



Santiago, September 19, 2005

Chile – Retail

# LA POLAR

**BUY**

## Organic Growth in the Retail Sector

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dmbretth@santanderbanespa.com.br**(09/16/05)****CURRENT PRICE: US\$2.80/Ch\$1,498****TARGET PRICE: US\$3.00/Ch\$1,750****Initiation of Coverage**

<b>Rating:</b>	Buy
<b>Price Target:</b>	US\$3.00/Ch\$1,750
<b>Estimates (US\$):</b>	'05E 54.3 Million
<b>EBITDA</b>	'06E 63.0 Million
	'07E 76.9 Million

**Company Statistics**

Bloomberg	LAPOLAR CI
52-Week Range (US\$)	1.61-2.87
2005E P/E Rel to IPSA (x)	0.77
2005E P/E Rel to Retail (x)	0.74
IPSA	2,121
3-Yr CAGR (04-07E)	23.4%
Market Capitalization (US\$ Mn)	529.15
Float (%)	79.9
3-Mth Avg Daily Vol (US\$000)	1,190
Shares Outst (Mn)	207
Net Debt/Equity (x)	0.77
Book Value per ADR (US\$)	0.77

**Estimates and Valuation Ratios**

	2004	2005E	2006E	2007E
Net Earn (Ch\$)	13,924	18,533	20,976	25,533
Current EPS(Ch\$)	67.38	89.69	101.51	123.56
Net Earn (US\$)	24.7	32.9	37.4	46.5
Current EPS (US\$)	0.12	0.16	0.18	0.22
P/E (x)	18.0	16.5	14.1	11.3
P/Sales (x)	1.4	1.3	1.0	0.8
P/CE (x)	16.4	12.8	11.0	8.8
FV/EBITDA (x)	11.4	12.1	10.1	8.1
FV/Sales (x)	1.49	1.60	1.24	0.98
FCF Yield (%)	6.2%	0.4%	10.3%	11.0%
Div per Share (Ch\$)	12.3	20.2	26.9	30.5
Div Yield (%)	1.03%	1.35%	1.80%	2.03%

Sources: Bloomberg, Company Reports, and Santander Investment estimates.

**Investment Thesis:** We are initiating coverage of La Polar with a **Buy rating**. La Polar is the fourth-largest department store chain in Chile with a 10.9% market share and a strong participation in the credit business to the medium-lower income segment. The company is currently undertaking an aggressive expansion plan, which, in our opinion, adds value to La Polar shareholders, given its proven business model and our belief that the department store/credit business in Chile continues to provide room for growth, particularly in the context of the consumption growth in the Chilean economy.

**We are expecting 15.5% EBITDA growth in 2006 on top of the 28.4% expected for 2005.** The main reason behind such expansion is the 17.9% and 22.9% expected growth in selling space in 2005 and 2006, respectively. Based on a simple analysis of the company's business model, we concluded that the expansion of La Polar would add value to the shareholders given that: (1) each new store has an average net present value (NPV) of US\$16.6 million; and (2) we believe there is room for the department store/credit business in Chile to continue expanding, particularly in the medium-low income segment, which is targeted by La Polar.

**Valuation and Risks to Investment Thesis:**

- Using a DCF valuation approach, we established a year-end 2006 target price of Ch\$1,750 per share. The target price implies a price upside of 16.8% and a 2.0% dividend yield for a total return of 18.9%, in peso terms. This compares with the 8.4% expected upside for the Chilean market in local currency. Accordingly, we have a Buy recommendation on the stock.
- The main risks to our investment thesis are: (1) a worse-than-expected performance of the economy, which could affect sales growth and increase default rates; (2) a more competitive than expected price scenario; and (3) the impact of potential regulatory changes on the company's credit business.

**Important disclosures/certifications are in the "Important Disclosures" section of this report.**

U.S. investors' inquiries should be directed to Santander Investment Securities Inc. at (212) 407-7809.

*La Polar is the fourth-largest department store in Chile, in terms of retail sales, with a market share of 10.9% as of June 2005. The company has expanded its operations since Southern Cross took control of La Polar in 1999, when it was facing serious financial difficulties. The company has become an efficient and profitable company in the competitive Chilean retail sector. Besides the retail business, the company participates in the credit business, financing its clients' purchases with its credit card, the "Tarjeta Dorada" (Golden Card). Southern Cross no longer controls La Polar, but is one of the major shareholders, as it currently holds around 20% of the company.*

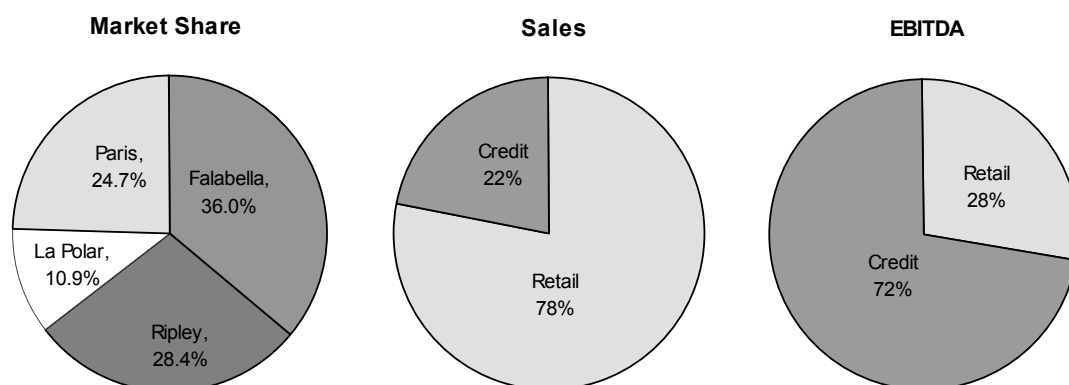
## INVESTMENT THESIS

**La Polar offers the fastest organic growth among Chilean retailers.**

**La Polar has consolidated and become the fourth-largest department store in Chile after its turnaround and strong growth over the past five years. Seeking to take advantage of its recent achievements, efficiency gains, and a clear focus on the medium-lower segments, the company is currently undertaking an aggressive expansion plan, which, in our opinion, is not fully priced in.** The company's growth plans assume a 36.7% increase in its selling space until the end of 2006, which implies the opening of six new stores. This expansion plan should increase the value for shareholders given that we estimate that, on average, each new additional store, under the current business model and market conditions, contributes approximately US\$16 million to shareholders. This value is supported by our belief that the consumption growth in Chile, as well as the room to increase department store and credit penetration in the lower-medium income consumer segments, would allow the expansion to take place without jeopardizing the profitability of the business.

**La Polar in a nutshell.** La Polar is currently the fourth-largest department store in Chile, with a market share of 10.9% as of June 2005. The company participates in both the retail and credit businesses. The retail business is developed through 25 stores, representing a sales floor of 75,000 square meters distributed throughout the country. The credit business is related to the company's credit card, the "Tarjeta Dorada" ("Golden Card"), which is used for 75% of the retail sales. The significance of the credit business to the company is shown in Figure 1. While credit contributes with 22% of consolidated sales, it generates 72% of La Polar's consolidated EBITDA which, in our opinion, reflects how relevant this division's margins are for the company. (See Appendix for a complete company description.)

**Figure 1. La Polar – Market Share as of June 2005, Sales, and EBITDA Breakdown, Dec 2004**



Sources: Company' reports and Santander Investment estimates.

**Organic growth will likely continue as a result of the company's business model that adds value to shareholders.** We are expecting strong sales growth owing to the company's aggressive expansion program. We are forecasting sales growth of 26.9% and 23.9% in 2005 and 2006, respectively, due to a sales floor expansion of 17.9% and 22.9% in these years, respectively.



Based on our assumptions, we estimate that the contribution of a new store to the equity value is US\$16.6 million. In our opinion, the company is already consolidated as a smaller but efficient player in a competitive sector, and we believe the success of its expansion plan will depend on the correct application of its successful business model (in place since 1999). We conclude that the company is acting rationally by expanding its operations based on our analysis on the value created with an average store opening. (See section, “Would La Polar’s Expansion Add Value?”)

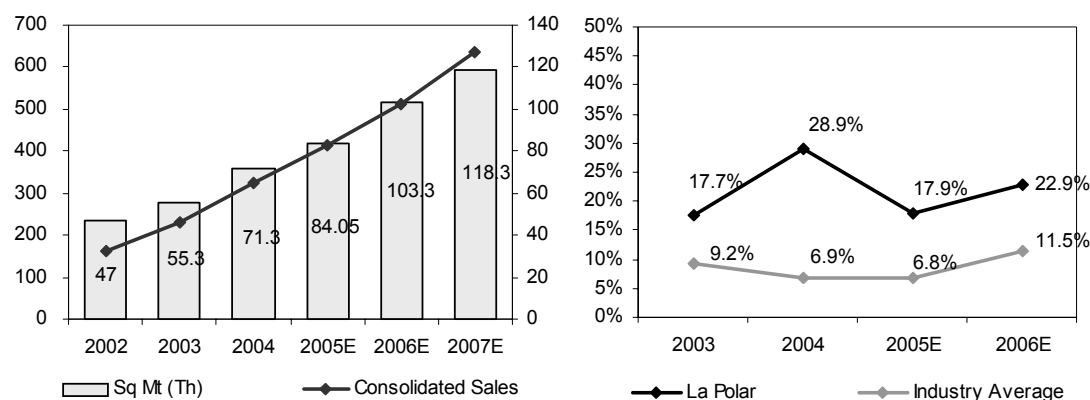
**Is there room to continue opening department stores in Chile?** One of the key assumptions that we believe supports our expectations for the value contribution of La Polar’s store expansion plan is that there is room for such growth without sacrificing profitability. Our belief is based on our expectation for consumption to continue expanding rapidly in 2005 and 2006 and the room for increased department store and credit penetration in the segments targeted by La Polar. Both the retail and credit markets appear undeveloped compared with developed countries, which implies room to expand operations as long as the country continues to develop.

## LA POLAR’S SALES-FLOOR EXPANSION

**La Polar’s selling floor expansion plan should lead to sales growth of 25.2% and 25.4% in 2005 and 2006, respectively.**

We look for La Polar’s sales floor to grow at higher rates than the average of the industry, which could lead to significant sales growth. Since 1999, La Polar has been successfully increasing its selling space through organic growth, at higher rates than the average of the industry. We believe that growth trend will be sustained in the near future. From 3Q05 until 4Q06, the company is planning to increase its selling space by more than 30% and, according to our estimates, the development of this new selling area should allow La Polar’s total sales to grow by 57% in the 2004-2006 period.

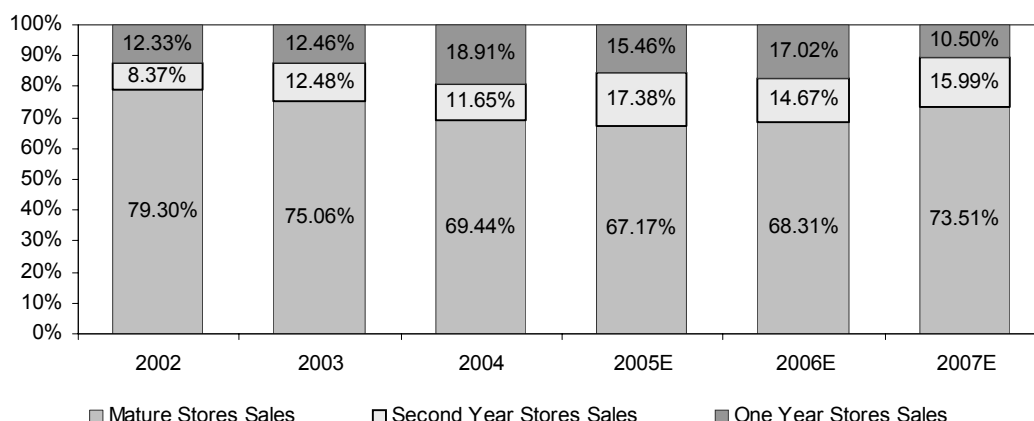
**Figure 2. La Polar – Sales Floor Expansion, Selling Area and Retail Sales, 2003-2006E**



Sources: Company reports and Santander Investment estimates.

**SSS growth due to stores’ maturation should lead to sales increases in the long term.**

We expect new sales floor to contribute to a greater part of total sales. We believe that sales in the new selling area will represent a portion of total sales. We are forecasting that the new sales-floor will contribute with 15.5% and 17% of total sales, and start to decrease its contribution from 2007 onward. While initially new sales floors have lower sales per square meter (as time is needed for sales to mature and reach a steady level), from 2007, the EBITDA expansion will be driven by same-store sales (SSS) growth, which means that the expansion program will likely start to pay off in that year. As shown in the table below, for 2007 we expect La Polar’s expansion plan to start to pay off, as SSS should represent a greater proportion of the total sales. In 2005 and 2006, we expect SSS to represent 84.5% and 83%, respectively, of total retail sales. Meanwhile, in 2007 we believe SSS should reach 89.5% of La Polar’s retail revenues.

**Figure 3. La Polar – Sales Breakdown, 2002-2007E**

Source: Santander Investment estimates

## WOULD LA POLAR'S EXPANSION ADD VALUE?

**The economics of the business model: an average store analysis.**

We see the expansion plan as a source of value creation for shareholders as we estimate that an average store opening has a net present value (NPV) of US\$16.6 million. In this section, we provide a brief analysis of an average La Polar store, which, in our opinion, illustrates the basic economics of La Polar's business model and supports our investment thesis. Our main conclusions are: (1) The NPV of an average store is US\$16.6 million; (2) in a sensitivity analysis, which considers a long-term SSS growth between 2.5% and 5.0% and an operating margin between 9.5% and 11.0%, the NPV of a store should be between US\$14.0 million and US\$21.4 million; and (3) the analysis is consistent with our DCF valuation approach, despite its limitations.

**According to our analysis, La Polar's current expansion is adding value to the company.**

**Economics of the business model.** La Polar's expansion plan is based on renting new stores, which implies that the investment needed is about US\$5 million in equipment and lay out, and US\$2 million for working capital. We estimate that sales per store reach about US\$19.2 million per year, equivalent to a figure of US\$3,835 per square meter, once the store matures. According to our estimates, the pure retail business has an EBIT of 2.0%. Approximately 75% of the sales are done on credit, using the "Tarjeta Dorada" of La Polar, with an average term of seven months and an estimated implicit 4.0% monthly interest rate. We assume that the credit business has past-due loans provisions for the long term of 12.3%. Based on these assumptions, we estimate a consolidated (retail plus credit) EBIT margin of 10.1% for a mature store. When plugging all this information into a simplified DCF valuation of a single store, assuming a 3.0% SSS growth for the long term, the NPV per new store reaches US\$16.6 million, implying a ROI of 20%. In our opinion, this ROI indicates that the company is acting rationally by investing in its current expansion plan and reflects the profitability of its business.



**Figure 4. La Polar – Average Store Return, Consolidated (in U.S. Dollars)**

<b>Retail</b>					
Initial Investment	-5,000,000				
Mature Store Sales/Sq Meters	3,835				
Sq Meters per Store	5,000				
Time Period	0	1	2	3	4
Mature Store Sales/Sq Meters		3,068	3,643	3,835	3,950
Maturation		80%	95%	100%	100%
Sq Meters per Store		5,000	5,000	5,000	5,000
SSS Growth			18.8%	5.3%	3.0%
Retail Sales	15,338,082	18,213,973	19,172,603	19,747,781	
EBIT Margin Retail	1.2%	1.5%	1.8%	2.0%	
EBIT Retail	184,057	273,210	345,107	394,956	
	-5,000,000	170,212	233,654	272,942	288,871
<b>+ Credit</b>					
Sales	4,294,663	5,099,912	5,368,329	5,529,379	
Credit Sales Growth		18.8%	5.3%	3.0%	
EBIT Margin Credit	32.0%	35.0%	38.1%	39.0%	
EBIT Credit	1,374,292	1,784,969	2,045,333	2,156,458	
Working Capital	-2,000,000	-1,800,000	-1,620,000	-1,458,000	
Consolidated Sales	19,632,745	23,313,885	24,540,932	25,277,160	
Sales Growth		18.8%	5.3%	3.0%	
Ebit Margin	7.94%	8.83%	9.74%	10.09%	
Consolidated Ebit	1,558,840	2,058,616	2,390,287	2,550,465	
WC	-2,000,000	-1,800,000	-1,620,000	-1,458,000	
FCF	-5,000,000	-441,160	258,616	770,287	1,092,465
DFCF	-5,000,000	-407,976	221,173	609,212	799,029
NPV Cons Per Store	16,628,636				
WACC	8.1%				
Perp Growth	1.0%				

Source: Santander Investment estimates.

**La Polar's business model is based on several variables, for which we present a simple sensitivity analysis using two key drivers.** In Figure 5, we show the NPV of different stores, depending on the level of SSS growth and the consolidated EBIT margin. According to our estimates, which assume long-term SSS growth of 2.5%-5.0% and an operating margin of 9.5%-11.0%, the NPV of a store should be between US\$14.0 million and US\$21.4 million.

**Figure 5. La Polar – Average Store Value, Depending on SSS Growth and Operating Margin**

Operating Margin	8.5%	9.5%	10.09%	11.0%	12.0%
<b>SSS Growth</b>					
2.5%	11.14	14.01	15.71	18.33	21.20
3.0%	11.91	14.88	16.63	19.33	22.30
4.0%	13.53	16.69	18.55	21.42	24.58
5.0%	11.89	15.25	20.59	23.65	27.01
6.0%	17.08	20.65	22.76	26.02	29.59
7.0%	19.02	22.82	25.07	28.53	32.33
8.0%	21.08	25.12	27.51	31.19	35.24
9.0%	23.26	27.57	30.10	34.02	38.32

Source: Santander Investment estimates.

**The result of the per store analysis is consistent with the outcome of our DCF valuation.**

Taking into account that according to our exercise the value of a new store is US\$21.6 million (the NPV plus the initial investment), we can estimate the 2006E firm value by multiplying 21.9 times the number of stores the company will have at the end of 2006, 31, for a firm value of US\$670.5 million. But this figure does not consider the expansion from 2007 onward. Adjusting the 2006E firm value with the expected expansion for 2007 onward, we arrived at a 2006E firm value of US\$860 million. In our DCF valuation for La Polar, we reached a target 2006 firm value of US\$725. The difference between the two analyses is mainly explained by conservative assumptions for long-term interest rates and for the percentage of retail sales made with credit that were included in our aggregated DCF valuation.

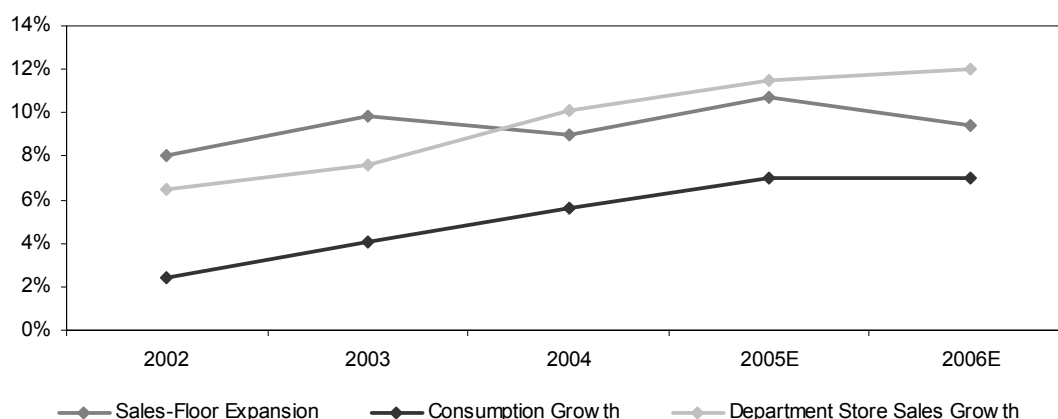
## IS THERE ROOM IN THE CHILEAN MARKET FOR SUCH GROWTH?

**We believe there is still further room to continue expanding operations.**

**Is there still room for expansion in the Chilean department store and credit business?** Our previous analysis may turn out not to be relevant if the Chilean market were not able to provide enough room to expand operations. This is because, in that case, further sales floor expansions would likely lead to an extremely competitive scenario, with lower margins and reduced profitability. In our opinion, although Chilean retailers have undertaken aggressive expansion plans over the past years, the Chilean market still provides further room for department store surface growth, as we expect that consumption will likely grow over 6.0% in the 2005-2006 period, and we estimate that the level of penetration of department stores in Chile can be increased from current levels. Also, in our view, the credit business provides room to expand, as the consumer loans market is not as developed as other countries. Finally, we believe that La Polar has certain characteristics that support a more aggressive expansion plan compared with its competitors' plans.

**Taking into account our expectations for consumption growth, sales floor expansion seems to be adequate.** According to our estimates, the total sales floor of the four main department stores will grow at rates of 10.7% in 2005 and 9.4% in 2006, which compares with the Chilean Central Bank estimation of more than 7% for consumption growth in these years. Taking this into consideration, we expect department store sales to continue growing at higher rates than consumption due to the rise in penetration of department stores, for the upcoming years.

**Figure 6. Chilean Retailers—Sales Floor, Sales and Consumption Growth Rates, 2002-2007F**



Sources: Central Bank, Company reports, and Santander Investment estimates.

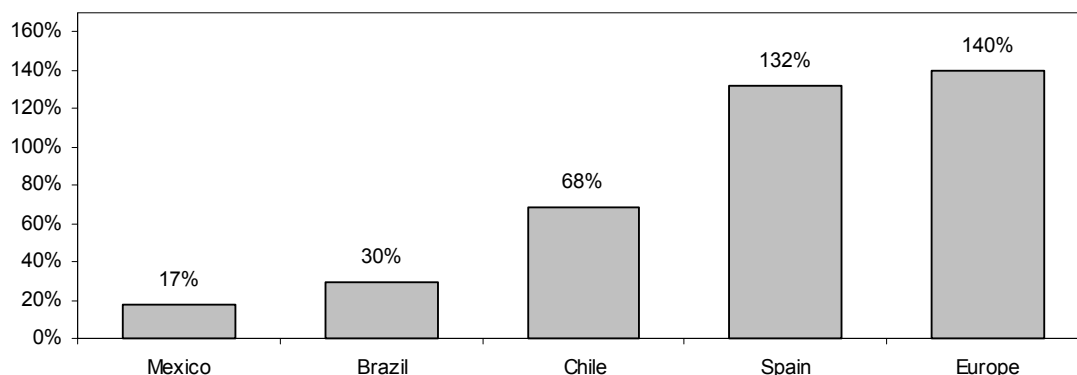


**Current and prospective consumption environment in Chile looks positive.** Increases in employment rates and favorable labor market conditions likely will be the main drivers for consumption growth. We estimate that the current favorable labor market conditions, mainly in employment growth and labor participation rates, will remain in 2005 and 2006. Together with increased consumer confidence, these factors likely will continue to boost consumption. While consumer confidence has not been increasing at impressive rates, probably due to the current oil prices, we believe it should continue to increase looking forward. The Central Bank, is estimating total consumption to grow 7.3% and 7.2% in 2005 and 2006, respectively. These figures consider both private and public consumption, because the bank does not publish the breakdown of this data. However, as public consumption growth is restrained by the fiscal policy rule, and it is estimated to expand no more than 5.5%-6%, we can conclude the Central Bank expects private consumption to grow at rates of more than 7%.

**Looking forward, we expect department stores to continue improving their penetration level.** International studies have highlighted Chile as a place for international retailers to invest, due to the political and economic context and the retail industry's attractiveness. According to the A.T. Kearney's 2005 Global Retail Development Index, which considers the top 30 emerging markets, Chile is a "country to consider" for international retailers to expand. In a ranking of 30 countries, Chile is in the eleventh position, in terms of attractiveness to invest for an international retailer. The study also states that in some developed countries in Western Europe, the average retail square meter per 1,000 inhabitants stands at 200. According to our estimates, this figure in Chile will reach slightly above 110 at the end of 2005. We believe the attractiveness of the retail industry increases if it is measured for the current participants in the industry, as they already hold a position in a rather competitive market.

**Regarding the credit business, the Chilean market looks also undeveloped.** Measured in loans over GDP, the Chilean consumer loans market has a low penetration level, compared with the rest of the world. Increases in penetration figures, together with favorable expectations for GDP growth, allow us to expect attractive growth figures in loans.

**Figure 7. Chile – Credit Penetration Figures Measured as Loans/GDP**



Source: Grupo Santander.

**We believe La Polar is well positioned to take advantage of growth opportunities.**

**Given the opportunities that we believe the Chilean department store market currently provides, in our opinion, La Polar has certain characteristics that support a more aggressive expansion plan compared with its competitors.** On the one hand, we believe La Polar has a greater likelihood of expanding due to the growth potential of its target market. The middle and lower income consumer segments, on which La Polar is focused, account for some 70% of the population. We believe that, as the country continues to develop, this population segment will continue to increasing its income level and, therefore, its level of consumption. On the other hand,

La Polar stores are more concentrated in Santiago compared with its competitors' stores, which implies more alternatives to expand its operations. The company's expansion program seems to take this into account, as the four stores for which locations are known (the rest of the information is not public yet) are going to be placed in regions outside of the Santiago area.

**Figure 8. La Polar – Sales Floor Distribution and La Polar's Future Store Openings**

	Regions	Santiago	La Polar Future Openings	Location	Date
Ripley Stores	52%	48%	Copiapó	North of Chile	2Q05
Falabella Stores	58%	42%	Osorno	South of Chile	4Q05
Paris Stores	52%	48%	Viña	Central Coast	4Q05
La Polar Stores	44%	56%	Coquimbo	North of Chile	2006
Population Distribution	60%	40%			

Sources: Company data and Santander Investment estimates.





Positives	Concerns
<ul style="list-style-type: none"><li>• Sales floor expansion.</li><li>• Successful business model.</li><li>• Consumption recovery in Chile.</li></ul>	<ul style="list-style-type: none"><li>• Worse-than-expected economic scenario.</li><li>• Stronger competition in the industry.</li><li>• Potential regulation of credit cards.</li></ul>

## VALUATION

**We are initiating coverage of La Polar with a Buy rating and a year-end 2006 target price of Ch\$1,750 per share.**

**We are initiating coverage of La Polar with a year-end 2006 target price of Ch\$1,750 per share**, which, together with our 2006 expected dividend yield of 2.0%, implies a total return of 18.9% in peso terms. This potential return compares favorably with our expected 8.4% return in peso terms for the IPSA index over the same period. Thus, we are initiating coverage of La Polar with a Buy rating on the stock. La Polar is currently trading at a 2006 FV/EBITDA estimate of 10.1 times versus 14.0 times for the Chilean retail sector and 10.3 times for the Chilean market. Also, within the Latam context, La Polar is trading at a discount, as the average for the region is 12.2 times.

Our target price is based on a DCF valuation that considers both the retail and the credit division. Our DCF valuation assumes a market risk premium of 5.5%, a risk-free rate of 4.03%, and a country-risk of 68.2 basis points. We used a beta of 0.85 and a perpetuity growth of 1.0%. The firm cost of equity is 9.4%, and the cost of debt after taxes is 5.8%. The long-term capital structure used was 65%. These lead to a WACC of 8.1%.

**Figure 9. La Polar – WACC Calculation and DCF Assumptions**

Risk-Free Rate	4.03%
Beta	0.85
Equity-Risk Premium	5.5%
Country risk	0.682%
Perpetuity	1.0%
Cost of Equity	9.4%
Cost of Debt	7.0%
Tax Rate	17%
After-Tax Cost of Debt	5.8%
Long-Term Capital Structure	65%
WACC	8.1%

Source: Bloomberg, Santander Investment estimates.

**Figure 10. La Polar – Discounted Cash Flow Valuation, 2007E-2016E (U.S. Dollars in Millions)**

	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
Operating Income	63.24	72.55	77.76	81.93	85.27	87.82	90.22	92.64	95.13	97.69
Taxes on Op. Income	(10.75)	(12.33)	(13.22)	(13.93)	(14.50)	(14.93)	(15.34)	(15.75)	(16.17)	(16.61)
Depreciation	13.61	15.32	16.90	18.06	18.77	19.36	19.93	20.52	21.13	21.76
Capex	(23.81)	(19.01)	(20.59)	(23.97)	(21.53)	(23.73)	(25.85)	(27.42)	(28.42)	(21.48)
+/-Working Capital	(36.51)	(17.00)	(14.00)	(13.26)	(12.91)	(13.16)	(13.26)	(13.15)	(14.44)	(15.86)
Free Cash Flow	5.78	39.53	46.85	48.82	55.10	55.37	55.70	56.85	57.23	65.50
Discounted FCF 2006	5.35	33.80	37.05	35.71	37.27	34.63	32.22	30.41	28.31	29.97
Residual Value	420.07									
NPV of Cash Flows	724.79									
2006										
Minus: (Net Debt+ Minority Interest)	107.53									
Target Market Cap	617.26									
Actual Market Cap	529.15									
<b>Premium (Discount)</b>	16.8%									
DCF Target Price 2006	1,750									
Actual Share Price	1,498									
Dividend Yield	2.0%									
<b>Expected Return</b>	18.9%									

Target price and actual Share price in Ch\$.

Sources: Santander Investment estimates.

**We believe La Polar's current discount to its Latin American peers is unwarranted.**

**La Polar is trading at a discount to its Chilean and Latin American peers.** La Polar is currently trading at a 2006E FV/EBITDA of 10.1 times, which implies a discount of 38.2% compared with the Chilean retail industry average multiple of 14.0 times. We believe the discount is unwarranted, as it does not consider the growth potential of the company. Meanwhile, La Polar is trading at a discount of 20.8% compared with the average multiple of 12.2 times for the Latin American retailers under our coverage. In our view, this discount does not reflect the positive prospects for La Polar. Moreover, although Chilean retailers have traded with a premium over their Latin American peers over the past years, which we believe can be partly explained by the low country risk of Chile, La Polar is trading at a discount, which supports our positive view for the stock.



**Figure 11. Latin American Retail Sector as of Sep 16, 2005 – Comparative Valuation, 2004-2006E**

	FV/EBITDA			FV/Sales			P/E			P/CE		
	04	05E	06E	04	05E	06E	04	05E	06E	04	05E	06E
Walmex	19.7	15.4	13.8	1.71	1.41	1.31	31.3	25.7	23.1	23.7	20.0	18.0
Pão de Açúcar	10.1	6.8	5.8	0.84	0.57	0.50	23.9	17.8	10.9	10.3	8.4	6.8
Cencosud	18.5	15.5	12.3	1.55	1.34	1.13	29.6	21.6	17.0	85.3	48.1	33.9
Globex	10.9	7.7	6.2	0.38	0.32	0.28	25.4	19.0	17.0	14.8	12.1	11.3
Liverpool	8.2	8.9	7.9	1.18	1.20	1.11	12.3	13.1	11.8	9.7	9.9	9.0
L. Americanas	16.6	11.6	9.5	1.98	1.38	1.17	50.0	26.2	15.7	30.3	18.0	12.1
Saraiva	7.3	5.2	3.8	0.84	0.67	0.49	19.5	9.8	7.3	11.1	7.1	5.7
D&S	22.0	13.2	12.5	1.09	1.08	1.04	250.5	27.7	25.3	25.1	13.3	12.5
Falabella	23.6	19.7	16.7	2.95	2.47	2.12	31.6	24.2	20.0	24.7	19.5	16.4
La Polar	11.4	12.1	10.1	1.49	1.60	1.24	18.0	16.5	14.1	38.0	-20.2	24.4
Comerci	7.9	6.8	6.2	0.51	0.48	0.47	10.0	9.4	9.4	7.1	7.3	6.7
Gigante	5.2	4.7	4.1	0.29	0.27	0.25	18.7	15.5	11.3	5.8	5.6	4.9
Soriana	6.9	6.2	5.7	0.59	0.50	0.46	10.4	10.5	10.5	8.2	8.3	7.7
Average – Retail	17.6	13.9	12.2	1.63	1.37	1.20	39.4	23.0	19.0	24.8	18.8	16.0
Average - Retail w/o Walmex	15.7	12.6	10.9	1.56	1.34	1.10	46.5	20.6	15.4	25.8	17.8	14.3

NA Not available.

Sources: Company reports and Santander Investment estimates.

**Figure 12. Chile – Select Economic Projections, 2003-2006F**

	2003	2004	2005F	2006F
Real GDP (%)	3.70%	6.10%	5.80%	5.20%
CPI Inflation (%)	1.10%	2.40%	2.80%	3.10%
US\$ Exchange Rate (Year-End)	593.8	557.4	570.0	585.0
US\$ Exchange Rate (Average)	691.4	609.5	577.2	579.3
Interest Rate (Year-End)	2.30%	2.30%	4.30%	5.30%
Interest Rate (Average)	2.70%	1.90%	3.30%	4.80%
Fiscal Balance (% of GDP)	-0.80%	2.20%	2.30%	1.80%
Current Account Balance (% of GDP)	-1.50%	1.60%	0.70%	-1.00%
International Reserves (US\$ Bn)	15.9	16.0	16.0	16.0
Total External Debt (% of GDP)	43.4	43.8	43.8	43.8

Source: Santander Investment historicals and forecasts.

## RISKS TO INVESTMENT THESIS

- **Worse-than-expected economic environment.** La Polar has a higher exposure to the credit business compared with the larger players of the industry. As lower income consumers make most of their purchases with credit facilities, La Polar's sales are more sensitive to economic conditions than those from the other department stores. Taking this into consideration, a different-than-expected macroeconomic environment, with lower GDP expansion, lower consumption growth rates, and higher interest rates could have a negative impact on the outlook for La Polar, and, consequently, on our valuation on the company. In any case, we believe this risk is moderate considering the expectations of a strong performance of the Chilean economy in the upcoming years.
- **Stronger-than-expected competitive scenario.** Potential increase in competition level in the Chilean department store sector could affect La Polar. While in our opinion, the Chilean department store market is already quite competitive, which is evidenced by the reduction of the average ticket seen in the last years, a potential increase in competition could have a negative impact on our outlook for La Polar. In our view, a more competitive environment could come from either increased aggressiveness from an existing larger player in the sector, the entrance of an international player, or the strengthening of some of the small Chilean chains looking to grab a larger share of the market.
- **Potential credit card regulation.** Considering that the credit businesses of Chilean retailers are not ruled by the same regulation framework as banks, conditions could change in the future, and the potential change could affect La Polar's credit business. Currently, retailers are not affected by the maximum interest rate regulation of the Superintendency of Banks to which Chilean banks are subject. There has been market noise pointing at possible changes to this situation, as competitive conditions are different for both entities. Either retailers could be regulated or banks deregulated. In our view, a regulation that establishes a maximum for interest rates might affect La Polar's credit business, as that could prevent the company from serving its riskier clients. Consequently, this could have a negative effect on La Polar's credit division sales and, thus, on our valuation for the company. On the other side, if banks are allowed to charge a higher interest rate, the competitive environment for La Polar's credit card business might become more competitive and affect the company's outlook as well.

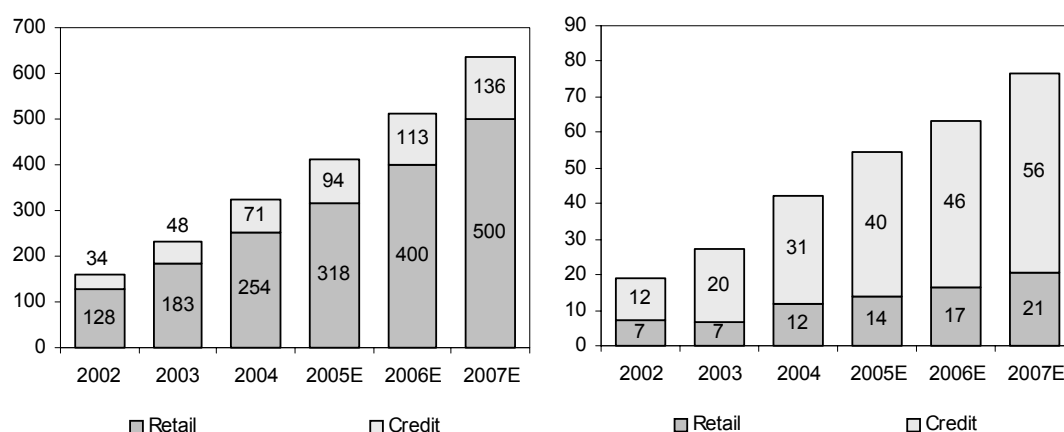


## EARNINGS OUTLOOK

**We expect the credit division, supported by retail sales growth, to continue generating the greater portion of EBITDA.**

**In our opinion, sales growth will be the main driver of EBITDA expansion in 2005 and 2006. We expect consolidated EBITDA to grow 28.4% and 15.5% in 2005 and 2006.** We estimate that La Polar will post consolidated sales of US\$412 million and US\$512 million, with retail sales accounting for US\$318 million and US\$400 million, representing 78% and 77% of consolidated total sales in 2005 and 2006, respectively. Meanwhile, considering its higher margin, we expect the credit division to continue to be the main contributor to consolidated EBITDA. We are forecasting that the credit division will generate an EBITDA of US\$40.2 million in 2005 and US\$46.4 million in 2006, representing 74.0% and 73.7% of the consolidated EBITDA, respectively.

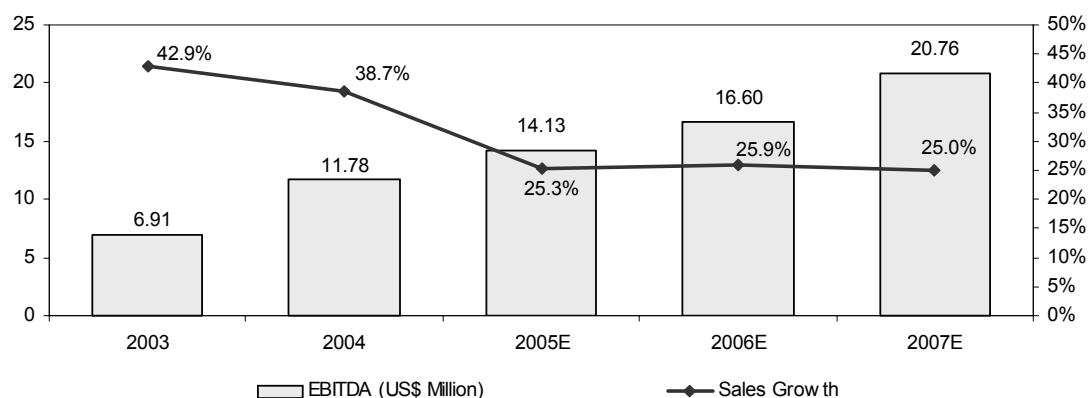
**Figure 13. La Polar – Sales and EBITDA Breakdown, 2002-2007F (U.S. Dollars in Millions)**



Source: Company reports and Santander Investment estimates

## RETAIL

**La Polar's EBITDA expansion in the forthcoming years should be supported by the company's strong retail sales growth.** We expect La Polar's retail sales to grow by 25.2% and 25.4% in 2005 and 2006, taking into consideration the expansion plan of the company that should allow the opening of six stores in the period. We estimate that the positive economic conditions, which include a strong internal consumption growth of more than 7% in both years, and La Polar's proven capabilities, should lead to the sales levels estimated above. Longer term, selling space maturation will likely continue to boost sales growth. We are looking for a CAGR of 25.4% for the 2004-2007 period. On the back of this retail sales growth, we expect EBITDA generation for the retail division to reach US\$14.1 million and US\$16.6 million in 2005 and 2006, respectively. These figures imply EBITDA growth of the retail operations of 19.8% in 2005 and 17.0% in 2006.

**Figure 14. La Polar – Retail Business, Sales Growth, and EBITDA, 2003-2007E**

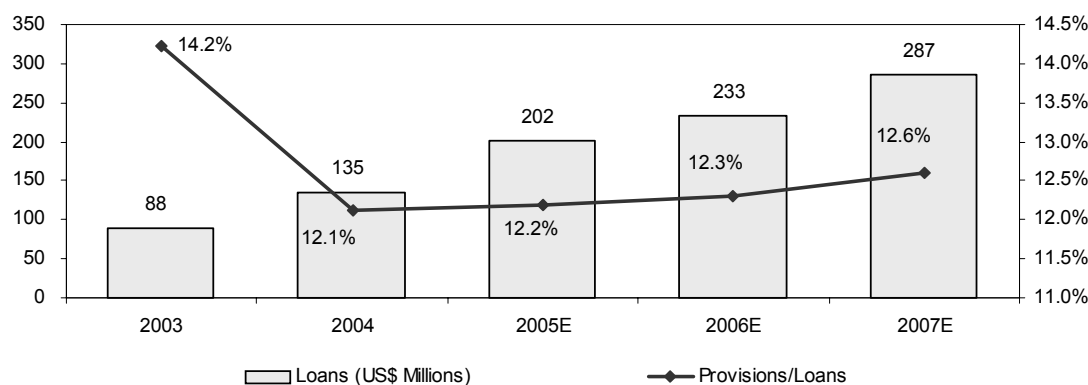
Source: Company reports and Santander Investment estimates.

**We expect retail margins to remain, in general terms, stable in the long term.** As product mix composition, in terms of electro and clothing weights in total sales, and the participation of private labels, will remain, in general terms, constant, we do not expect major changes in La Polar's gross margin. For SG&A expenses, in 2006 we are forecasting a slight increase, as a percentage of sales, mainly due to opening costs in the recently opened stores. As expansion will be less aggressive from 2007 onward, we expect the operating margin to start to improve that year, and reach a long-term level of 2.0% from 2009 onward. We expect the retail division to post an operating margin and an EBITDA margin of 2.0% and 4.4%, respectively, in 2005 and 1.7% and 4.2%, respectively, in 2006.

## CREDIT

### **Greater margins in the credit division will be reflected in La Polar's EBITDA generation.**

As the credit card is used in 75% of La Polar's retail sales, we expect credit sales to be supported by the expected increase in the company's retail sales. We are forecasting credit sales growth of 33.0% in 2005 and 19.2% in 2006, as loans should continue growing at rates of 49% in 2005 and 14.9% in 2006. For the long term, we expect credit to be the main contributor to consolidated EBITDA generation, but diminishing its contributions, due to a worsening in the conditions for credit, as we do not expect that the current favorable conditions will be sustained in the upcoming years because interest rate are currently at historical low levels.

**Figure 15. La Polar – Loans Growth and Provisions as a Percentage of Loans, 2003-2007F**

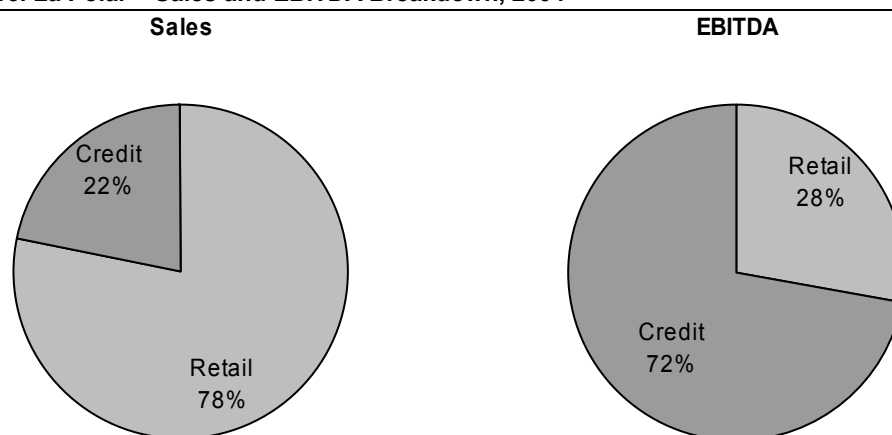
Source: Company reports and Santander Investments estimates



## APPENDIX: COMPANY DESCRIPTION

Although La Polar has existed since 1920, the company underwent a major transformation in 1999 when it was facing serious financial difficulties. The company was recovered under the control of the Southern Cross fund. Currently, the company is in the retail business (25 stores and a market share of 10.9%) and the credit business (“Tarjeta Dorada”). While the retail business contributes to the majority of consolidated sales, the credit business contributes the most to consolidated EBITDA. As a result of the company’s IPO in September 2003 and a secondary offer in January 2005, Southern Cross does not control the company (it currently holds around 20% of the company, less than the 25% needed to control a company according to Chilean regulations).

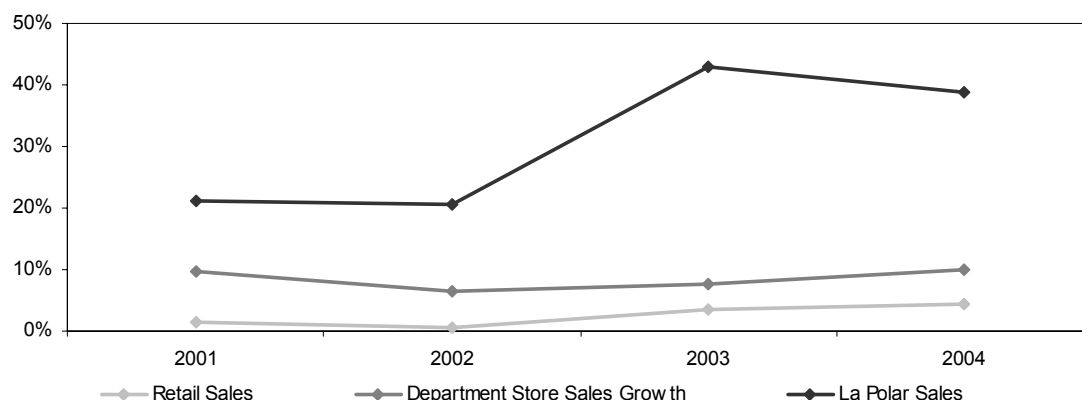
**Figure 16. La Polar – Sales and EBITDA Breakdown, 2004**



Source: Santander Investment estimates and Company reports

**La Polar reported sales of US\$324 million in 2004 and a market cap of more than US\$500 million.** In the nineties, the company started an expansion plan with store openings in Santiago and other regions of Chile. In 1997, the economic situation started to deteriorate, sales dropped significantly, and clients started to go in default. As most of the company’s liabilities were short term, La Polar faced serious financial problems. Southern Cross took control of the company, acquiring the 100% of the company’s assets and brands. The new controllers made successive capital increases and renegotiated the company’s debt. Moreover, a new management was brought on board and started to execute the “Turnaround Formula”, the strategy used to recover the company.

**The main success of the new strategy is the focus on the target market, the middle and lower income consumers.** In 1999, the upper-income level consumers were quite well served by the three main department store chains, Falabella, Ripley, and Almacenes Paris, and the new controllers of La Polar realized that there was a large segment of the population, the C2-C3-D segments, that was underserved by the retail sector. With the new strategy, the company started to improve its financial results significantly, due to new financial, commercial, administrative, and credit policies. This recovery is especially valuable if the less favorable economic context in the 1999-2003 period is taken into account. To illustrate this, the CAGR in retail sales for the 1999-2004 period reached 25.2%, based only on organic growth, which compares favorably with the rest of department stores’ sales growth and retail sales growth.

**Figure 17. La Polar – La Polar Sales, Retail Sales and Department Store Sales Growth**

Source: Company reports and Santander Investment estimates.

**At present, La Polar ranks fourth among department stores in terms of retail sales in Chile, with a market share of 10.9% as of June 2005, considering the main four department stores.** The Chilean retail sector has become very competitive in the past years, and La Polar's competitors differ depending on geographic coverage, product lines, target market, and credit facilities offered. Falabella, Almacenes Paris, and Ripley are the other main department store chains in Chile and the main competitors of La Polar. Corona and Hites are other smaller chains that compete with the company as well. There are other companies that offer some of La Polar's products, such as Tricot (clothing) or Din-ABC (electronics), which affects the competitive environment. Moreover, hypermarkets such as Líder Mercado (from D&S) or Jumbo (from Cencosud), with their non-food lines, have also become major players in the industry.

## RETAIL BUSINESS

**The company develops the retail business through 25 stores and 75,000 square meters distributed all over the country,** with stores from 1,000 to 7,200 square meters. According to the company, the optimal store size is between 3,500 and 6,000 square meters, because in this space the products can be exhibited adequately and extra services, such as credit facilities and insurances, can be offered. It is important to recall that the majority of the stores are leased, as the company states that it does not want to be involved in the real estate business.

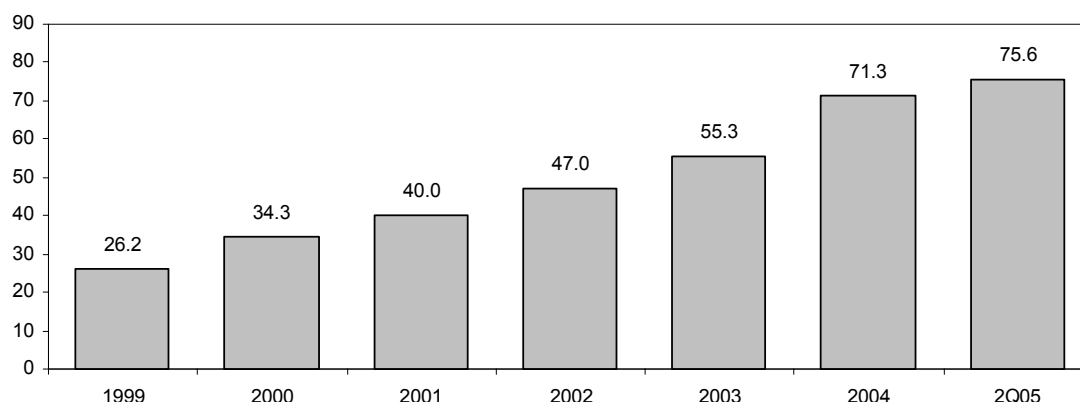
**La Polar offers two main product lines: Clothing (for women, men, children, shoes, and sportswear) and electro-home (including electronics, computers, and home equipment).** Both lines represent the 57% and 43% of the sales, respectively. In terms of private labels, more than 40% of the labels are private, most of them imported from Asia, and the proportion is rising. Private label margins are almost three times higher than the margins of other labels.

**Sales growth has been supported by aggressive sales-floor expansion, reaching 75,000 square meters in 2Q05, from 26,900 meters in 1999,** for a CAGR in square meters of 21.5% for the 1999-2004 period. For the year 2004, the retail business generated sales of Ch\$ 142,747 (US\$ 254 million) and EBITDA of Ch\$6,635 million (US\$ 11.8 million).





**Figure 18. La Polar – Selling Area (Square Meters in Th)**

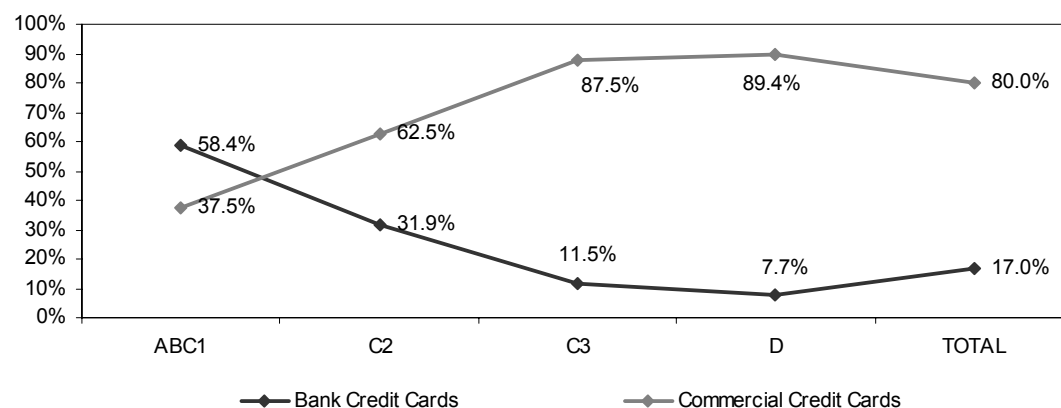


Source: Company Report

## CREDIT BUSINESS

**Like most Chilean retailers, La Polar has its own credit card, and has added this profitable branch to its retail business, thus, improving its consolidated margins as a result of the multiple synergies of both businesses. The penetration level of bank credit cards in Chile is very low compared with other countries, and commercial credit cards have become very popular, mostly among the middle and low income consumers.**

**Figure 19. La Polar – Commercial and Bank's Credit Card penetration**



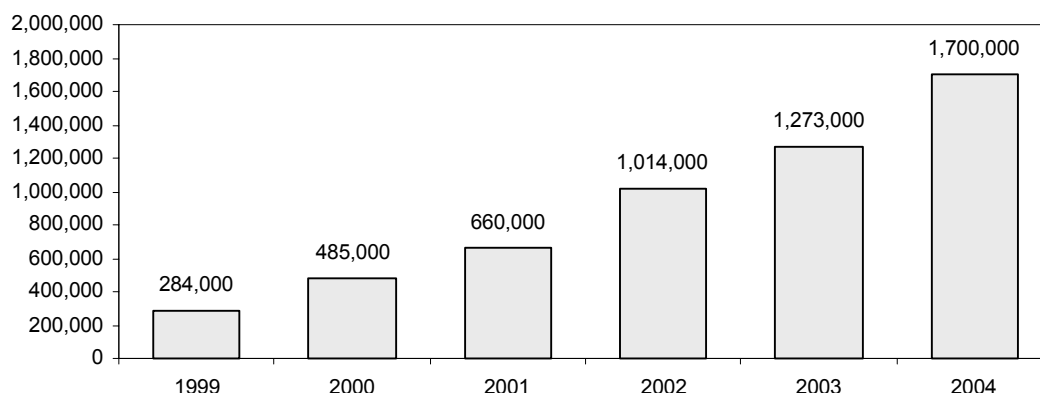
Source: Santiago Chamber of Commerce

**Besides the financial business, commercial credit cards have become an efficient way to improve client loyalty.** La Polar has made agreements with other businesses, like medical services, pre-paid mobile cards, and Banco Estado, to add places where the credit card could be used, in order to increase client loyalty. The recent agreement with Banco del Estado, bank owned by the government, which also has most of its clients in the C2-C3-D segments, should help the company move further into the financial business, as La Polar clients will have the possibility of making withdrawals with the company's card from the bank's ATMs, and the bank's clients will receive perks (discounts, etc.) at the stores.

**Loans have increased steadily since 1999, due to sales growth and agreements, but default rates have not risen.** The company currently holds 1.7 million cards issued, of which 1.3 million are active. Approximately 75% of the retail sales are made with the credit card, though 70% are

effectively credit sales, with an average debt of more than Ch\$100,000 (US\$180) and an average payment period of around seven months. The provisioning policy of the company is strict and very similar to the bank's system policy. As of December 2004, provisions reached 12.1% of loans.

**Figure 20. La Polar – Credit Card Accounts, 1999-2004**

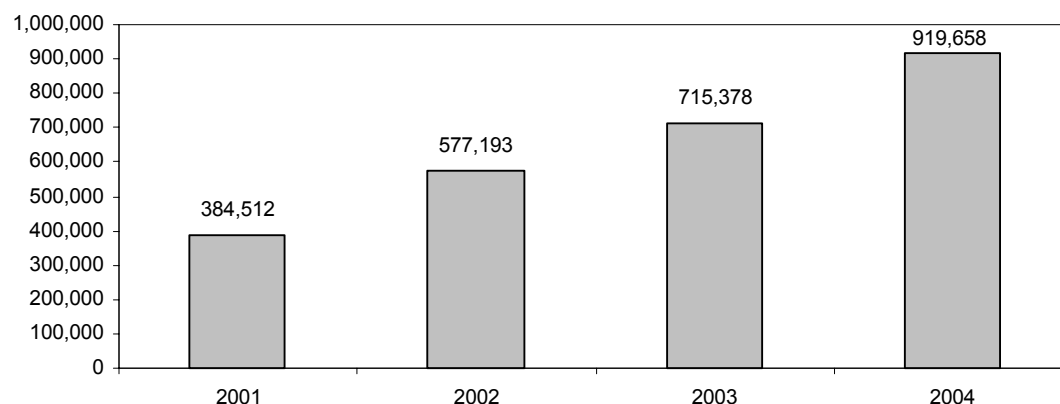


Source: Company Reports.

**The numerous synergies between the credit and the retail business are reflected, in the case of La Polar, in the consolidated financial statements,** which show considerably higher margins than the individual ones, which consider only the retail business. The credit business helps to improve consolidated margins, as many of the shared costs are assumed by the retail division, and generate more than 70% of the consolidated EBITDA. In 2004, the credit division of the company generated sales of Ch\$39,895 million (US\$70.9 million) and EBITDA of Ch\$17,174 million (US\$30.5 million), 72% of consolidated EBITDA and an EBITDA margin of 43%.

**As a part of the financial business, the company is also in the insurance brokerage business,** taking advantage of the synergies with the credit card, and also adding more services to the card. In 2004, the company intermediated 919,658 insurance policies.

**Figure 21. La Polar – Insurance Policies Intermediated, 2001-2004**



Source: Company Reports.

## MANAGEMENT AND OWNERSHIP STRUCTURE

Once Southern Cross bought the company, new management was brought on board. Most of



the current executives have been in the company since 1999 and participated in the “Turnaround” process. As they participated in the secondary offer in January 2003, the company’s management own shares of the company.

**Around 20% of the stake is currently held by Southern Cross.** After the company’s IPO in 2003 and the secondary offer in January 2005, Southern Cross stake was reduced. The rest of the company is owned by the management and minority shareholders. Thus, there is no defined controller of the company, as the Chilean securities market law stipulates that owning at least 25% of the company’s equity is required to control the firm.

**Figure 22. Chile – Conditions for Control According to Chilean Regulation**

Percentage Owned by an Investor	Control Status for the investor
More than 51%	The investor is the controller.
More than 40%, less than 51%	The investor is the controller only if its stake is greater than the sum of the stake of shareholders that has more than the 5% of the company.
More than 25%, less than 40%	The investor is the controller if there is not another investor that holds more than its stake.
Less than 25%	The investor does not have control of the company

Source: Chilean Securities Law.

## FINANCIAL STATEMENTS

**Figure 23. La Polar – Income Statement, Balance Sheet, and CF Statement, 2004-2007E (U.S. Dollars in Millions)**

<b>Income Statement</b>	<b>2004</b>	<b>%</b>	<b>2005E</b>	<b>%</b>	<b>2006E</b>	<b>%</b>	<b>2007E</b>	<b>%</b>
<b>Sales</b>	324.4	100.0%	412.0	100.0%	512.7	100.0%	636.3	100.0%
Cost of Sales	199.3	61.5%	251.4	61.0%	317.3	61.9%	396.2	62.3%
Gross Profit	125.0	38.5%	160.6	39.0%	195.3	38.1%	240.2	37.7%
Oper. and Adm. Expenses	90.4	27.9%	114.8	27.9%	143.3	27.9%	176.9	27.8%
<b>Operating Profit</b>	34.6	10.7%	45.8	11.1%	52.1	10.2%	63.2	9.9%
Depreciation	7.6	2.4%	8.5	2.1%	10.9	2.1%	13.6	2.1%
<b>EBITDA</b>	42.3	13.0%	54.3	13.2%	63.0	12.3%	76.9	12.1%
Financing Costs	(4.7)	-1.4%	(6.0)	-1.4%	(6.9)	-1.3%	(7.1)	-1.1%
Interest Paid	(4.2)	-1.3%	(5.7)	-1.4%	(6.9)	-1.4%	(7.1)	-1.1%
Interest Earned	0.9	0.3%	0.8	0.2%	0.4	0.1%	0.4	0.1%
Monetary Gain/Loss	(1.5)	-0.5%	(1.1)	-0.3%	0.0	0.0%	0.0	0.0%
FX Gain/Loss	0.4	0.1%	0.4	0.1%	0.0	0.0%	0.0	0.0%
Other Financial Operations	(0.3)	-0.1%	(0.4)	-0.1%	(0.4)	-0.1%	(0.4)	-0.1%
Profit before Taxes	29.9	9.2%	39.8	9.7%	45.2	8.8%	56.2	8.8%
Tax Provision	5.1	1.6%	6.8	1.6%	7.7	1.5%	9.6	1.5%
Profit after Taxes	24.9	7.7%	33.0	8.0%	37.5	7.3%	46.6	7.3%
Extraordinary Items	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Minority Interest	(0.1)	0.0%	(0.1)	0.0%	(0.1)	0.0%	(0.2)	0.0%
<b>Net Profit</b>	24.7	7.6%	32.9	8.0%	37.4	7.3%	46.5	7.3%
<b>Balance Sheet</b>	<b>2004</b>	<b>%</b>	<b>2005E</b>	<b>%</b>	<b>2006E</b>	<b>%</b>	<b>2007E</b>	<b>%</b>
<b>Assets</b>	287.4	100.0%	391.2	100.0%	451.6	100.0%	531.1	100.0%
Short-Term Assets	186.9	65.0%	261.5	66.8%	306.2	67.8%	373.0	70.2%
Cash and Equivalents	24.8	8.6%	8.2	2.1%	8.2	1.8%	8.4	1.6%
Accounts Receivable	118.8	41.3%	202.1	51.7%	233.1	51.6%	286.9	54.0%
Inventories	37.8	13.1%	43.2	11.0%	56.9	12.6%	69.6	13.1%
Other Short-Term Assets	5.5	1.9%	8.0	2.0%	8.0	1.8%	8.2	1.5%
Long-Term Assets	45.6	15.9%	45.6	11.7%	45.8	10.1%	46.7	8.8%
Fixed Assets	48.5	16.9%	78.0	19.9%	93.9	20.8%	106.0	20.0%
Other Assets	6.4	2.2%	6.1	1.6%	5.7	1.3%	5.4	1.0%
<b>Liabilities</b>	158.8	55.3%	231.9	59.3%	244.4	54.1%	261.8	49.3%
Short-T. Liabilities	108.4	37.7%	183.3	46.9%	195.7	43.3%	212.1	39.9%
Suppliers	75.3	26.2%	90.1	23.0%	109.3	24.2%	135.7	25.6%
Short-Term Loans	25.5	8.9%	86.9	22.2%	79.9	17.7%	69.8	13.2%
Other ST Liabilities	7.6	2.7%	6.4	1.6%	6.4	1.4%	6.5	1.2%
Long-Term Loans	37.0	12.9%	35.4	9.1%	35.6	7.9%	36.3	6.8%
Other Liabilities	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
<b>Equity</b>	128.4	44.7%	159.0	40.6%	207.0	45.8%	269.0	50.6%
<b>Minority Interest</b>	0.2	0.1%	0.3	0.1%	0.3	0.1%	0.3	0.1%
<b>Cash Flow</b>	<b>2004</b>		<b>2005E</b>		<b>2006E</b>		<b>2007E</b>	
Net Income	24.7		32.9		37.4		46.5	
Depreciation	7.6		8.5		10.9		13.6	
Changes in Working Capital	13.8		(73.8)		(24.8)		(36.5)	
Non-Cash Items	(32.9)		1.1		1.1		0.4	
Cash Flow from Operations	13.3		(31.3)		23.9		24.0	
Capital Expenditures	(13.5)		(26.2)		(26.5)		(23.8)	
<b>Net Cash Flow</b>	(0.2)		(57.5)		(2.6)		0.2	

Sources: Company reports and Santander Investment estimates.



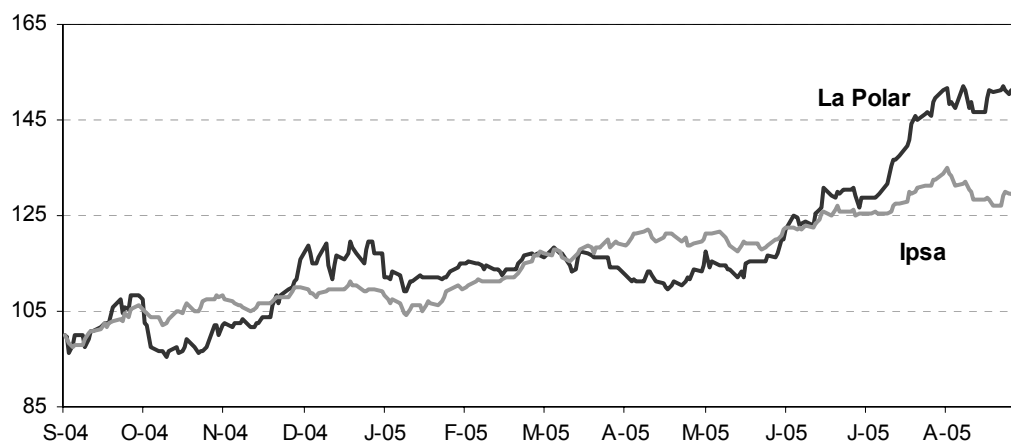
**Figure 24. La Polar – Income Statement, Balance Sheet, and CF Statement, 2004-2007E (Millions of Chilean Pesos as of June 2005)**

<b>Income Statement</b>	<b>2004</b>	<b>%</b>	<b>2005E</b>	<b>%</b>	<b>2006E</b>	<b>%</b>	<b>2007E</b>	<b>%</b>
<b>Sales</b>	182,641	100.0%	231,805	100.0%	287,292	100.0%	349,683	100.0%
Cost of Sales	112,239	61.5%	141,456	61.0%	177,824	61.9%	217,703	62.3%
Gross Profit	70,402	38.5%	90,348	39.0%	109,467	38.1%	131,980	37.7%
Oper. and Adm. Expenses	50,897	27.9%	64,579	27.9%	80,281	27.9%	97,229	27.8%
<b>Operating Profit</b>	19,505	10.7%	25,769	11.1%	29,186	10.2%	34,751	9.9%
Depreciation	-4,305	-2.4%	-4,799	-2.1%	-6,123	-2.1%	-7,481	-2.1%
<b>EBITDA</b>	23,809	13.0%	30,568	13.2%	35,308	12.3%	42,232	12.1%
Financing Costs	-2,642	-1.4%	-3,357	-1.4%	-3,851	-1.3%	-3,878	-1.1%
Interest Paid	-2,360	-1.3%	-3,211	-1.4%	-3,879	-1.4%	-3,906	-1.1%
Interest Earned	518	0.3%	453	0.2%	225	0.1%	225	0.1%
Monetary Gain/Loss	-851	-0.5%	-630	-0.3%	0	0.0%	0	0.0%
FX Gain/Loss	236	0.1%	246	0.1%	0	0.0%	0	0.0%
Other Financial Operations	-186	-0.1%	-214	-0.1%	-197	-0.1%	-197	-0.1%
Profit before Taxes	16,862	9.2%	22,412	9.7%	25,335	8.8%	30,873	8.8%
Tax Provision	2,860	1.6%	3,817	1.6%	4,307	1.5%	5,248	1.5%
Profit after Taxes	14,002	7.7%	18,594	8.0%	21,028	7.3%	25,624	7.3%
Extraordinary Items	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Minority Interest	-78	0.0%	-61	0.0%	-51	0.0%	-91	0.0%
<b>Net Profit</b>	13,924	7.6%	18,533	8.0%	20,976	7.3%	25,533	7.3%
<b>Balance Sheet</b>	<b>2004</b>	<b>%</b>	<b>2005E</b>	<b>%</b>	<b>2006E</b>	<b>%</b>	<b>2007E</b>	<b>%</b>
<b>Assets</b>	161,841	100.0%	220,076	100.0%	253,102	100.0%	291,847	100.0%
Short-Term Assets	105,248	65.0%	147,101	66.8%	171,611	67.8%	204,981	70.2%
Cash and Equivalents	13,972	8.6%	4,615	2.1%	4,615	1.8%	4,615	1.6%
Accounts Receivable	66,906	41.3%	113,683	51.7%	130,638	51.6%	157,635	54.0%
Inventories	21,255	13.1%	24,310	11.0%	31,866	12.6%	38,239	13.1%
Other Short-Term Assets	3,115	1.9%	4,492	2.0%	4,492	1.8%	4,492	1.5%
Long-Term Assets	25,657	15.9%	25,657	11.7%	25,657	10.1%	25,657	8.8%
Fixed Assets	27,319	16.9%	43,888	19.9%	52,633	20.8%	58,236	20.0%
Other Assets	3,617	2.2%	3,430	1.6%	3,202	1.3%	2,973	1.0%
<b>Liabilities</b>	89,421	55.3%	130,460	59.3%	136,950	54.1%	143,870	49.3%
Short-T. Liabilities	61,054	37.7%	103,153	46.9%	109,643	43.3%	116,562	39.9%
Suppliers	42,380	26.2%	50,676	23.0%	61,277	24.2%	74,584	25.6%
Short-Term Loans	14,372	8.9%	48,878	22.2%	44,768	17.7%	38,380	13.2%
Other ST Liabilities	4,301	2.7%	3,598	1.6%	3,598	1.4%	3,598	1.2%
Long-Term Loans	20,830	12.9%	19,934	9.1%	19,934	7.9%	19,934	6.8%
Other Liabilities	0	0.0%	0	0.0%	0	0.0%	0	0.0%
<b>Equity</b>	72,282	44.7%	89,442	40.6%	115,978	45.8%	147,804	50.6%
<b>Minority Interest</b>	138	0.1%	174	0.1%	174	0.1%	174	0.1%
<b>Cash Flow</b>	<b>2004</b>		<b>2005E</b>		<b>2006E</b>		<b>2007E</b>	
Net Income	13,924		18,533		20,976		25,533	
Depreciation	4,305		4,799		6,123		7,481	
Changes in Working Capital	7,768		-41,536		-13,910		-20,063	
Non-Cash Items	-18,498		614		614		229	
Cash Flow from Operations	7,499		-17,590		13,418		13,179	
Capital Expenditures	-7,605		-14,746		-14,867		-13,085	
<b>Net Cash Flow</b>	-106		-32,336		-1,450		95	

Sources: Company reports and Santander Investment estimates.

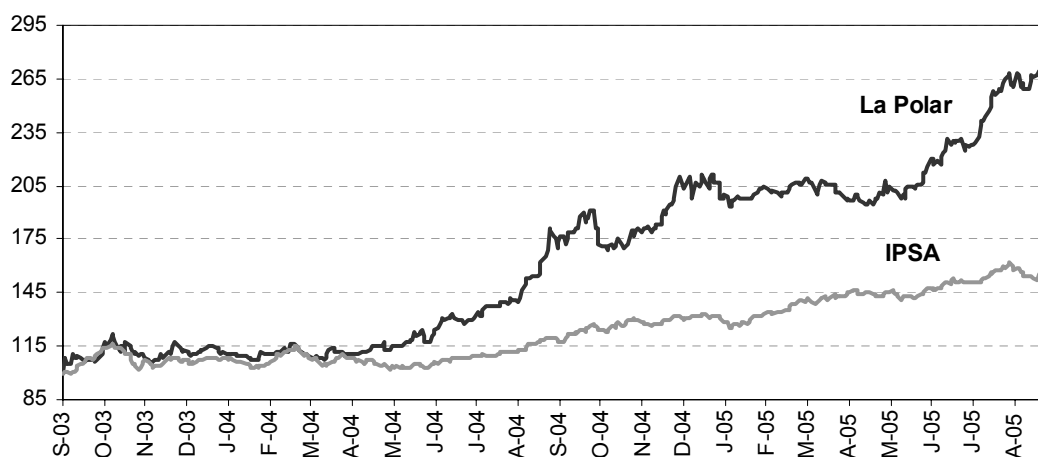
## IMPORTANT DISCLOSURES

### La Polar – 12-Month Relative Performance (U.S. Dollars)



Sources: Bloomberg and Santander Investment.

### La Polar – Stock Performance since IPO in Sept 2003 (U.S. Dollars)



Source: Santander Investment.

## IMPORTANT DISCLOSURES (CONTINUED)

### Key to Investment Codes

Rating	Definition	% of Companies Covered with This Rating	% of Companies Provided Investment Banking Services in the Past 12 Months
Strong Buy	Expected to outperform the local market more than 15%.	54.39%	66.67%
Buy	Expected to outperform the local market 5%-15%.		
Hold	Expected to perform within a range of 5% above or below the local market.	29.82%	28.57%
Underperform	Expected to underperform the local market 5%-15%.	14.91%	4.76%
Sell	Expected to underperform the local market more than 15%.		
Under Review		0.88%	--

The numbers above reflect our Latin American universe.

For a discussion, if applicable, of the valuation methods used to determine the price targets included in this report and the risks to achieving these targets, please refer to the latest published research on these stocks. Research is available through your sales representative and other electronic systems.

Target prices are 2005 year-end unless otherwise specified. Recommendations are based on a total return basis (expected share price appreciation + prospective dividend yield) unless otherwise specified.

Stock price charts and rating histories for companies discussed in this report are also available by written request to Santander Investment Securities Inc., 45 East 53<sup>rd</sup> Street, 17<sup>th</sup> Floor (Attn: Research Disclosures), New York, NY 10022 USA.

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The benchmark used for establishing Argentina recommendations is our forecast of the year-end Argentina IFCI index.

For the Andean countries, our benchmark is the simple average of the country risk of each country plus the 10 year U.S. T-Bond yield plus 5.5% of equity risk premium. For additional information about our rating methodology, please call (212) 350-3974.

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