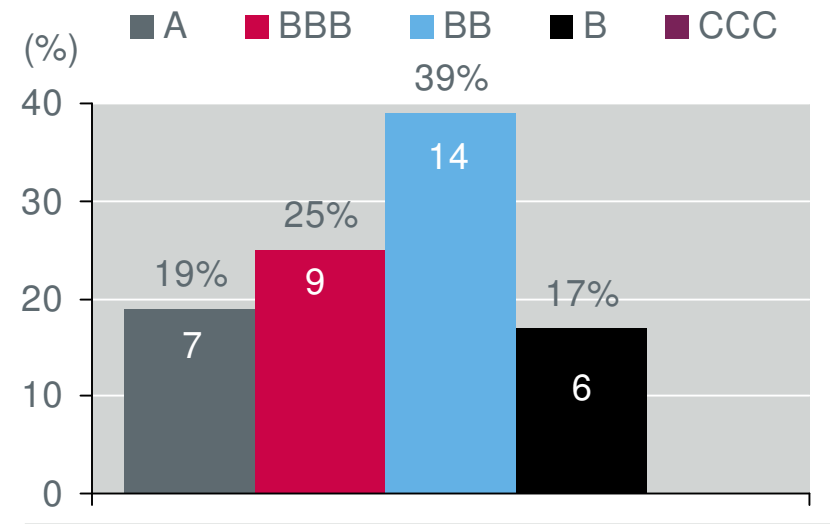
Source: ABECIPA

Retail

Key issues

- High consumer confidence and low unemployment driving demand
- Rising wealth creating a new middle class
- Good management is key to managing inflation and increasing competition
- Increasing use of consumer credit presents new risks
- Rising rate environment presents risks to first-time borrowers
- Fragmented markets lead to high merger and acquisition risk

Rating Distribution – 2010

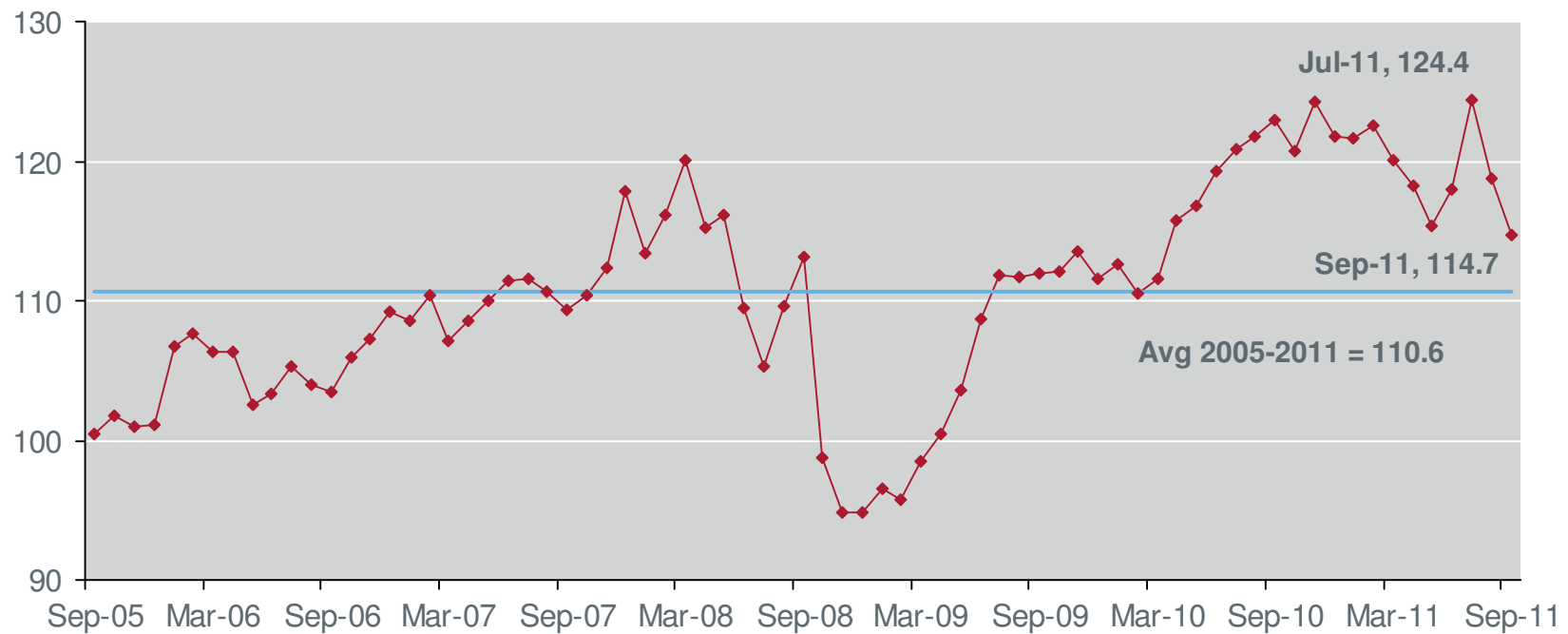


	2010	2009	2008	2007	2006
Interest coverage ratio	6.4	6.0	5.2	7.4	7.0
Net leverage ratio	2.4	2.2	2.5	1.8	1.7

Source: Fitch Ratings

Retail – Consumer Confidence in Brazil

Consumer Confidence Index (Seasonally Adjusted)



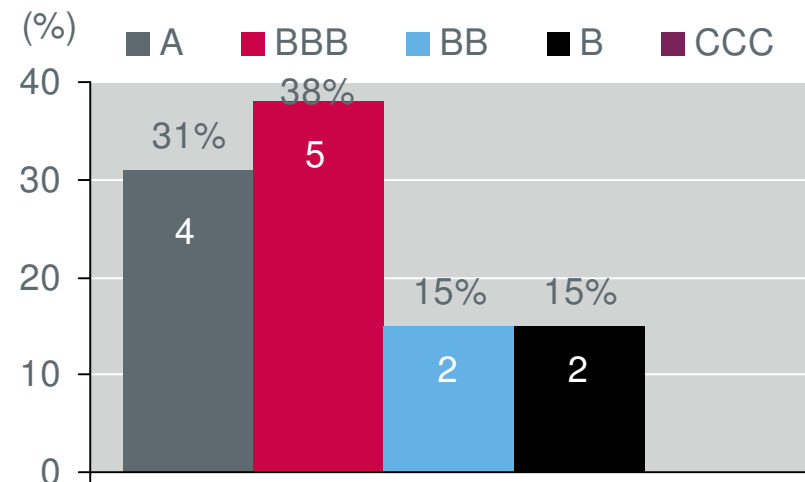
Source: Fundação Getulio Vargas

Food and Beverage

Key issues

- Volume growth due to rising incomes and population growth
- Rising input prices lead to packaging changes
- Consolidation trend continues
- Local businesses

Rating Distribution – 2010

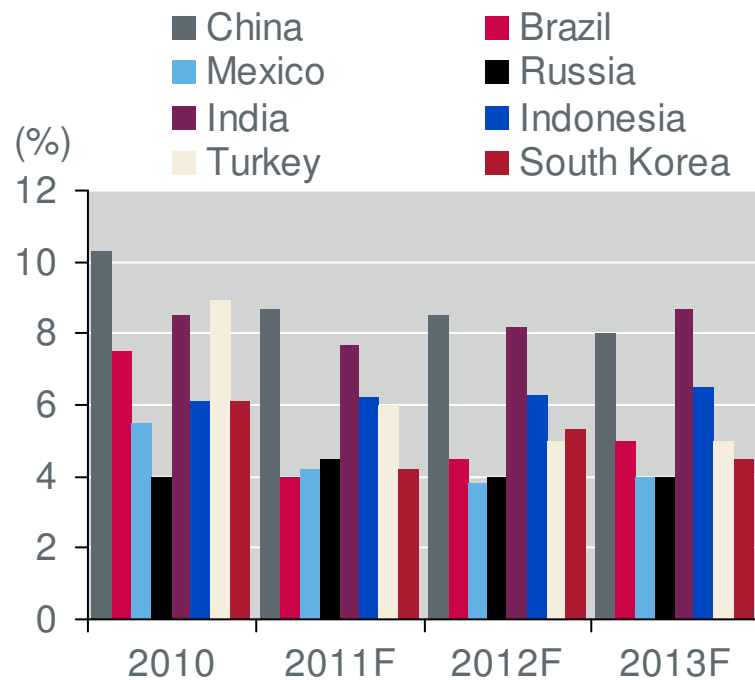


	2010	2009	2008	2007	2006
Interest coverage ratio	7.4	6.9	7.7	7.9	8.2
Net leverage ratio	1.5	1.8	2.2	1.1	1.1

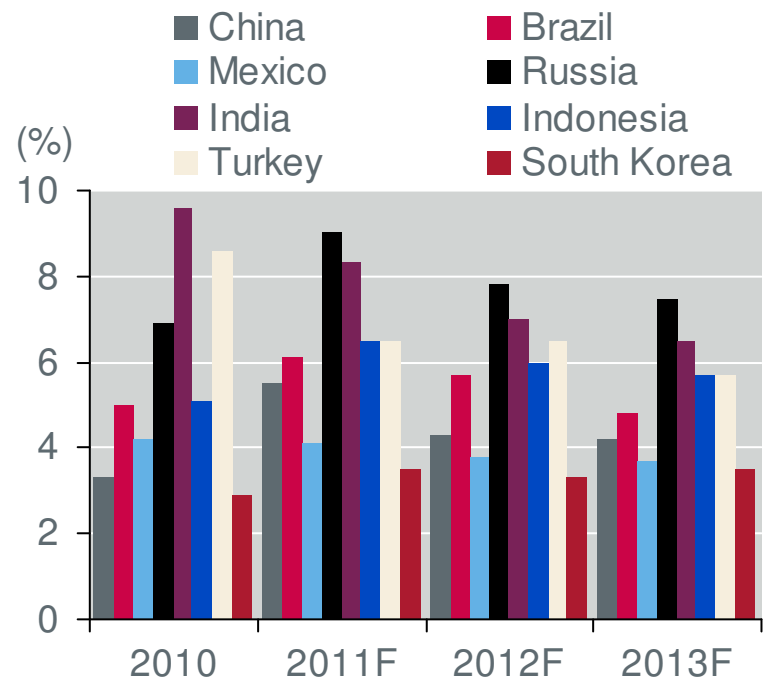
Source: Fitch Ratings

Food and Beverage – GDP Growth and Inflation

Real GDP Growth



Consumer Prices



Source: Fitch Ratings Sovereign Group, as of 30 June 2011

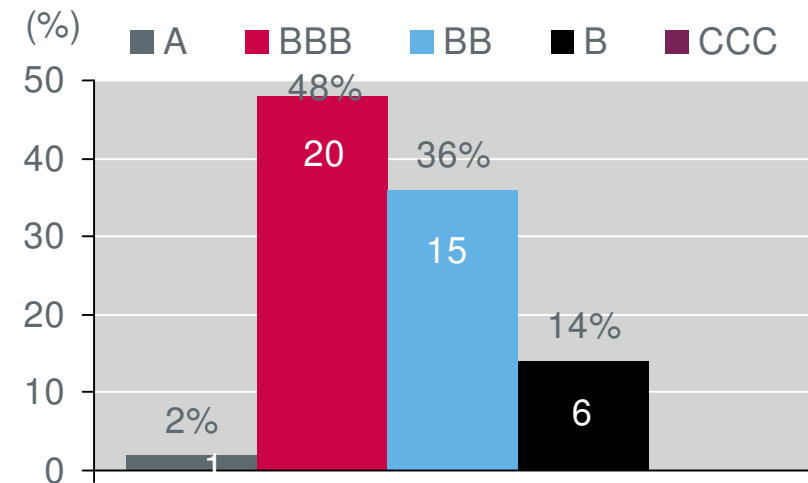
Electricity

Key issues for Brazil

- Low to moderate regulatory risk
- Heavy investments needed due to GDP growth
- Environmental aspects continue to be the main uncertainty
- Reduced margins in new auctions
- Renew of concessions to be defined soon
- Third review cycle's rules for distributors should reduce cash flow moderately

Source: Fitch Ratings

Rating Distribution – 2010



	2010	2009	2008	2007	2006
Interest coverage ratio	6.1	5.4	5.0	4.3	4.2
Net leverage ratio	2.1	1.9	1.9	2.2	2.4

Electricity – Are distributors prepared?

Efficiency Ranking - 2010 and 2009

Ranking	Distributor	Margin*
1	Coelba	76%
2	Light SESA	73%
3	CPFL Paulista	71%
4	Cemar	69%
5	Bandeirantes	64%
6	Cemat	63%
7	Eletropaulo	60%
8	Energisa PB	57%
9	Energisa SE	55%
10	Energisa MG	54%
11	Celipa	44%
12	Cemig D	44%
13	Copel D	33%
14	Ceb D	29%
15	Celesc D	24%

* Margin = Adjusted EBITDA / Net Revenues "Parcela B" « Net Revenues "Parcela B" = Net Revenues - Construction Revenues - Costs "Parcela A"

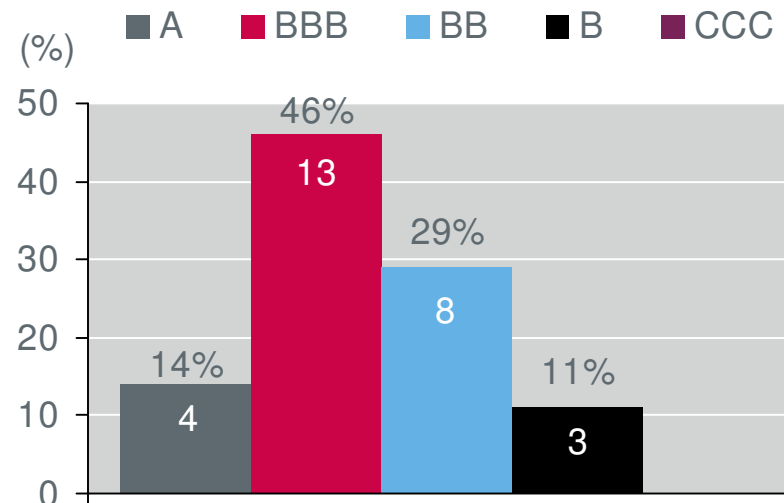
Telecommunications

Key issues

- Outlook is stable to mildly positive
- Regulatory and competitive pressures limit ability of companies to pass on price increases to customers
- Defensive sector with strong capital structures
- Incumbent operators have strong positions and cash flow
- High capital expenditures due to exponential growth in data usage
- Broadband penetration is low and growing
- FX risk is common across regions

Source: Fitch Ratings

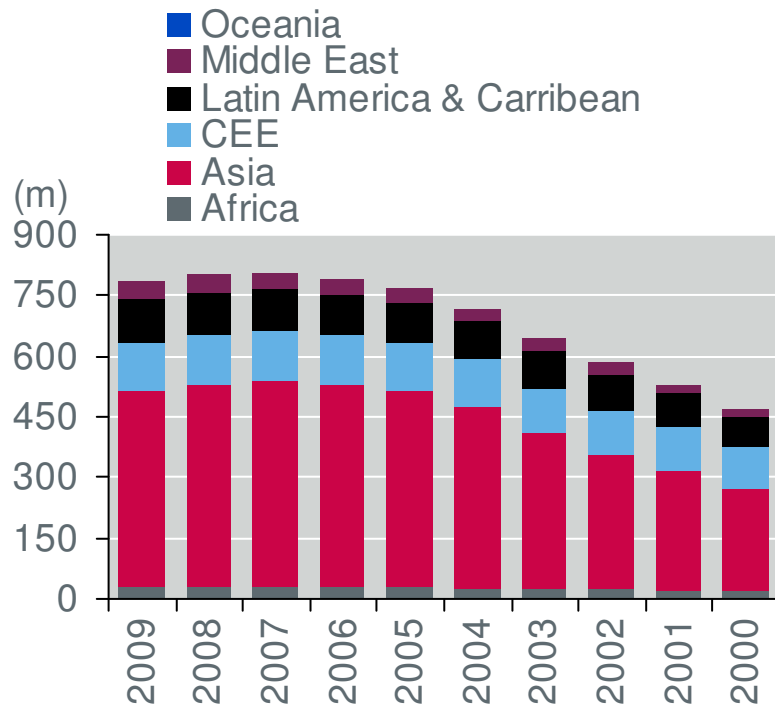
Rating Distribution – 2010



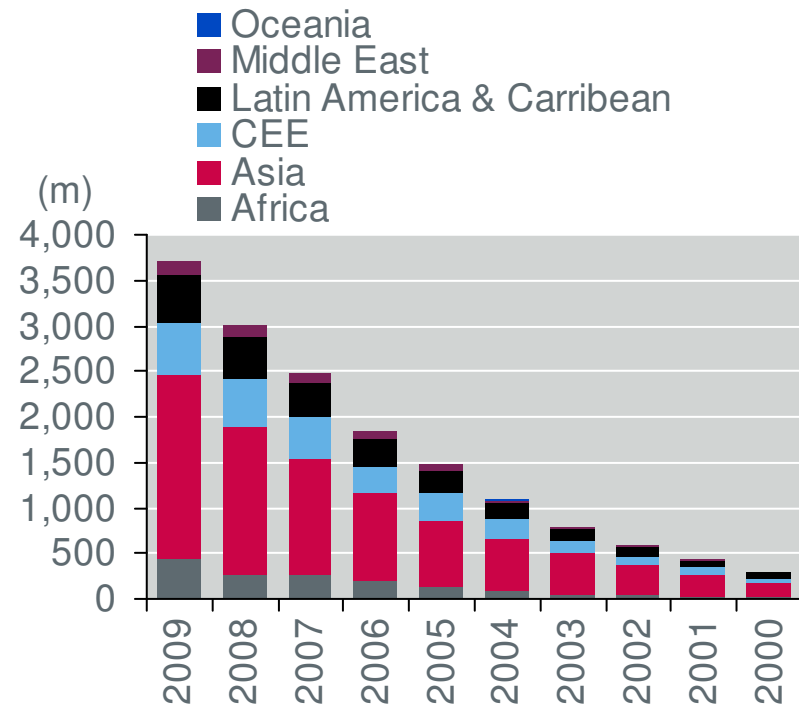
	2010	2009	2008	2007	2006
Interest coverage ratio	12.4	10.5	12.9	11.6	10.6
Net leverage ratio	1.0	0.9	0.9	0.8	0.9

Telecom – Fixed Lines and Mobile Phones by Region

Fixed Lines



Mobile Phones



Source: International Telecommunications Union

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