

COMMENTS ON THE RECENT EXPROPRIATION OF THE NATIONAL ELECTRICAL TRANSMISSION SYSTEM.

Club Members and some shareholders have written, worried about the nationalization news from Bolivia and how the measure could effect Royal Silver Company. Like many presidents of companies working in Bolivia (Coeur, Panamerican, and others), I've had to explain that we are not effected in the least, nor will we be, except that finding investment gets more difficult, since the headlines are so negative.

President Evo Morales is not a leftist madman, as portrayed-- expropriating private industry at a whim--he is completing a methodical process begun in 2005 to recover Bolivia's strategic state-controlled industries that were sold off by two previous, corrupt governments at a fire-sale. His world-view and nationalism requires him to do this. It is a slow process because the national treasury can only absorb a certain number of large compensations at a time. Evo ran on this platform and was elected on this platform. Real private enterprise (such as Royal Silver Company) is not affected, nor at risk. I am repeating a message you can read on the internet by company presidents who are required by SEC regulations to provide honest guidance to shareholders. I state the truth because it really is the truth.

Missing from the headlines about the government of Bolivia nationalizing TDE (*Transportadora de Electricidad*) is the backstory that goes back to the 1990s. Like ALL the other companies nationalized by President Morales since 2005, TDE used to belong to the Bolivian people. TDE is a strategic industry--it administers the national electrical grid. Most countries administer their own electrical grid and would not dream of foreign control. Imagine a foreign government acquiring ownership of ConEdison in a shady deal by an unpopular President, rather than the electrical grid being owned by an American utility company--the following US Congress would not stand for it. I'm no cheerleader for the current government, but the reporting has been entirely negative and lopsided, and expressed in ways that make REE (the Spanish company) out to be the innocent victims and the Bolivians to be thieves. That view is not accurate. There is an argument to be made for the reverse.

Every "nationalization" by the Bolivian government has a backstory. The "nationalization" of the petroleum industry was nothing of the sort. No oil company lost a single paper clip in Bolivia--they simply were obliged to re-negotiate contract terms over a period of a year and pay more taxes. Most companies retained everything they owned before nationalization--those that lost investments were compensated. Please understand that some previous petroleum contracts were signed by Goni Sanchez as he was boarding a plane to flee the country, and gave away the nation's oil and gas

reserves with terms highly in favor of the oil companies, not the country. One of Goni's cabinet ministers (Kukoc) was later caught returning to Bolivia to retrieve suitcases containing millions of dollars, which he had left behind in the rush to leave the country, because he had so many suitcases he could not take them all on the first flight. I could not make up this stuff if I tried--it is absolutely true.

During the neo-liberal (and as we know now, less-than-honest) governments of Goni Sanchez de Lozada (who I met on a few occasions, but never knew well, but who I supported in his first campaign, since I thought he would bring prosperity to Bolivia) the state-run enterprises were all sold off. But not sold in the usual sense of exchanged for cash that went into the national treasury, but a hybrid developed by Goni's advisor Jeffrey Sachs and the folks at The World Bank, called capitalization. Bolivia at the time had been run into the ground by corrupt governments and depended on World Bank loans for basic services. The World Bank imposed privatization measures not only on Bolivia, but also on Argentina and other Latin American nations, in exchange for loans. These privatization and austerity measures hurt the middle-class and poor and favored the rich. We now live in a period of rejection of neo-liberal policy and a period of more state intervention to regulate and control markets and stimulate economies. This is true in the US, recent elections show it will be true in Europe, and it is certainly true in Bolivia. We observers are forced to leave aside our political opinions about whether state intervention in markets is good or bad, and accept that it is happening around the world, whether we like it or not. What I can say is that Evo Morales runs a tight ship, Bolivia is on sound economic footing, World Bank loans to prop up basic services are a thing of the past, and the country is experiencing a boom since Evo was elected. He supports economic development, such as roads, in the face of much opposition from indigenous groups funded by NGOs. But all of that is for a different post.

During the 1990s capitalization period, Bolivian state-run enterprises were given to the foreign companies that would offer to invest the most money in the future, without them having to pay much up front--controlling shareholding went to the foreign company, the remaining shares to the Bolivian people to be administered by two European pension funds. As hard as this is to believe, a foreign company only had to *promise* to invest more than the other companies promised, to win the bid to acquire the state-run enterprise. Only foreigners were allowed to bid. Some bankrupt companies acquired Bolivian companies that they milked for all they were worth and then ran into the ground (Lloyd Aero Boliviano, for example--our proud national airline, with one of the best safety records in the industry and the oldest airline in the hemisphere--before it was destroyed by a bankrupt Brazilian airline that stripped its assets to pay their debts in Brazil), other foreign investors were more conscientious and performed more or less as promised, but none invested as much as originally agreed to win the bid. None.

The Cochabamba water war--resulting from the complete privatization of the municipal water system--is an example of what happens when World Bank policy is imposed on the people of a poor country, and municipal or state-run utilities are sold off and administered by foreigners who have no ties to their clients, the public. The foreign managers of the consortium that bought the municipal water system raised rates 40%

and threatened to turn off the water supply to any person who did not pay. (Again, I could not make this up if I tried.) Imagine foreigners who don't speak your language buying your city's municipal water supply and raising rates overnight to one-fifth of your entire take-home pay--more than you pay for food every month-- and threatening to cut the connection so your family has no water with which to drink, wash, or cook. You and your neighbors would revolt. Evo was not a direct actor in the water war, but he certainly observed, and learned, as did we all. The people won, the municipal water supply was recovered, and a sense of empowerment was given to the poor people of this country, that they could actually control their own destinies in the face of foreign ownership of basic utilities--sold off because the creditors of the country required them to be sold, out of a paternalistic view that local management was too corrupt and inefficient. While that view may be true, it sure doesn't sit well in the minds of the public.

Evo Morales ran on a platform that promised to undo the privatization and "recover" the former state-owned strategic enterprises. He was elected by the largest majority of votes in Bolivian history--also one of the cleanest elections in Bolivian history--The Carter Center was on hand to observe. Not only did Evo run on a "nationalization of the oil and gas industry" platform, but so did every other candidate from every other party. But Evo's "nationalization" was a term used to satisfy local voters, the actual deal was a re-negotiation of contracts and a raise in royalty payments from one of the lowest in the world to one that is par for the industry. There was no confiscation of assets as the international press would have you believe. The first 2005 nationalization was an enormously popular move here in Bolivia--and gave Evo one of the highest approval ratings of any sitting president in any country--so obviously he has tried to bottle lightning every year since--never as successfully, however. After many years of missteps, his approval has fallen.

The nationalization of TDE was no secret to REE or the Spanish government, they were informed ahead of time. Their protests were Kabuki theater. The day of the nationalization Evo was touring a large private investment by Repsol in one of the gas fields along with the Spanish Ambassador. After all the protests the first day, the Spanish foreign minister the next day said the nationalization was legitimate (after all, Spain has huge investments in our gas fields--too much Kabuki theater and too much protest against Evo would be counter-productive to their interests. Evo's patience in the face of so much slander probably has limits, too.) REE has been promised compensation--obviously not as much as they would like, but a reasonable amount to be determined by international appraisers--so the government says. Nothing has changed on the ground. Time will tell if locally owned ENDE can administer the grid better, worse, or the same, as the Spanish.

Anyway, please be assured Royal Silver continues our plans to build and invest in Bolivia. Nothing has happened, except it being harder to attract foreigners to invest in our projects. For this reason, we will turn toward local capital investment for expansion, whether it be the government or private citizens. I am bootstrapping our company to become one of the most important silver producers in our region of the world. I will do

my best to succeed, even as news around the world paints an inaccurate view of Bolivia, which hinders our own capitalization--a true capitalization--effort.

I welcome your views on this subject. Please write to me at ceo@royalsilver.com.

Thank you.

Best regards to all,

Brian