

**DISCLAIMER: THE ENGLISH VERSION OF THIS REPORT WAS TRANSLATED FOR THE CONVENIENCE OF THE READER. THIS TRANSLATION HAS NOT BEEN REVIEWED OR APPROVED BY THE DIRECTOR.**

Santiago, October 8, 2014

Messrs.  
Enersis S.A Shareholders

Ref.: Pronouncement on the potential purchase of loans from Endesa Latinoamérica within the context of the equity restructure of Central Dock Sud

Dear Sir,

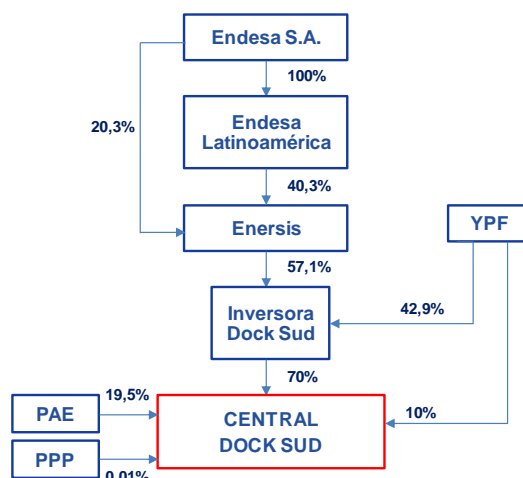
In accordance with Article 50 bis of the Chilean Companies Act 18,046 ("LSA" in its Spanish acronym), through this document I comply with issuing my individual opinion, in my capacity as Director of the openly-held stock company Enersis S.A. ("Enersis" or the "Company", indistinctly), domiciled in the Republic of Chile and registered before the Superintendence of Securities and Insurance of this country (SVS) under No. 175/1983, in relation to the purchase of the debt that Central Dock Sud holds with Endesa Latinoamérica, operation proposed by the Enersis management.

## **I. BACKGROUND INFORMATION**

Central Dock Sud ("CDS") is a company whose main activity is generating and commercializing electricity in Argentina. It owns an installed capacity 798 MW Alstom combined cycle plant and two gas turbines with an installed capacity of 36 MW each, totaling 870 MW installed capacity, located in Buenos Aires. Its national market share in generating electricity in Argentina is 3.8%.

The direct and indirect owners of CDS are Enersis S.A. or Enersis (40%), YPF (40%) and Pan American Energy or PAE (20%).

## CURRENT COMPANY STRUCTURE



Enersis associates in CDS are important companies in the hydrocarbons market, the state-owned YPF, is the main hydrocarbons producer in Argentina. PAE, hydrocarbons exploring and producing company has activities in Argentina, Bolivia, Chile and Uruguay and is the second largest petroleum and gas producer in Argentina.

Accumulation of losses in CDS has lead the company to a negative net equity situation, which according to Argentinean legislation Article 94 of Law No. 19,550, CDS would be forced into dissolution or the reconstitution of its equity. Losses in CDS, also extend to IDS, forcing its dissolution or in an alternate manner to reconstituting its equity.

Jointly with the other shareholders a viable and more efficient solution has been considered to carry out capital increase for their reimbursement, where company creditors, all companies belonging to the shareholder's economic groups, contribute loans in foreign currency that they have granted in favor of CDS. As of December 31, 2013 they were as follows:

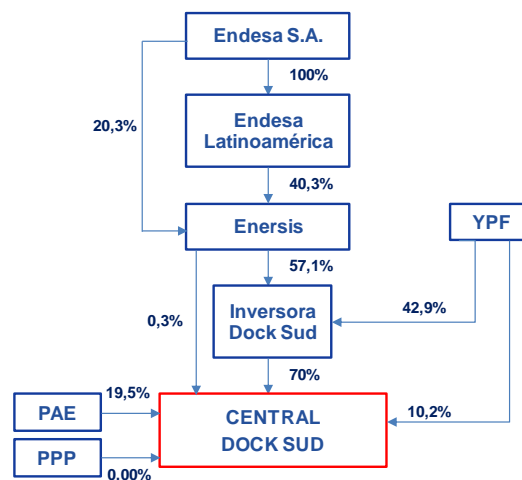
(MMUSD)	YPF	PAE	ELA	ENI	TOTAL
<b>Shareholders' Loan</b>	<b>18.2</b>	<b>9.1</b>	<b>18.2</b>	<b>0.0</b>	<b>45.5</b>
Capital	13.6	6.8	13.6		34.0
Interest	4.6	2.3	4.6		11.5
<b>Structured Debt</b>	<b>64.1</b>	<b>0.0</b>	<b>83.8</b>	<b>0.0</b>	<b>147.9</b>
Capital	38.9		51.8		90.7
Interest	25.2		32.0		57.2
<b>Subordinated Debt</b>	<b>1.7</b>	<b>0.0</b>	<b>0.0</b>	<b>2.2</b>	<b>4.0</b>
Capital	1.7			2.2	3.9
Interest	0.0			0.0	0.1
<b>Preferred Shares (IDS)</b>	<b>16.3</b>	<b>0.0</b>	<b>0.0</b>	<b>21.6</b>	<b>37.9</b>
Capital	4.8			6.4	11.2
Interest	11.5			15.2	26.7
<b>TOTAL</b>	<b>100.3</b>	<b>9.1</b>	<b>102.0</b>	<b>23.9</b>	<b>235.3</b>

Considering that the debt is held by Endesa Latinoamérica ("ELA"), it is necessary for ELA to transfer these loans to Enersis, so that it can carry out capitalization. Steps indicated in the capitalization proposal are as follows:

- i. Debt purchase: ELA assigns to Enersis, through a sale at market conditions all loans granted to CDS.
- ii. Conversion to Argentinean Pesos: All CDS's loans are converted to Argentinean Pesos at the December 31, 2013 rate of exchange i.e., AR\$/USD 6,521.
- iii. Condone Debts: All creditors can go on and condone CDS's accrued interests, commissions and penalty interests. This includes accrued differential rescue for preferred shares. Starting from this date the differential rescue ceases to accrue.
- iv. Debt Capitalization: YPF and Enersis will capitalize their loans granted in favor of IDS and CDS at their face value; then PAE and IDS will capitalize at CDS loans they have against the company at their face value.
- v. PAE Capitalization and Repayment to Enersis: In order to keep the current participations at CDS (Enersis 40%, YPF 40% and PAE 20%), it is established that:
  - PAE will capitalize within CDS AR\$ 125 million, in order to compensate the deficit in loans it holds.
  - CDS will pay Enersis a debt amortization of AR\$ 88 million, in order to balance the capitalized amount by YPF and Enersis

All steps proposed for the operation were formalized by PAE through a binding offer forwarded to all the CDS and IDS associates on September 19. The Offer will be effective for 70 days and must be accepted both by ELA and Enersis after the approval of the operation by the Enersis Extraordinary Shareholders' Meeting. YPF has already given its irrevocable acceptance to the proposal, so that only the formal acceptances by ELA and Enersis are pending, and afterwards IDS', so that the agreement described becomes effective and can be executed.

#### COMPANY HOLDING STRUCTURE POST CAPITALIZATION



## **II. PRONOUNCEMENTS REGARDING THE ENERSIS S.A. DIRECTOR'S CAPACITY AND HIS RELATION WITH THE CONTROLLER**

1. I hereby declare that I am Director of Enersis S.A. elected on April 16, 2013, being appointed director with the votes of the controlling shareholder. Similarly, I hereby declare that those votes were decisive to be elected director.
2. I hereby declare that I have interest in the Operation according to the administrative interpretations imparted by SVS. My interest in the Operation was formally pronounced to the company on the Company's Board of Directors Session held on July 30, 2014.
3. I hereby declare that to date I am not an owner, whether direct or indirectly of shares or values issued by Enersis.
4. I hereby declare that I have no other relation different from the ones pronounced with any of the companies involved in the Operation.

## **III. PRONOUNCEMENTS REGARDING THE REPORTS RECEIVED**

In order to pronounce my opinion I have taken the following into consideration:

1. Independent Appraisal Report dated October 2, 2014 issued by Banco Itaú BBA de Banco Itaú Chile (hereinafter "Itaú BBA"), hired by the Enersis Board of Directors
2. Independent Appraisal Report dated September 30, 2014 issued by IM Trust Asesorías Financieras S.A. (hereinafter "IM Trust"), hired by the Directors' Committee.
3. Report issued by the Directors' Committee dated October 6, 2014.

In my opinion both appraisers have due independence and have received all information and reasonable times to carry out their tasks. Their reports are available to all shareholders.

### **1. Independent Appraisal Report by Itaú BBA**

Itaú BBA, independent appraiser appointed by the Enersis Board of Directors, established in its report that the value of the debt to be acquired by Enersis is between USD 20.1 to 50.7 million, indicating that it generates value for Enersis if the purchase is made at a value lower than USD 33.8 million.

In order to calculate the value of the loans Itaú BBA performed a valuation of CDS with the discounted cash flow methodology, considering the following assumptions:

- Base case that considers remuneration based on Resolution 95/529
- Discount rate of 16.3%
- Perpetuity with a 2% rate
- 9.5 year period
- Capital amortization of AR\$ 88 million is paid in Chile and is remitted at the Argentinean official rate of exchange
- With the purchase of the loans to ELA, Enersis gets 40.25% of the CDS value post capitalization

In addition, Itaú BBA includes in its report sensitivity analysis of more optimistic scenarios (remuneration per Plus Cost starting from 2016), multiples of transactions in comparable companies, precedent transactions and valuations performed by third parties, where the implicit value of CDS in the cash flow capitalization that PAE performs is included.

## **2. Independent Appraisal Report by IM Trust**

IM Trust independent appraiser appointed by the Enersis Directors' Committee, established in its report that the value of the debt to be acquired by Enersis has a value within a range fluctuating from USD 21.1 to 23.6 million.

In order to calculate the value of the loans IM Trust performed a valuation of CDS with the discounted cash flow methodology, considering the following assumptions:

- Scenario used weights 50% of the base case that considers remuneration based on Resolution 95/529 with 50% based on three pessimistic scenarios (only a 5-year term, rate of exchange considered at the date of transaction and a higher discount rate)
- Discount rate of 13.7%
- 13.5- year term
- Capital amortization of AR\$ 88 million is paid in Chile and is remitted at the Argentinean official rate of exchange
- With the purchase of the loans to ELA, Enersis gets 29.24% of the CDS value post capitalization

In addition, IM Trust includes in its report sensitivity analysis of more optimistic scenarios (remuneration per Plus Cost starting from 2016 and reduced WACC), multiples of transactions in comparable companies and valuations performed by third parties, where the implicit value of CDS in the cash flow capitalization that PAE performs is included, but it does not consider it at the time of appraisal.

### 3. Report from the Directors' Committee

The Director's Committee in its report establishes that it has analyzed the reports delivered by the independent appraisers and based on that indicates the range or maximum value that each one of its members recommends as the value to be paid to ELA for purchasing the loans. The following chart presents their recommendations:

Value to be paid (USD million)	Minimum	Maximum
H. Somerville		27.8
L. Vial	22.4	27.0
R. Fernández		23.8

Finally, the committee concludes that the operation does contribute to the Enersis' best interest, taking into account the value ranges to be paid indicated above.

### IV. PRONOUNCEMENT REGARDING THE CONVENIENCE OF THE OPERATION FOR THE COMPANY INTEREST

Article 147 of the LSA establishes that the criteria for approving an operation with a related party are that the operation:

- a) Contribute to the best company interest
- b) Reach price, terms and conditions to those prevailing in the market at the time of its approval.

#### 1. Contribute to best company interest

Taking into account the antecedents and information available to date, I consider that for Enersis it would be positive from an strategic and business point of view to acquire the loans that Endesa Latinoamérica currently holds in Central Dock Sud, provided that the acquisition is performed at adequate price and terms.

Therefore, in my opinion the operation proposed does contribute to the best interest of Enersis, taking into account the following reasons:

- i. It allows keeping CDS: through the acquisition of the loans Enersis can participate in CDS's capital increase that will give business continuity and thus avoid the risk of dissolution. In addition, the operation will allow CDS to remain without any debt, therefore it will be a healthy company, without losses for exchange rate differences generated by liabilities in USD it currently holds.
- ii. Asset quality: both due to its location, installed capacity and technical operations characteristics, CDS is a relevant generation asset in the Argentinean electricity market and is a key player in the supply of electricity to Buenos Aires, Argentina.
- iii. Regulatory improvements: The Argentinean electric Regulatory Framework has shown some positive changes, migrating from an intervened marginalist system to a medium cost system. That is seen in Resolution SE 529, enacted in May 2014, which has allowed better remuneration for CDS and therefore, improving its EBITDA.

- iv. Positive sign for the Argentinean market: A positive signal is given to the Argentinean market, reinforcing the Enersis Group's position in the electricity sector, where it participate through Endesa Costanera, El Chocón, Edesur, Cemsa, Yacylec, Compañía de Transmisión del Mercosur (CTM) and Transportadora de Energía S.A. (TESA). During 2013, the total operations in Argentina reported el 9.1% of the consolidated EBITDA of Enersis.
- v. Commitment sign to other shareholders: PAE and YPF are the main players in the hydrocarbon market in Argentina. On giving continuity to the CDS' operations, it makes viable a future long-term relation with the shareholders.

## 2. Market Price and other terms and conditions

The following chart summarizes the market price for Enersis to purchase the loans that ELA holds against CDS, indicated by each one of the independent appraisers. The methodology and main assumptions were already presented herein above in Section III.

	<b>Issue Date</b>	<b>Market value for Enersis of the loans ELA holds against CDS</b>
IM Trust	30/09/2014	USD 21.1 to 23.6 million
Itaú BBA	02/10/2014	Below USD 33.8 million

In relation to the difference that the appraisers establish as to what is the CDS percentage post-capitalization that Enersis obtains through purchasing loans from ELA, it is important to recognize that today the CDS shares do not have any economic value, since the net debt is much greater than the enterprise value. Therefore, what Enersis obtains from this operation is 40.25% of the CDS company equity, but in a post-capitalization company with a different equity structure, since there is no debt and the shares have an enterprise value. The aforementioned is why I agree with what is indicated by Itaú BBA in its report, that Enersis values 40.25% of CDS on purchasing these loans.

The discounted cash flow methodology is extensively known as the most used and reliable in appraising companies and their assets, and I am leaning towards choosing a base scenario for CDS' valuation. I see no arguments on choosing an optimistic scenario although there have been positive regulatory signals they are still not enough. On the other hand, risks inherent to the country and a lack of the asset liquidity are reflected in the discount rate, which I see it is not necessary to additionally weight more conservative scenarios. The inherent conservative view on not taking into account the appraisal arising from comparables (Costanera) or what PAE values, is seen as a safety factor.

Having said this, in relation to the discounted cash flow methodology (DCF) it is a fact that acquisitions are not performed at DCF, but that rather a discount is regularly applied that could fluctuate between 10 to 20%.

Given the above, considering that 40.25% of CDS has a value of DCF according to Itaú's base scenario of USD 33.8 million, the debt market value to be acquired must be under 30.4 million.

It is important to consider that the transaction between Enersis and ELA must be performed in satisfactory market conditions for all the shareholders of each one of these companies, particularly their minority shareholders that will observe in detail that the company interests to which they belong are not being breached.

## **V. CONCLUSIONS**

The proposed operation has the objective of restructuring the equity situation of one of the Enersis Group companies that due to regulatory and market reasons is in a negative equity situation. According to Argentinean legislation the company settlement and dissolution must proceed, unless the shareholders propose and implement measures to correct the situation.

It is the interest of the CDS associates and shareholder to carry out a financial restructuring operation of the company equity in order to preserve its assets, value and give continuity to the Central Dock Sud business.

In the terms that the operation is proposed, I conclude that:

- In my opinion, it would be positive for Enersis, from the strategic and business point of view to acquire the Central Dock Sud's debt, subject to having the operations become materialize at adequate transference price, terms and conditions.
- In my opinion, in order to have the operation generate value for Enersis, it must pay up to USD 30.4 million.
- Considering the above, I deem the capital increase proposal does contribute to the Enersis company interests.

---

Luigi Ferraris  
Director  
Enersis S.A.