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Santiago, October 8, 2014

Messrs.  
Enersis S.A Shareholders

Ref.: Pronouncement on transaction among related parties – purchase of Dock Sud loans

Dear Sir,

In my capacity as Director and Chairman of the Board of Directors of Enersis S.A. ("Enersis"), openly-held stock company registered in the Securities Register of Superintendence of Securities and Insurance ("SVS") under No. 175/1983, and in compliance of what is provided by No. 5) of Article 147 of Act No. 18,046 on Chilean Companies ("LSA"), I give my pronouncement regarding the convenience of the Proposed Operation, according to the terms defined below, for the Enersis company interest.

#### **I. Background Information**

First, I will describe in a brief manner Central Dock Sud ("CDS"). This company is an important electric power generating company in Argentina, located in Buenos Aires, owner of a state-of-the-art thermal power plant. Its market share in electric power production in Argentina reached 3.8% in 2013.

Enersis shares economic shareholding with very good associates: YPF with 40%, Pan American Energy with 20% and Enersis with the remaining 40%. Enersis and YPF have indirect shareholding through Inversora Dock Sud (IDS).

For several years, CDS has had to face operational difficulties causing losses in its Financial Statements. For the 2013 year-closing, it is deemed that losses would consume the overall company equity, with a negative equity value. According to the Commercial Companies Act in Argentina, shareholders must take measures that will remedy the equity situation, or dissolve the company.

Enersis, with the rest of the associates (YPF and PAE), have considered that a viable solution would be the company capitalization, contributing the loans that the company groups of the shareholders have given to CDS in the past. This solution would allow capitalizing the company and additionally leaving it financially healthy (a company without debt).

However, it is necessary to ask, what complexities will the prior operation have?

First, Enersis does not have loans granted to CDS that could be capitalized, only the other 2 shareholders hold such loans (or one of the companies of their entrepreneurial groups) and ELA (Enersis shareholder).

What inconveniences would arise on having ELA capitalize the loans?

The first to be considered is that any capitalization that a third party attempts to do – not a shareholder – in the company Dock Sud (including ELA) must be previously approved by its associates (i.e. YPF, PAE and IDS, the latter controlled by Enersis), and would necessarily implied dilution of Enersis' share in CDS. In case that it is ELA the company that capitalizes loans, the approval of the capital increase payable in-kind in IDS and CDS, is considered to be an Operation between Related Companies ("OPR") in Chile, with all the associated legal requirements for its approval, among them, holding an Extraordinary Shareholders' Meeting. Afterwards, and in order to remedy dilution of Enersis in CDS, Enersis must buy from ELA the shares the latter acquired by the capitalization, which will also be an OPR, resulting on calling another Shareholders' Meeting.

In addition, the operation held according to this scheme would constitute breaching a commitment acquired by Enersis' controller with its other shareholders due to its capital increase in 2012, in that the exclusive investment vehicle in South America for the group in South America is Enersis.

Thus, the "Proposed Operation" regarding which I pronounce my opinion, consists on the purchase-sale of loans held by ELA in favor of CDS, for its later conversion into Argentinean pesos, condoning interests and accessories and capitalization of principals in CDS and IDS. In addition, the operation is completed with the collection by Enersis of approximately MMAR\$ 88 to balance the shareholding properties of all shareholders, at the levels prior to this operation.

Considering that the Proposed Operation considers the purchase of an asset to ELA, Enersis' shareholder, the operation considers an OPR and it must comply with all provisions of Title XVI of the LSA.

In order to make this Offer formal, dated September 19, an irrevocable nature letter ("Offer") has been received from the associate PAE, where it describes in a step-by-step manner the Proposed Operation and the obligations of each one of the parties. Afterwards, dated August 22, the associate YPF has accepted the offer in an irrevocable manner.

Considered that from Enersis' point of view, the Proposed Operation must be submitted to the approval of the Extraordinary Shareholders' Meeting with the approval of at least 2/3 of the shareholders, both in Enersis as well as in IDS and ELA the decision of accepting the Offer is pending.

## **II. Pronouncement regarding the relation with the controlling shareholder**

I hereby pronounce that I am Director and Chairman of Enersis from July 26, 2002 and that in the Regular Shareholders' Meeting of this company, held dated April 16, 2013, which appointed the current Board of Directors, I was appointed Director with the votes of the controlling shareholder. Similarly, I hereby declare that those votes were decisive to be elected director. I also hereby declare that in the session of the Enersis Board of Directors held dated April 16, 2013 I was appointed Chairman of the Board of Directors.

I hereby declare that I have interest in the Operation according to the administrative interpretations imparted by SVS. Such pronouncement of interest was formally pronounced to the company on the Company's Board of Directors Session held on July 30, 2014.

In what refers to ELA, company owned 100% by Endesa, S.A. (Endesa España), I was a member of the Administrative Council of the latter in virtue of what was resolved by the General

Extraordinary Universal Shareholder' Meeting held on October 10, 2006. On June 27, 2008 I filed my resignation due to the reduction of the aforementioned Council to three members. Similarly, since June 17, 2004 and to date, I am advisor of the Management Committee of Latin America.

Similarly, I hereby declare that I am a direct and indirect shareholder of Enersis S.A.

I hereby declare I hereby declare that I have no other relation different from the ones pronounced with any of the companies involved in the Operation.

### **III. General considerations**

According to the LSA, I must give my opinion regarding the Proposed Operation in the terms and conditions established in the Offer. This is an operation defined from beginning to end, in which all the associates participate in equal conditions.

In my opinion, the Proposed Operation must consider the following questions:

1. If these loans that are held by ELA were sold to a third party, would these assets be interested for Enersis to incorporate them? i.e., beyond if the price is adequate or who is the owner of the assets.
2. In case the answer is yes to this first question and considering the Proposed Operation, the question is then, what is the price that should be paid for the loans?
3. Interesting Enersis to buy these loans and having determined an adequate price for them, the question is then, what implications does it have for Enersis and its shareholders to accept the Offer that has been proposed and the other associates accepted?

The operation being analyzed shows certain particularities:

- (i) Neither ELA nor Enersis are forced to accept the Proposed Operation. The acceptance of each one of the parties will depend among other aspects on the price agreed in the transaction.
- (ii) One of the loans to be acquired (called the Structured Loan) has a senior quality when facing the rest of the company debt, including guarantees over the plant and the CDS shares.

Therefore, these particularities make necessary asking the following five questions:

- a. What interest could Enersis have to acquire these loans?
- b. Is it a good time for Enersis to "invest" in Argentina?
- c. What interest could ELA have on selling these loans?
- d. What other alternatives could ELA have, instead of selling these loans to Enersis?

- e. How can the disbursement that Enersis would make compare with the contribution that the other CDS shareholders would make?

### III.1. Contribution of the Proposed Operation to the Enersis' Company Interest

1. Enersis is currently an important company present in electric generation and distribution in Argentina. In addition to CDS, it has other important assets such as Costanera, Chocón and Edesur. Therefore, any investment or divestment decision must be seen as part of a more global strategy.
2. Profitability in the Argentinean Stock Exchange (MERVAL) is one of ones with the greatest growth worldwide. Its profitability during last year in US Dollars is over 70%, showing that investors see a better future for this economy. Below a comparative profitability chart is shown of world stock exchanges, obtained from a publication made by The Economist:

Markets		% change on			
		Index Sep 24th		Dec 31st 2013	
		one week	in local currency terms	in local \$	in \$ currency terms
United States (DJIA)	17,210.1	+0.3	+3.8	+3.8	+3.8
United States (S&P 500)	1,998.3	-0.2	+8.1	+8.1	
United States (NAScomp)	4,555.2	-0.2	+9.1	+9.1	
China (SSEA)	2,453.4	+1.5	+10.8	+9.3	
China (SSEB, \$ terms)	264.1	+1.0	+5.5	+4.1	
Japan (Nikkei 225)	16,167.5	+1.8	-0.8	-4.1	
Japan (Topix)	1,326.2	+1.6	+1.8	-1.6	
Britain (FTSE 100)	6,706.3	-1.1	-0.6	-1.9	
Canada (S&P TSX)	15,120.5	-2.2	+11.0	+6.4	
Euro area (FTSE Euro 100)	1,056.9	+0.1	+3.6	-3.7	
Euro area (EURO STOXX 50)	3,244.0	+0.2	+4.3	-3.1	
Austria (ATX)	2,239.1	-1.9	-12.1	-18.3	
Belgium (Bel 20)	3,207.8	+0.8	+9.7	+1.9	
France (CAC 40)	4,413.7	-0.4	+2.7	-4.6	
Germany (DAX)*	9,662.0	nil	+1.1	-6.0	
Greece (Athex Comp)	1,106.0	-2.3	-4.9	-11.6	
Italy (FTSE/MIB)	20,691.0	-2.0	+9.1	+1.3	
Netherlands (AEX)	421.4	+0.9	+4.9	-2.6	
Spain (Madrid SE)	1,107.8	-0.4	+9.5	+1.7	
Czech Republic (PX)	977.5	-0.7	-1.2	-8.7	
Denmark (OMXCB)	688.6	-0.4	+21.7	+13.3	
Hungary (BUX)	18,092.9	-3.6	-2.5	-13.2	
Norway (OSEAX)	676.5	-1.2	+12.2	+6.8	
Poland (WIG)	54,416.7	-1.3	+6.1	-1.8	
Russia (RTS, \$ terms)	1,189.2	-0.1	-4.2	-17.6	
Sweden (OMXS30)	1,411.2	+0.3	+5.9	-5.1	
Switzerland (SMI)	8,797.2	-0.3	+7.2	+1.1	
Turkey (BIST)	75,193.0	-4.8	+10.9	+6.5	

  

		Index Sep 24th		Dec 31st 2013	
		one week	in local currency terms	in local \$	in \$ currency terms
Argentina (MERV)	12,257.1	+6.5	+127.4	+75.8	
Brazil (BVSP)	56,824.4	-3.9	-10.3	+8.1	
Chile (IGPA)	19,335.5	-1.1	+6.1	-6.8	
Colombia (IGBC)	13,807.4	-3.0	+5.6	+1.7	
Mexico (IPC)	45,116.9	-2.0	+5.6	+4.0	
Venezuela (IBC)	2,951.0	+6.7	+7.8	na	
Egypt (Case 30)	9,718.8	+1.5	+43.3	+39.2	
Israel (TA-100)	1,305.0	+0.8	+8.1	+2.2	
Saudi Arabia (Tadawul)	10,720.5	-3.1	+25.6	+25.6	
South Africa (JSE AS)	50,053.9	-2.2	+8.2	+1.7	
Europe (FTSEurofirst 300)	1,385.8	nil	+5.3	-2.2	
World, dev'd (MSCI)	1,723.7	-0.7	+3.8	+3.8	
Emerging markets (MSCI)	1,035.3	-2.5	+3.3	+3.3	
World, all (MSCI)	423.7	-0.9	+3.7	+3.7	
World bonds (Citigroup)	920.7	-0.5	+1.6	+1.6	
EMBI+ (JPMorgan)	706.9	+0.8	+8.5	+8.5	

3. The new Resolution 95 dated 2013 and Resolution 529 dated 2014 of the Argentinean electric market have been concrete improvements that focus on a more favorable scenario in the near future. Although these measures are still not sufficient to sustain a profitable electric business long-term, they are actual system improvements.
4. I consider the current regulatory situation is unsustainable long-term, necessarily having to make it better in the future towards a Cost Plus scenario.

5. The loans ELA offers ENI are preferable over the other loans. Such preference could be translated into value.
6. In addition, having Enersis acquire the loans more than increasing its exposure to Argentina, has to be seen as ratifying the current investment.
7. In case that Enersis does not participate in the Proposed Operation, it could generate a conflict with the current associates, which are important *players* in the Argentinean market. Effectively, on being in a negative equity situation, corrective actions are mandatory, which is why Enersis would lose any right to file a claim when facing a possible dissolution and such would make it lose its preferred rights, due to the shareholders' agreement.
8. All associates would condone their corresponding interests and commissions. In reference to contributing the loans, both Enersis as well as YPF could contribute their loans in an equal manner to their nominal value. PAE would contribute fresh cash, since it does not have loans as a participating shareholder.
9. Part of the fresh cash would be allocated to Enersis.
10. Enersis would be left as a financially healthy affiliate from the equity point of view and would additionally be without debt.
11. CDS is considered as a strategic asset in Argentina, given its capacity, technology and location, providing an important potential value.
12. The Proposed Operation ratifies Enersis as a single investment vehicle of Endesa and Enel S.p.A., in the region with the exception of Enel Green Power.

Given all the aforementioned, my opinion is that the Proposed Operation would effectively interest Enersis and contribute to its company interest given that it aligns with its strategic focus.

### **III.2. The Proposed Operation is according to price, terms and conditions as those prevailing in the market**

Then the following question must be answered, what should be the price for the loans?

Regarding the matter, it is worth noting that we are facing a complex operation, developed in the Argentinean market, one of those showing the greatest complexities recently seen, especially during the recent past regarding the State debt situation and its litigation with the so-called *holdouts*. Therefore, referring to "market prices" is particularly complicated. Given the above the Enersis Board of Directors determined contracting the Independent Appraiser Itaú BBA of Banco Itaú Chile ("Banco Itaú" or "Itaú") to determine a value that is according to "prevailing market conditions at the time of the operation and that contributes to the company interest". In turn, the Directors' Committee determined hiring the Independent Appraiser IM Trust ("IMT"), for the same purpose.

The criterion that both Independent Appraisers have is to estimate the CDS' market value through the discounted cash flow methodology, plus the funds that Enersis would receive, less disbursements for taxes.

Given the above, it seems reasonable to consider the estimates made by the Independent Appraisers appointed by the Enersis Board of Directors, Itaú , and the Enersis Directors' Committee, IMT.

I would call attention to the fact that both the IMT report as well as Itaú's issued dated September 30 and October 2, respectively, are available for the shareholders and the public in general, at Enersis' Internet web page and therefore strongly recommend Enersis' shareholders to read these reports in detail.

### **III.2.a. Estimate of Enersis' market value of the loans made by Itaú**

In extract, Itaú deems that the market value of the loans is between MMU\$ 20 and 51, calculated from applying different methodologies, based on the debt service capacity or settlement scenarios taken on by third parties.

In order to analyze at what value the operation would be considered contributing to Enersis' company interest, Itaú considered 4 concepts: i) equity value that Enersis would finally acquire after capitalization (it considers 40.25% of CDS' shares), plus ii) CDS' proportional cash flow, after the operation, plus iii) cash flow ENI would receive after the operation and less, iv) the taxing impact (cash flow effect) for Enersis.

According to Itaú and as per the methodology previously described, the value of the loans should be equal or less than MMUS\$ 33.8, so that the Proposed Operation contributes to the company interest. The above considers as an assumption that the cash flow receivable by Enersis, is collected using the official rate of exchange and that the electric market regulation would basically continue as the current one, without additional improvements.

Within Itaú's analysis, some additional values are mentioned for reference purposes (that are not used in their recommendation), such as discounted cash flow in a more favorable regulatory scenario (rates according to Cost Plus in the future), implicit valuation of the associate PAE or under the comparable multiples methodology or precedent transactions. In all these cases, the valuation is substantially greater than the recommended scenario. As reference, the implicit value in the recommended scenario is between MMU\$ 65 and 78 as Company Value for CDS, while the more optimistic scenarios, the value could reach a range of MMU\$ 166 and 201.

The above indicates that the value that Itaú proposes could be considered conservative.

Lastly, Itaú analyzes Net Income and Net Debt, where it demonstrates that the operation is beneficial for Enersis.

### **III.2.b. Estimate of Enersis' market value of the loans made by IMT**

IMT estimates the market value of the loans using the same components as Itaú: i) Market value of CDS' shares received after capitalization; ii) cash flow receivable by Enersis and, iii) taxing impact. The largest difference with Itaú's report is that IMT considers that the loans to be acquired would give Enersis the right to only 29.24% of the shares.

In addition and as comparison, IMT shows other calculation methodologies, improving the discounted cash flow assumptions or using comparable multiples, where CDS' value could go from a range of between MMUS\$63 and 70, at a range of between MMUS\$ 195 and 210. In general, all the alternative scenarios are over the value that IMT recommends, which is why we can assert that this bank used a conservative methodology.

Finally, the value for Enersis that IMT assigns the loans are within a range of MMUS\$ 21.1 and 23.6.

In reference to the difference between the percentage of shares to be received between 29.24% (IMT) and 40.25% (Itaú) arguments could be found that justify both scenarios. In the 40.25% case it could be considered that ELA is not forced to participate in the Offer in current conditions. Given that it is the owner of a debt that has certain guarantees for the rest of other debts, ELA has such a negotiating power that in an extreme case scenario it could make Enersis lose, even the diluted percentage of around 11% that it would have if the loans are not capitalized. This thesis can be reasserted in that there are market players (high risk investors) that would be willing to acquire the loans, betting not only on a greater future recovery, but that it would have a larger company percentage.

In IMT' case, instead, the bank considers that a scenario as the one previously described is rather improbable. Its valuation is focused on the strict description of the Offer's content. Any scenario out of this Offer is considerably less beneficial for the parties, since there are no incentives to break the agreement with the other shareholders.

Based on this background information, I deem the following regarding the market value of the loans:

1. The two reports received by the Board of Directors show consistency in terms of CDS ' value obtained on performing the companies' discount of cash flows forecasted (scenario of Resolution 529 or the base scenario).
2. Both appraisers have independently considered the operation's cash flow effects: inflow of funds in ENI and disbursements related to taxes.
3. There are arguments justifying both the use of 40.25%, as well as the 29.24% of CDS' shares, but the actual fact is that the current value of Enersis' shares is zero.
4. Based on this background information the market value of the loans would be established as is included in Itaú's report, in a range of between MMUS\$ 20 and 51. This value would be in my opinion the fair market value.
5. The grounds for valuation in both banks, corresponds to the value of CDS' assets, based on the discounted cash flow methodology. If we compare the scenarios using as reference Resolution 529, values are practically the same and are around MMUS\$ 80 for CDS' 100%.
6. However, considering direct impacts for Enersis, the market value for Enersis that IMT has established reaches a value of up to MMUS\$ 23.6, while Itaú's value establishes it under MMUS\$ 33.8.

7. In order to validate the values proposed the appraisers performed a valuation by comparable multiples. In both cases, the results are way over the Resolution 529 scenarios or other conservative ones, including payment that in PAE implies fresh cash.
8. In conclusion, the market value range for loans over which the situation must be allocated is between MMUS\$ 23.6 and 33.8 (average value of 28.7 MMUS\$).
9. However, the range of values given is built starting from certain assumptions pertaining to the exchange rate, used to expatriate MMAR\$ 88 to be collected by Enersis. If the value in dollars is less, the value payable should be according to this value.

#### **IV. Directors' Committee Report**

The Directors' Committee in the extraordinary meeting held on October 6, 2014, confirms that the Proposed Operation "does contribute to the company interest".

At the time of indicating the loans' value, the maximum range to be paid is within a minimum of 23.8 MMUS\$ and a cap of 27.8 MMUS\$. All these figures are based in similar methodologies as those used by the independent appraisers and differ ones with the others, in terms to the percentage of shares that Enersis gets post-capitalization and in the cash flow forecast scenarios.

## **V. Conclusions**

In conclusion, in my opinion:

1. The proposed operation is a great strategic fit, since it will allow confirming Enersis' participation in Argentina, where the company has interest to continue to invest;
2. The money to be paid can be seen as an investment, at a time when energy assets are cheap, with a great future growth potential.
3. The Proposed Operation consolidates Enersis as a single investment vehicle for Endesa and Enel S.p.A. for the region (with the exception of Enel Green Power);
4. The cap price to be paid for the loans, so that the proposed operation can contribute to Enersis' company interest must be 28.7 MMUS\$; and
5. The Enersis associates are important market players with a common objective: make a very important asset in the Argentinean system financially healthy, facing potential future improvements.

In that light, my opinion is that the Proposed Operation contributes to the Enersis company interest.

Sincerely,

Pablo Yrarrazaval Valdés  
Chairman of the Board  
Enersis S.A.