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Highlights of Chile 2012-2013



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Synopsis

- The economy had a positive growth of 5.6%.
- At the end of 2012, the copper price reached an average of US\$ 361 cents per pound, lower than the 2011 average of US\$ 399.7 cents per pound.
- The total authorized foreign direct investment (FDI) channeled through DL 600 reached an historic record of US\$ 16,770 million.
- Chile consolidates as the best credit risk rated country of Latin America.
- The estimated annual average unemployment rate reached 6.4% and the annual average inflation during 2012 was 3.0%.
- Tax reform was passed during third quarter 2012.

Political environment

This is the fourth year of the government of President Sebastián Piñera Echenique, who will be in office until March 2014.

According to the opinion poll of a local think tank (Centro de Estudios Públicos or CEP) the President has an approval rating of 29%.

The Lower Chamber currently has 53 representatives from the centre left coalition (Concertación), 56 from the governing centre right coalition (Alianza), 2 from the Regionalist Party (Partido Regionalista de los Independientes), 3 from the Communist Party and 6 that are independent.

The Senate is made up of 16 senators from the centre right coalition, 19 from the centre left coalition, 2 independents and 1 from the MAS (Movimiento Amplio Social, MAS).

Thus, the Government does not have a clear majority in either Chamber.

Economic Performance, Tax and Labor Legislation



Torres del Paine National Park - XII region, Magallanes - Chile.

1. GDP

During 2012, the Chilean economy had a positive growth of 5.6%, mainly due to the expansion of business services, commerce, construction, personal services and manufacturing. Mining, on the other hand, registered a slow-down of activities.

The internal demand grew 7.1% in 2012, largely due to consumption and less to investment.

Chile's per capita income is approximately US\$ 15,424, according to the Central Bank information at March 2013.

2. Trade Balance and Balance of Payments

The trade balance for 2012 showed a surplus of US\$ 3,422 million, with exports of US\$ 78.277 million (3.9% lower than 2011) and imports of US\$ 74,855 million (5.6% annual increase). The previous year this surplus reached approximately

US\$ 10,544 million, with exports of US\$ 81,455 million and US\$ 70,911 million of imports. This is the fourteenth consecutive year of surplus.

At the end of 2012, the copper price quoted at the London Metal Exchange reached an average of 361 US Dollar cents per pound, figure that is lower than the 2011 average (399.7 US Dollar cents per pound).

In the last semester of 2012 the Chinese economy reverted downward trends, causing a slight increase in copper price.

The projection for 2013 is that the annual average price of copper will be US\$ 357 cents per pound.

Foreign exchange reserves were US\$ 41,650 million at the end of 2012, compared to US\$ 41,979 in 2011, US\$ 27,864 million in 2010, US\$ 25,371 million in 2009 and US\$ 23,162 million in 2008.

3. Double Taxation Agreements

Chile has 24 agreements for the avoidance of double taxation and the prevention of fiscal evasion in force. Treaty countries are: Belgium, Brazil, Canada, Colombia, Croatia, Denmark, Ecuador, Spain, France, Ireland, Malaysia, Mexico, Norway, New Zealand, Paraguay, Peru, Poland, Portugal, Russia, South Korea, Sweden, Switzerland, Thailand and the United Kingdom. The DTA between Chile and Argentina was terminated by this last country on June 29, 2012; therefore, as a general rule, it ceased to be in force since January, 2013.

Agreements with Australia, South Africa and the United States of America have been already signed and are currently pending ratification by Congress.

Negotiations with Austria have concluded and Chile is conducting negotiation with various other countries.

4. Trade Agreements

At present, there are Free Trade Treaties and Agreements in force with China, Canada, Colombia, Mexico, South Korea, E.F.T.A. (Iceland, Liechtenstein, Norway and Switzerland), Central America (Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua), Australia, Panama, Peru, the United States of America, Turkey and Malaysia. The latest agreement, with Malaysia, is in force since April 2012. FTA with Nicaragua (bilateral Protocol) is in force since October 2012.

Agreements of Economic Association with Japan, members of the EU and of the P4 (formed by New Zealand, Singapore, Brunei Darussalam, and Chile) and limited FTAs with India are also in force. On the other hand, Economic Complementation Agreements exist with Argentina, Venezuela, Bolivia, Cuba, Ecuador and Mercosur (Argentina, Venezuela, Brazil and Uruguay).

At present, FTA with Vietnam and China have been signed. Negotiations with Thailand have been concluded in 2012.



Swans Port - XI region, Aisen - Chile.



Castle Hill - XI region, Aisen - Chile.



Niebla's Fort - XIV region, Los Rios - Chile.

5. Foreign Debt

According to the information issued by the Chilean Central Bank, the net debit balance position of firms and individuals was stable relative to last semester, at US\$126, 49 billion or 47.2% of GDP. The solvency indicator of external debt as a share of GDP increased slightly in recent quarters (to 43%), as did external debt measured as a share of exports, which reached 120% in the third quarter of 2012, or 13 percentage points higher than the last semester.

6. Foreign Investment

During 2012, total authorized foreign direct investment (FDI) channeled through DL 600 reached an historic record of US\$ 16,770 million, which is the highest annual amount for this kind of investment and it represents an increase of 21.6% with regard to the same period of 2011.

The main sectors receiving DL 600 FDI were mining (56.6%), services (18.5%), transport and

communications (10.0%) and electricity, gas & water (9.6%). Foreign investors came mainly from Canada (39.0%), Japan (16.4%), Spain (12.9%), the United States of America (10.3 %), and United Kingdom (8.4%).

7. Outbound Investment

Outbound investment was US\$ 8,553 million in 2012, which represents an increase of 47% over 2011.

Of these outbound investments, the largest share by far went to Latin American Countries. The countries that received the largest shares in 2012 were Colombia (62%), Brazil (10.7%), United States of America (6.4%), Argentina (6.3%), and Peru (5.6%).

Throughout the last twenty years, the preferred sectors for Chilean outbound investments have been services (43%); industry (26%) and energy (23%). Mining represents only a small portion (5%) and so do agriculture and livestock (3%).

8. Sector Performance

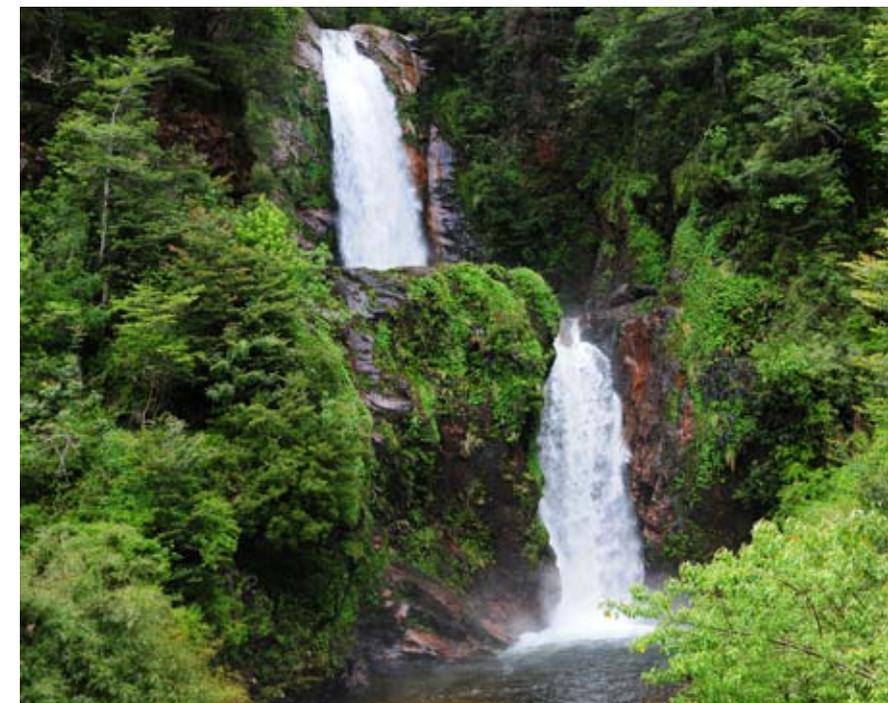
Mining export volume registered a positive annual growth rate: 7.5% in the fourth quarter of 2012. An important part of the higher copper production was due to the extraction of a higher ore grade and the operation of new production facilities.

Regarding the sector of electricity, gas and water, growth continued to outperform the aggregate GDP rates. The replacement of water resources with coal was the main factor for a lower added value, which resulted in a negative annual growth rate.

Fishing was largely determined by the increased production of salmon.

Financial services, construction and trade continued to lead the expansion, with an annual average rate that remained at 9% at the fourth quarter of 2012.

Industrial production remained relatively stable.



The Virgin's Waterfall - XI region, Aisen - Chile.

9. Country Risk

Chile's credit risk rating in long term foreign currency is "AA-", according to Standard & Poor's. The credit risk rating in local currency and its transfer and convertibility evaluation were improved to "AA+". This consolidates Chile's leading position in Latin America as the country with the best credit risk rating, which has also been reflected in Chile's position in the J.P. Morgan Emerging Markets Bonds Index (EMBI Global). The JP Morgan EMBI Global Chile Stripped Spread at November 2012 was 142 base points.

10. Labor

In 2012, the estimated annual average unemployment rate reached 6.4%, according to the National Institute of Statistics (INE).

11. Inflation

Annual average inflation during 2012 was 3.0%. Annual variation at december 2012 was 1.5%.

Inflation was 3.3% in 2011, 2.7% in 2010, -1.4% in 2009, 7.1% in 2008, 7.8% in 2007, and 2.6% in 2006.

12. Exchange Rates

The "observed" exchange rate, which is the average of buying and selling rates for transactions in the Formal Market, closed the year 2012 at Ch\$ 478,60 per US dollar, compared with Ch\$ 519,20 at the beginning of the calendar year.

The exchange rate reached its highest value for the year 2012 in june at Ch\$ 519,69 and its lowest value in september at Ch\$ 469,65.

13. Interest Rates

During 2012, the Central Bank maintained the benchmark lending interest rate at 5%.

14. Foreign Exchange Regulations

Since 2002, foreign exchange operations fall into 3 categories: (i) Operations that must be performed through the formal exchange market (i.e., a commercial bank) and reported to the Central Bank; (ii) operations that must be performed through the formal exchange market; or (iii) operations that need only be reported to the Central Bank. Thus, there are no transactions that require prior approval by the Central Bank.

15. Tax Legislation

Law No. 20,630 was published in the Official Gazette on September 27th, 2012, widely perfects tax legislation. Most of its provisions became effective on January 1st, 2013.

This law establishes a permanent Corporate Income Tax Rate at 20% for business profits at company level. It also decreases "stamp tax", reduces rates for lower brackets for Global Complementary Tax (Surtax), and establishes an education expense tax credit for individuals. The law also improves control over sales of chilean companies abroad, taxing specifically indirect sales. Furthermore, it unifies the treatment of penalty tax for all kinds of companies, and unifies rules of cost and capital gains between LLC and Corporations.

The tax reform also includes important changes in the following areas:

- Regulations about Transfer Prices.
- Regulations on Goodwill and Badwill.
- Permanent Establishment Taxation: Permanent Establishments are now subject to taxes on the income attributable to these entities.



San Rafael Lagoon - XI region, Aisen - Chile.

16. Labor legislation

Law No. 20,614 published in the Official Gazette on July 20th, 2012, set the Minimum Monthly Wage at CH\$ 193,000 (approximately US\$ 400).

Law No. 20,607 was published in the Official Gazette on August 8, 2012, with the purpose of sanctioning workplace harassment practices, defining such practices.

Law No. 20,611 was published in the Official Gazette on August 8, 2012, with the purpose of modifying rules about protection of wages, establishing mechanisms to prevent non-payment of wages and, in the case of fees, that these are paid along with the rest of the salary, except in exceptional cases.

Law No. 20,595 published in the Official Gazette on May 17th, 2012, establishes a subsidy for female employment.

17. Prospects for 2013

The Central Bank of Chile estimates that the GDP projections will be in a range from 4.5% and 5.5% during 2013.

The expectation of the average annual inflation for calendar year 2013 is 2%, and estimation for december 2013 of 2.8%, and a 3% for 2014.

18. PwC in Chile

PwC (www.pwc.cl) has been present in Chile since 1914. During these 99 years we have served the most prestigious local and foreign entities operating in Chile. We are a leading firm in the auditing business, with a staff of approximately 1,200 people distributed in the cities of Antofagasta, Santiago, Viña del Mar, Concepción, and Puerto Montt.

Our services include auditing, management consulting, executive recruitment, fixed asset valuation, due diligences, technology and software selection, performance improvement, enterprise risk management, tax and legal services, foreign investment registration and structuring, bookkeeping, confidential payroll and corporate finance services. In general, we provide information and advice on how to operate in Chile.

Our main objective is to help our clients be successful and we welcome any questions you may have related to either our services in general or to the information above.



Marble Cathedral - XI region, Aisen - Chile.

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