

Becoming Global: The Entry of ENDESA Spain in the Property of ENERSIS and the DUKE Energy Contest[†]

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I. Introduction

Globalization and deregulation of market economies have shaken the electric industry. Increasingly electric companies are competing in the globalization process through mergers, tender offers, takeovers and strategic alliances, taking advantages of the market opportunities that result from the restructuring of the industry and the privatization of formerly state owned utilities.

In the early 1990's, and after their privatization, Chilean electric utilities launch an internationalization process buying other Latin America electric utilities from local governments. Sooner, and being benefit from a first mover advantage, ENERSIS S.A., a Chilean electric conglomerate, emerged as the most important privately owned electric utility in the region. In particular, it grew from a fifty million market valued company in the late 1980's to a five billion market valued company by mid 1997, expanding its control from assets in Chile also to control assets in Argentina, Brazil, Colombia and Peru.

By 1997 the rapid growth of ENERSIS conglomerate in the 1990's begun to suffer some restraints. The largest restriction become from the difficulties to stay growing at the same rate without running into debt constraints at the risk of damaging the A+ company risk rating made by international agencies (Standard & Poor's). Thus, the fast growth of the ENERSIS group meant that between December 1994 and June 1997, the company debt to equity ratio doubles, and the same pattern was observed in CHILECTRA S.A. and ENDESA S.A., Chilean ENERSIS subsidiaries. Therefore, to continue receiving the excellent risk classification from international agencies as it was happening up to that time, and to remain in the same growth path participating in the

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future privatization process of important electric utilities envisaged in the medium term, mainly in Brazil and Colombia, ENERSIS needed fresh resources.

An option to solve the debt constrain that face the ENERSIS conglomerate, was expected from the search of a partner who can provide new resources with which the company can become part of the investment opportunities that will be open in Latin America.

The success of ENERSIS conglomerate strategy captured the attention of world electric conglomerates such as ENDESA Spain (EE) and DUKE Energy from the U.S.

In 1997, taking advantage of cultural similarities, the possibility to bring fresh resources into ENERSIS at a lower capital cost, and due to successful joint ventures with ENERSIS, ENDESA Spain, a company that at that time was undergoing a privatization process in his country, appear as a natural partner for the ENERSIS purposes. On the other hand, the novel privatized company, EE, will be able to take over the first-class managerial skills of ENERSIS top executives and their know how of the Latin American market, being thus able to succeed as an emerging electric giant with an interest to expand in the Latin American market. The complementarities between ENERSIS and EE, projected a strategic alliance with good chances for success, being expected to expand through the privatization process predicted for important electric utilities in Brazil and Colombia.

This paper analyses the entry of EE in the property of ENERSIS S.A. and the DUKE Energy contest, accounting the amount of resources involve in the transactions, the strategies persuaded by the different agents, and the effects on companies standing in the Latin America electric industry.

II. The Origin of the ENERSIS Group

The transformation process that affected the Chilean economy in the second half of the 1980's decade has as ingredient the privatization process of important public utilities. Among the sectors that suffered the larger changes stand out the electric sector.

The transformation of the regulatory framework, encompassed with a large privatization process, spark one of the most dynamics markets in the country. As a result, the industry average growth rate was above the Gross Domestic Product (GDP) average growth rate. Between 1986 and 1995, the annual average GDP growth rate was 7.1%, while in the same time period electricity consumption annual average growth rate was 7,9%. The sustained economic growth that sparked an increase in energy consumption demanded from the private sector an important effort in investment.

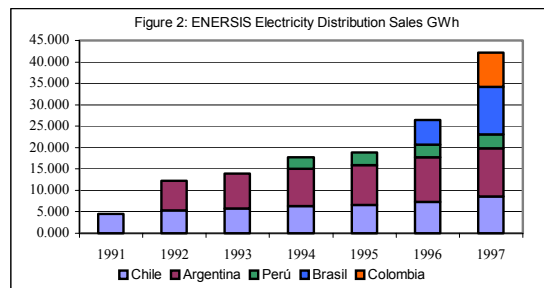
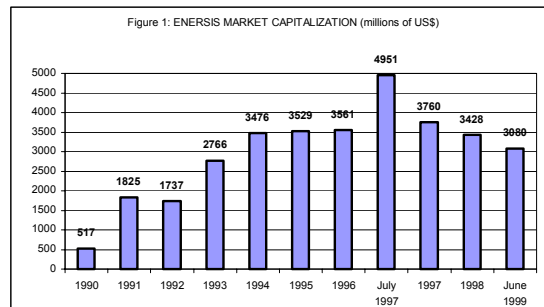
Taking advantage of the market opportunities that become open, the ENERSIS Group emerged as the national electric industry leader, showing at the same time an important and novel expansion of his activities into other Latin American countries. That's how in mid 1997, it emerged as the most important Latin American private conglomerate in the areas of electricity generation and distribution.

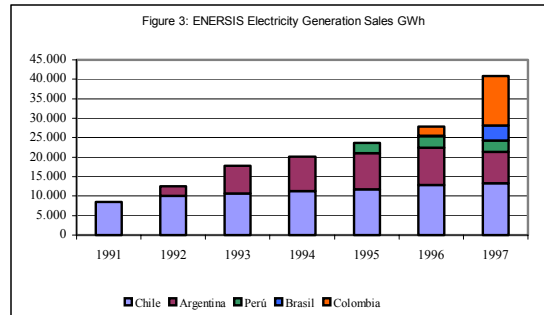
The origin of the ENERSIS S.A. group date back to 1987, when a group of executives and workers of the main Chilean electric distribution company, CHILECTRA

Metropolitana, bought from the government 21.8% of the company. Executives and workers organized in two investments companies, Inmobiliaria Luz y Fuerza Ltda. and Inversiones los Almendros Ltda, where they contributed with their capital. Through these two companies they become the most important shareholders of CHILECTRA Metropolitana. A characteristic of these two companies was that they were limited-liability companies, closed to the stock market. With the time, some workers become interested in selling their participation in those limited-liability companies. One problem was the lack of market prices for their shares, what makes necessary the transformation of the two firms into stock companies with shares traded in the stock market. Thus, in 1992 the original two limited-liability companies are transformed into four stock companies: Los Almendros S.A., Luz y Fuerza S.A., Chispa Uno S.A., and Chispa Dos S.A.

The original 21.8% of ENERSIS shares controlled by the executives and workers was increased to 29.04% buying ENERSIS shares and by the executives control on a fifth investment company, Luz S.A., that in 1997 owned 2.86% of ENERSIS shares.

Thus, Luz S.A., together with the other four investment companies formed the group of companies known as “Chispas”, through which the top executives that were responsible of the success of the ENERSIS group managed the holding. The top executives of the ex CHILECTRA Metropolitana, “key managers”, handle to manage the control of the group.





The first-class management of ENERSIS holding by his top executives, the “key managers”, meant that between 1990 and July 1997 the company market capitalization multiplied almost by 10, increasing from US\$ 517 millions to US\$ 4,951 millions, while the company expanded its’ activities into the electric industry of other Latin American countries, Argentina, Brazil, Colombia and Peru, multiplying in the same period by ten the amount of generated electricity and distributed electricity, reaching more than 40,000 GWh in 1997. The managerial success of the “key managers” placed the company as the first private electric company in Latin America.

Table 1: ENERSIS S.A. Investments			
Subsidiary Companies		Related Companies	
Name	% of ownership	Name	% of ownership
Chilectra S.A.	74.12%	Distrielec Inversora S.A.	49.50%
Compañía Eléctrica del Río Maipo S.A.	84.65%	Cía. Eléct. San Isidro S.A. (1)	50.00%
Synapsis S.A.	100.00%	Autopista del Sol S.A. (1)	-
Ing. e Inmobiliaria Manzo de Velasco S.A.	100.00%	Celta S.A. (1)	100.00%
Distribuidora de Productos Eléctricos S.A.	100.00%	Consortio Ing. B y R Ingendesa Ltda.	50.00%
ENDESA S.A.	25.28%	Inv. Eléctricas Quillota S.A. (1)	50.00%
ENERSIS de Argentina S.A.	100.00%	Sistema de Transmisión del Sur S.A.	-
ENERSIS Internacional Ltda.	100.00%	Emp. Eléctrica Transnet S.A.	-
Inversiones Distrilima S.A.	48.28%	Generandes Perú S.A.	49.51%
Empresa Distribuidora Sur S.A. (Edesur)	50.42%	Distri Ríos S.A.	-
Empresa Eléctrica de Panamá S.A.	100.00%	Electrogas S.A. (1)	42.50%
Aguas Cordillera S.A.	55.00%	Const. y Proyectos Los Maitenes S.A. (2)	55.00%
ENERSIS Investment S.A.	100.00%	Luz de Bogotá S.A.	45.00%
		Codensa S.A.	-
		Autopista Los Libertadores S.A.	99.90%
		Empresa de Energía Bogotá S.A.	5.50%
		Nopel Ltda. (1)	40.00%
		Gasoducto Atacama Ltda. (1)	40.00%
		Cía. Eléct. Tal Tal Ltda. (1)	99.00%
		Gasoducto Tal Tal Ltda. (1)	99.00%
		Inecsa 2000 S.A. (1)	-
		Barrancas S.A. (2)	-
		Energex Co.	50.00%
		Cía Eléctrica de Río de Janeiro S.A.	42.16%

ENDESA S.A. and Inversiones Distrilima S.A. are consolidated since ENERSIS can elect the majority of board members.
(1) ENDESA S.A. subsidiary in organizational and starting stage.
(2) Ingeniería e Inmobiliaria Manso de Velasco S.A. subsidiary in organizational and starting stage.
Source: ENERSIS S.A. 1997 Financial Statements.

The rapid growth experienced by the holding meant that its' debt/Equity ratio doubled, in ENERSIS it went from 0.438 in December 1994 to 1.103 in September 1997 going from below the sample average to be left above, with similar patterns for ENDESA S.A. and CHILECTRA S.A. Thus, the future expansion of the holding can be jeopardized by the lack of low cost resources. This, in some sense, helps explain the interest of ENERSIS S.A. in the EE, who can obtain financial resources at a much lower cost than ENERSIS.

Company	dec-94	dec-95	dec-96	jun-97	sept-97	dec-97	mar-98
ENERSIS	0.438	0.859	0.962	0.956	1.103	1.075	1.145
ENDESA Chile	0.639	0.768	0.893	0.929	1.027	0.979	1.071
CHILECTRA	0.465	0.967	1.324	1.155	1.329	1.451	1.372
LUZYFUERZA		1.107	0.914	0.797	0.591	0.732	0.752
ALMENDROS		1.068	0.876	0.785	0.583	0.710	0.728
LUZ		0.517	0.463	0.477	0.283	0.301	0.300
CHISPAUNO		0.799	0.632	0.619	0.505	0.575	0.577
CHISPADOS		0.836	0.674	0.654	0.522	0.607	0.613
Minimum	0.342	0.138	0.217	0.252	0.000	0.090	0.019
Maximum	1.072	1.637	1.772	1.778	2.667	2.722	2.808
Standard Deviation	0.246	0.346	0.362	0.402	0.648	0.516	0.524
Average	0.661	0.806	0.866	0.841	0.778	0.835	0.846
Source: Author estimates being based in a company's sample according to FECU's from the Santiago Stock Exchange. Sample with 26 companies.							

At the end, ENERSIS become specialized in the buying of companies that were privatized by the local government.

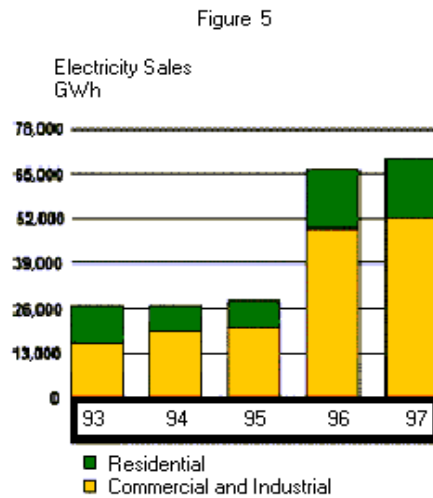
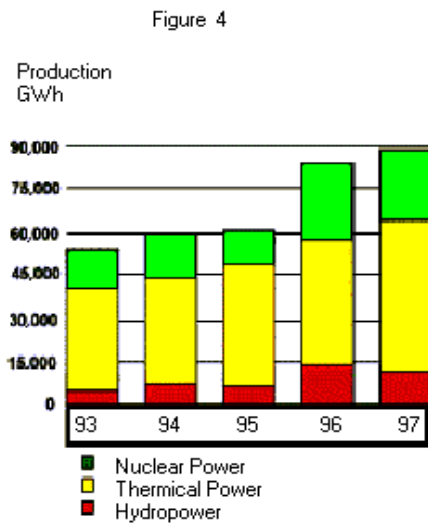
III. ENDESA Spain (EE)

EE is born as the most important Spanish electric conglomerate in 1983, when the Spanish National Electric Company bought regional electric companies, where it's internal growth continued with additional buying in the following years. By mid 1997, EE was a company whose major shareholder was the Spanish government, who controlled more than 70% of the shares. Following a world trend to privatize electric utilities, EE was undergoing a privatization process, where the company moves into private control by the selling in October 1997 of 25.7% of the company shares in the hands of the Spanish government (the privatization process was finalized in June 1999). At the time, EE was among the first fourth largest electric companies within the European Economic Community.

	1994	1995	1996	1997
Capacity (MW)	13,652	13,905	22,014	22,868
Generation (GWh)	59,489	66,424	83,194	89,401
Sales (GWh)	26,836	28,769	65,926	69,607
Number of Customers (thousands)	4,054	3,989	9,398	9,571
Employees	16,724	16,338	24,491	23,377
Source: EE				

EE participate mainly in the electric industry, but have diversified his activities in the water supply and sewage industry, gas industry, and the telecommunication industry. Since 1992 EE, through his subsidiary ENDESAR, have in progress an international expansion plan centered in its' main business, electricity generation and distribution.

By mid 1997, EE have investments abroad to attend more than five millions of clients and an install generation capacity of more than 3.500 MW. Figures 4 and 5 show the growth of EE electricity sales and electricity production.



The interest of EE in Latin America is explained first by the vision that the globalization of world economy is a place where being small is a disadvantage, and second by the potential growth of Latin America electricity consumption. On the other hand, EE interest in ENERSIS results in ENERSIS success to become the most important private electric utility in Latin America and in the managerial capabilities of the “key managers” of the company.

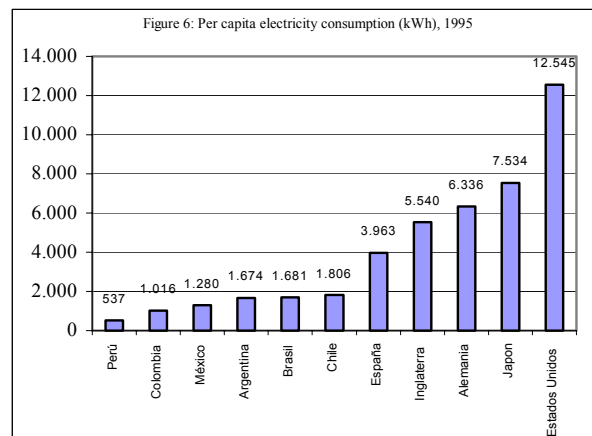


Figure 6 shows electricity per capita consumption for a sample of Latin American countries and European countries, Japan and the US. The figure shows the potential of electricity consumption growth of the Latin American countries compared to more developed countries.

EE saw as his advantages the fact that it can access resources in the capital market at a lower cost than ENERSIS, putting them in good standing to finance and startup new projects, and to participate in the privatizations of state owned electric conglomerates, and the fact of sharing a common language and “culture” with Latin America.

For EE, Latin America is the area where the expansion is more effective. This resulted on his capacity, where the attractive of the Latin American market rest on the potential of electricity consumption growth.

EE strategy is based in a progressive growth in the region, with the idea of becoming a multinational company with a solid position in the Latin American region. The ENERSIS group, as the most important private electric industry in the region, with an international highly professional recognized group of executives who were responsible from expanding in the region the Chilean company, multiplying by 100 the company market value, appears for EE as the ideal platform to run his expansion into Latin America. EE was interested in two key capacities of ENERSIS. First, the assets and human network that ENERSIS already managed in the region. Second, the experience and capacity of the company top executives, the “key managers” of the group. Thus, EE interest in the ENERSIS group will look up to obtain both capacities.

IV. “Chispas” investment companies and their control on ENERSIS

The “Chispas” were structured with dual class equity, A and B shares series, with different economic and political rights. Tables 4 and 5 summarize the capital distribution of the shares and the economic and political right of each series of shares.

Table 4: “Chispas” A and B series shares

Company	Number of shares issued			% of total shares	
	A Series	B Series	TOTAL A+B	A Series	B Series
Compañía de Inversiones Luz y Fuerza S.A.	403,359,501	250,000	403,609,501	99.94%	0.062%
Compañía de Inversiones Luz S.A.	75,923,500	50,000	75,973,500	99.93%	0.066%
Compañía de Inversiones Los Almendros S.A.	404,032,399	250,000	404,282,399	99.94%	0.062%
Compañía de Inversiones Chispa Uno S.A.	409,058,541	250,000	409,308,541	99.94%	0.061%
Compañía de Inversiones Chispa Dos S.A.	407,488,880	250,000	407,738,880	99.94%	0.061%

In general, the A shares series have the right to bigger dividends and the right to receive all undistributed profits if the societies are closed. On the other hand, the B series shares have a larger control on the companies, electing almost half of the board members, and having the right to block changes in the dividend policy and the liquidation of the companies among others. Thus, the B series shares, being only 0.06% of the shares, have much larger control on the companies than the A series.

The control that granted the B series shares on the “Chispas” belonged to the B series shareholders, the “key managers”, who with their additional ownership of A shares have the absolute control of the “Chispas” companies, with the cautious that in Luz it was a bit weaker.

The “key managers” by their ownership of the B series of shares, never being traded until they were sold to EE, and some fraction of the A series of shares, have the control of the “Chispas” companies, and through them the right to choose two of the seven ENERSIS board members, since the “Chispas” controlled 29.04% of ENERSIS.

By mid 1997, 32% of ENERSIS belonged to 13 Pension Funds and 20.4% was in ADR’s. Also, ENERSIS statutes have a restriction on property concentration, where a controller group or single stockholder cannot own more than 32% of the company. On other hand, ADR’s owner’s have the voting rights of their stocks, but if they don’t use that right, the voting right is transferred to the President of the Board, or in whom the President delegates the ADR’s voting rights.

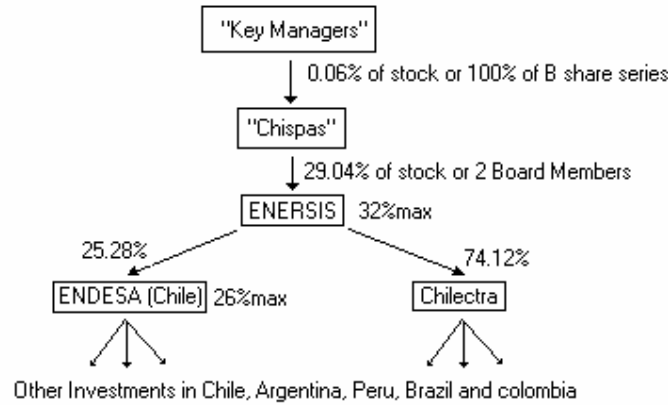
As a result of the control that the “key managers” have on the “Chispas” together with the trust that other ENERSIS shareholders have on the “key managers”, granted the “key managers” the absolute control of the ENERSIS holding. The “key managers” managed a de facto control system on ENERSIS, backed by their control on the “Chispas” and the trust that other ENERSIS shareholders have on them, standing out the Pension Funds and ADR’s shareholders. The “key managers” de facto control on ENERSIS allowed them to choose with their own votes and other shareholders vote all ENERSIS and ENERSIS subsidiaries board members.

Table 5: Synthesis of rights for A and B share series						
Company	Series	Price \$ 08/18/97	% of Ownership	Dividends	Board members elected by the series /Total Board members	Others
Luz y Fuerza Los Almendros Chispa Uno Chispa Dos	A	180	99.94%	As a minimum, 40% of total profits. That part of profits that's not used to pay the minimum mandatory dividend, belongs exclusively to A series shareholders.	5/9	In the case of the company dissolution, the A series shareholders receive the total of accumulated profits. Profit sharing agreements or changes in the minimum dividend policy or sales of the company assets or company dissolution, should be agree in a general shareholders meeting by the majority of each of the series of shares A and B, or in a second call by the present majority of each of the series of shares A and B. The extraordinary shareholders meeting agreement should be adopted, separately, by the absolute majority of each of the share series A and B issued, or in a second call by the present majority of each of the series of shares A and B.
	B	189,540 (*)	0.06%	The legal minimum, 30% of total profits that belongs to the B series shareholders.	4/9	The board can only be removed totally by a share holders meeting, what should be agree separately, by the absolute majority of each of the share series A and B issued, or in a second call by the present majority of each of the series of shares A and B.
Luz	A	415	99.94%	As a minimum, 40% of total profits. That part of profits that's not used to pay the minimum mandatory dividend, belongs exclusively to A series shareholders.	4/8	In the case of the company dissolution, the A series shareholders receive the total of accumulated profits. Profit sharing agreements or changes in the minimum dividend policy should be agree in a general shareholders meeting by the majority of each of the series of shares A and B, or in a second call by the present majority of each of the series of shares A and B. Agreements respect to social capital reduction, the anticipated company dissolution, or the merge with another company, should be adopted in an extraordinary shareholders meeting, separately, by the favorable vote of two thirds of the shares issued in each series. The sale of the company assets is only required the favorable vote of the shares issued with series consideration.
	B	422,252 (*)	0.06%	The legal minimum, 30% of total profits that belongs to the B series shareholders.	4/8	The board can only be removed totally by a shareholders meeting, what should be agree separately, by the absolute majority of each of the share series A and B issued, or in a second call by the present majority of each of the series of shares A and B.
(*) Estimated Source: El Mercurio August 24 1997, companies statutes and author estimates considering the purchase and sale agreement for 51% of the B shares of the Chispas, the purchase and sale agreement promise for 49% of the B shares of the "Chispas", and the management contract						

Ordinary and preferred stocks like other companies such as Ford Motor Company, Wall Street Journal, New York Times, etc....

The limit in ENERSIS property concentration with the trust that other ENERSIS shareholders have on the "key managers" made extremely difficult the appearance of a competing controlling group on the holding. Any other investor interested in the control of ENERSIS can control at most 32% of the company shares, being left by that in a similar ownership position as the "key managers", but without the factual control of the company that depended on the trust that other shareholders have on the "key managers". Thus, an investor who wants to dispute the control of the company must buy 32% of the company shares and have to be successful disputing the trust that the market has on the

“key managers”, what at the time was seen as not feasible. Consequently, a new controller of the group must be previously approved or being passed by “key managers”.



V. “Chispas” Takeover

By mid 1997, the “Chispas” B series shareholders, the “key managers”, arrive to an agreement with EE, where the “key managers” transfer to EE their B series shares, and at the same time, they will transfer gradually to EE the de facto control system that they, an not the “Chispas” companies, managed on the ENERSIS group. Al these, requiring that EE have previously announced a Tender Offer for 100% of the “Chispas” A series shares, and that the Tender Offer is declared successful. If EE is successful in the buying of the “Chispas” B and A series of shares, he obtains the absolute control of the “Chispas” companies, and through this the right to choose 2 of the 7 ENERSIS board members. Table 6 accounts the “Chispas” percentage of ownership of ENERSIS S.A. shares and their minimum capacity to elect ENERSIS S.A. board members.

	% of ENERSIS S.A.	Minimum number of ENERSIS Board Members that can be elected
Los Almendros S.A.	6.55	
Luz y Fuerza S.A.	6.55	
Chispa Uno S.A.	6.55	
Chispa Dos S.A.	6.55	
Luz S.A.	2.86	
Total	29.06	

Source: “Chispas” Fecu’s, June 1997.
ENERSIS S.A. has 7 members in his board.

Additionally, the “key managers” workout an agreement between EE and ENERSIS to guarantee a continuous development of the holding, by which EE, as future controller of ENERSIS, compromise his votes to support a 20% capital increase in the company

(approximately US\$ 1 billion according to the company market value at that time). Further, the agreement compromised that EE will canalize his expansion in Latin America through ENDESIS, a company created as the vehicle through which the strategic alliance will be carried out. ENDESIS will be own in 55% by EE and 45% by ENERSIS.

EE control on the “Chispas” granted him only the right to choose 2 of the 7 ENERSIS board members, but not the control of ENERSIS. This control will be obtained by EE through the Tender Offer for the “Chispas” A series of shares, and a purchase and sale agreement with the “key managers”, where the “key managers” sale to EE 51% of the “Chispas” B series shares. For this contract, EE pay to the “key managers” US\$ 249.2 million.

The design by which de facto control that the “key managers” had on ENERSIS is transferred to EE was featured in two additional contracts:

- Purchase and sales agreement promise for the remaining 49% of the “Chispas” B series of shares. For this contract, the “key managers” expect to receive in the following five years from EE, approximately US\$ 256.8 million payable in EE stocks. The US\$ 256.8 millions can be adjusted depending on the performance of the ENERSIS stock price respect to EE stock price. The better in the following five years the performance of the ENERSIS stock price respect to the EE stock price, the larger number of EE shares that the “key managers” receive as payment.
- A contract between the “key managers” and EE for the management of ENERSIS. This contract between EE and the “key managers” was an obligation of action by which EE and the “key managers” compromise to do their best efforts to succeed in the EE – ENERSIS strategic alliance. By this contract the “key managers” compromised with EE their permanence as top executives of ENERSIS for the following five years.

Thus, the operation involved five contracts:

- ENERSIS – EE strategic alliance
- EE Tender Offer for the “Chispas” A shares series
- Purchase and sales agreement for 51% of the “Chispas” B shares.
- Purchase and sales agreement promise for the remaining 49% of the “Chispas” B shares.
- EE – “key managers” ENERSIS management contract

VI. EE Tender Offer for the “Chispas” A shares

On August 5, 1997, EE announces his interest to obtain the control of the ENERSIS holding running a Tender Offer for the “Chispas” A series shares and contracting the buying of 51% of the “Chispas” B series shares.

A. EE Tender Offer features

Tables 7 to 11 present the features of the Tender Offer. It should be notice that the success of the Tender Offer for the “Chispas” A series shares was subject to the

reception of a minimum of shares selling offers according to table 7, but open to buy all the shares that finally are offered in the Tender Offer.

Table 7: EE Tender Offer for A series shareholders according to the shareholders roll at may 30, 1997, for subscribed, issued and paid shares		
Company	Minimum number of shares to be bought	Percentage respect to total A series shares subscribed, issued and paid
Compañía de Inversiones Luz y Fuerza S.A.	266,892,267	66.17%
Compañía de Inversiones Luz S.A.	37,969,342	50.01%
Compañía de Inversiones Los Almendros S.A.	267,859,374	66.30%
Compañía de Inversiones Chispa Uno S.A.	243,718,780	59.58%
Compañía de Inversiones Chispa Dos S.A.	242,314,948	59.47%
Source: EE Tender Offer		

Also, accounting for the fact that most of the “Chispas” shareholders, with the exception of Luz S.A., were ENERSIS employees, the Tender Offer offered differentiated stock prices depending if the stockholder is an ENERSIS employee or not, where the employees price was 18% higher than the non-employees price (see tables 8 and 9). The employees price was valid up to certain percentage of the shares required by which EE was forced to declare success the Tender Offer. Differing from public “Chispas” A series shareholders, the ENERSIS employees “Chispas” A series shareholders faced with the entrance of a future new controller of ENERSIS an employment risk since with their transfer of their “Chispas” A series shares they will become ordinary employees.

Table 8: EE Tender Offer for ENERSIS Holding Employees A series shareholders according to the shareholders roll at may 30, 1997, for subscribed, issued and paid shares			
Company	Maximum number of A series shares to be bought from the employees at the employees price	Maximum number of A series shares to be bought from the employees / Minimum number of shares to be bought [%]	Price per share for the employees
Compañía de Inversiones Luz y Fuerza S.A.	254,607,230	95.40%	\$260
Compañía de Inversiones Luz S.A.	13,119,581	34.55%	\$580
Compañía de Inversiones Los Almendros S.A.	249,201,730	93.03%	\$260
Compañía de Inversiones Chispa Uno S.A.	243,718,780	100.00%	\$260
Compañía de Inversiones Chispa Dos S.A.	242,314,948	100.00%	\$260
Source: EE Tender Offer, FECU companies and purchase and sale agreement promise for 49% of the B series shares			

Table 9: EE Tender Offer for General Public on A series shares according to the shareholders roll at may 30, 1997, for subscribed, issued and paid shares to complete the buying of the total number of shares indicated in the announcement	
Company	Price per share
Compañía de Inversiones Luz y Fuerza S.A.	\$220
Compañía de Inversiones Luz S.A.	\$490
Compañía de Inversiones Los Almendros S.A.	\$220
Compañía de Inversiones Chispa Uno S.A.	\$220
Compañía de Inversiones Chispa Dos S.A.	\$220
Source: EE Tender Offer	

Table 10: Minimum number of A series shares requested by ELESUR in the Tender Offer	
Company	Number of A series shares
Compañía de Inversiones Luz y Fuerza S.A.	266,892,267
Compañía de Inversiones Luz S.A.	37,969,342
Compañía de Inversiones Los Almendros S.A.	267,859,374
Compañía de Inversiones Chispa Uno S.A.	227,152,684
Compañía de Inversiones Chispa Dos S.A.	224,412,171
Source: EE tender Offer	

Company	Number of shares to be bought	% respect to the total number of A series shares subscribed, issued and paid	Limit to the number of shares in the hands of the employees	Limit to the number of shares in the hands of the employees/ Shares to be bought
Compañía de Inversiones Luz y Fuerza S.A.	266,892,267	66.17%	254,607,230	95.40%
Compañía de Inversiones Luz S.A.	37,969,342	50.01%	13,119,581	34.55%
Compañía de Inversiones Los Almendros S.A.	267,859,374	66.30%	249,201,730	93.03%
Compañía de Inversiones Chispa Uno S.A.	243,718,780	59.58%	243,718,780	100.00%
Compañía de Inversiones Chispa Dos S.A.	242,314,948	59.47%	242,314,948	100.00%

B. EE Tender Offer results

Beside a competing Tender Offer that appear to obtain the control on Luz S.A., competing Tender Offer that's led by ChileMarket and explain in one of the following sections, EE obtain in all, except Luz S.A., selling offers for A series shares that surpass the minimum number shares selling offers that EE required to be force to declare successful the Tender Offer. Even though not completing the minimum number of shares required in Luz S.A., EE declare success the Tender Offer. Tables 12 to 14 show the results of the EE Tender Offer for the "Chispas" A series shares.

	Luz y Fuerza	Luz	Los Almendros	Chispa Uno	Chispa Dos
Number of issued shares	403,359,501	75,923,500	404,032,399	409,058,541	407,488,880
Number of shares in the hands of other "Chispas"	2,027,512	0	1,509,026	45,566,645	47,260,665
Total number of shares that can be bought by ELESUR	401,331,989	75,923,500	402,523,373	363,491,896	360,228,215
Total number of shares offered to the Tender Offer	376,545,990	16,451,711	359,680,220	331,267,181	331,308,799
Shares offered to the Tender Offer/ Issued Shares	93.352%	21.669%	89.023%	80.983%	81.305%
Offered shares in the hands of the employees	303,772,861	13,002,531	294,583,781	266,674,755	273,827,864
Offered shares in the hands of the general public	72,773,129	3,449,180	65,096,439	64,592,426	57,480,935
Offered shares in the hands of the employees/ Offered shares	80.674%	79.035%	81.902%	80.501%	82.650%
Limit in the Tender Offer number of shares of the employees accountable for the employees price	254,607,230	13,119,581	249,201,730	243,718,780	242,314,948
Percentage to be bought at the employees price	83.815%	100.000%	84.595%	91.392%	88.492%
Tender Offer employees price	260	580	260	260	260
Tender Offer general public price	220	490	220	220	220
Tender Offer weighted average price	247.05	561.13	247.71	249.43	249.26

Source: EE Tender Offer, FECU companies and purchase and sale agreement promise for 49% of the B shares series

One issue that was of particular significance in the contracts signed between EE and the "key managers" was that the "key managers" receive a prize as a function of the savings that EE realize in the Tender Offer if it result successful. The "key managers" prize can be possible if the final weighted average price paid by EE on the A series shares is below the expected average price to be paid by EE on the A series shares, what required that the proportion of "Chispas" A series ENERSIS employees shareholders respect to the "Chispas" A series public shareholders change in favor of the last ones. Tables 13 and 14 provides the weighted average price expected and finally paid by EE, and the shares expected and finally offered in each section of the EE "Chispas" Tender Offer.

	Luz y Fuerza	Luz	Almendros	Chispa Uno	Chispa Dos
Number of A series shares	403,359,501	75,923,500	404,032,399	409,058,541	407,488,880
Number of A series shares in the hands of other "Chispas"	2,027,512	0	1,509,026	45,566,645	47,260,665
Total number of A series shares that can be offer in the Tender Offer	401,331,989	75,923,500	402,523,373	363,491,896	360,228,215
Shares that can be offered by the employees	254,607,230	13,119,581	249,201,730	243,718,780	242,314,948
Shares that can be offered by the general public	146,724,759	62,803,919	153,321,643	119,773,116	117,913,267
Percentage of shares that can be buy in the hands of the employees	63.44%	17.28%	61.91%	67.05%	67.27%
Employees Tender Offer price	260	580	260	260	260
General public Tender Offer price	220	490	220	220	220
Expected weighted average price according to the contract	245.38	505.55	244.76	246.82	246.91
Exchange rate used to determine the amount of the transaction	416.30	416.30	416.30	416.30	416.30

Source: Shares purchase and sale agreement promise

	Luz y Fuerza	Luz	Almendros	Chispa Uno	Chispa Dos
Total shares offered in the Tender Offer	376,545,990	16,451,711	359,680,220	331,267,181	331,308,799
Shares offered by the employees	303,772,861	13,002,531	294,583,781	266,674,755	273,827,864
Tender Offer weighted average price	247.05	561.13	247.71	249.43	249.26
Shares that can be bought from the employees according to the contract	254,607,230	13,119,581	249,201,730	243,718,780	242,314,948
Weighted average price according to the contract	245.38	505.55	244.76	246.82	246.91

Source: Shares purchase and sale agreement promise and Tender Offer

C. "Chispas" A shares market value and liquidation shadow price

Table 15 has market value of the "Chispas" main assets, and table 16 provides an author estimate for the "Chispas" shares shadow liquidation price, or value of each "Chispas" share determine by the liquidation value of the company.

	No.	% of the company	Market value Thousand of \$
ENERSIS shares	1,974,658,466	29.04%	596,346,857
EDESUR	55,933,000	5.63%	25,899,105
CERJ	59,879,446,000	3.90%	17,670,425
Liabilities			36,282,322

Source: Author estimates considering ENERSIS S.A. and CHILECTRA S.A. financial statements, shares purchase and sale agreement, FECU Chispas at 6/30/97, and ENERSIS share price at 7/31/97.

	Luz y Fuerza	Luz	Almendros	Chispa Uno	Chispa Dos
Number of ENERSIS shares	445,061,585	194,412,126	445,061,585	445,061,585	445,061,585
Market value ENERSIS shares 7/ 31/97	134,408,599	58,712,462	134,408,599	134,408,599	134,408,599
Market value other investments (no "Chispas")*	9,197,209	4,079,030	9,198,633	10,542,858	10,551,799
TOTAL Assets – Liabilities	133,565,193	59,842,213	133,513,536	138,588,311	138,124,810
(Assets market value – Liabilities)/Company number of shares \$	331	788	330	339	339

Source: Author estimates being based in companies' FECU's and Santiago Stock Exchange information, ENERSIS share price at 7/31/97, ENERSIS S.A. and CHILECTRA S.A. financial statement, shares purchase and sale agreement.

*: In the case of Los Almendros, his investment in Chispa Uno is excluded; in the case of Luz y Fuerza, his investment in Chispa Dos is excluded; and in the case of Luz, his investment in the other "Chispas" companies is excluded.

The difference between the “Chispas” shares shadow liquidation price and the stock market share price provides the prize that can be obtained from buying the right to arbitrage the discount in the market price for the “Chispas” A series shares.

	Luz y Fuerza	Luz	Almendros	Chispa Uno	Chispa Dos
A series market share price 7/31/97 \$	174	380	174	179	179
(Assets market value – Liabilities)/Company number of shares \$	331	788	330	339	339
Discount in the market price for the “Chispas” A series shares”	47%	52%	47%	47%	47%

Source: Author estimates being based in companies’ FECU’s 30/6/97, “Chispas” A series stock market share prices 7/31/97, ENERSIS share price at 7/31/97, ENERSIS S.A. and CHILECTRA S.A. financial statement, shares purchase and sale agreement.

Table 17 estimates the discount in the market price for the “Chispas” A series shares. For all the “Chispas” companies is obtained a discount in the market price for the A series shares close to 50%, percentage of discount in the market price for the “Chispas” A series shares that was present since the first day that these shares were publicly traded in the Santiago Stock Exchange.

D. “Chispas” B shares minimum shadow price.

As was seen in the above sections, the “Chispas” A series shares have been traded since their first day by the Santiago Stock Exchange with a discount with respect to the “Chispas” net assets liquidation share value. One interpretation for the discount in the “Chispas” A series shares market price have been search without success within the market failure theory. A cleaner interpretation can be obtained by recognizing the different rights of the “Chispas” A and B series of shares. In that sense, the discount in the market price of the “Chispas” A series shares can be understood as the shadow price that the stock market assigned to the “Chispas” B series shares. If not, why previously the “Chispas” A series shareholders don’t claimed the price that can be obtained by arbitraging the discount in the market value of the “Chispas” A series shares if the companies are liquidated? The answer is that an initiative like that can be blocked by the rights of the “Chispas” B series shares.

The B series shares of the “Chispas” are property of:	
- Inmobiliaria Luz y Fuerza, Sociedad en Comandita por acciones	
- Inversiones Los Almendros, Sociedad en Comandita por acciones	
Company	Number
Compañía de Inversiones Luz y Fuerza S.A.	250,000
Compañía de Inversiones Luz S.A.	50,000
Compañía de Inversiones Los Almendros S.A.	250,000
Compañía de Inversiones Chispa Uno S.A.	250,000
Compañía de Inversiones Chispa Dos S.A.	250,000

Company	Shares purchase and sale agreement		Shares purchase and sale agreement promise		Total number of shares of the B series
	Number	%	Number	%	
Compañía de Inversiones Luz y Fuerza S.A.	127,500	51%	122,500	49%	250,000
Compañía de Inversiones Luz S.A.	25,500	51%	24,500	49%	50,000
Compañía de Inversiones Los Almendros S.A.	127,500	51%	122,500	49%	250,000
Compañía de Inversiones Chispa Uno S.A.	127,500	51%	122,500	49%	250,000
Compañía de Inversiones Chispa Dos S.A.	127,500	51%	122,500	49%	250,000

Company	Relative capacity to elect board members B series versus A series			Shares relative price		
	Number of shares needed to elect one board member		Relative capacity to elect board members B / A	A Price \$ (1)	B Price \$ (2)	Relative price B/A
	A series	B series				
Compañía de Inversiones Luz y Fuerza S.A.	67,226,584	50,000	1344	220	189,540	862
Compañía de Inversiones Luz S.A.	15,184,700	10,000	1518	490	422,252	862
Compañía de Inversiones Los Almendros S.A.	67,338,734	50,000	1346	220	189,540	862
Compañía de Inversiones Chispa Uno S.A.	68,176,424	50,000	1363	220	189,540	862
Compañía de Inversiones Chispa Dos S.A.	67,914,814	50,000	1358	220	189,540	862

Source: author estimates
(1) Tender offer price for general public
(2) Price estimated on the information of the shares purchase and sale agreement and the shares purchase and sale agreement promise

Tables 18 and 19 determine the number of “Chispas” B series shares, the number of “Chispas” B series shares involved in the EE – “key managers” purchase and sale agreement contract and the purchase and sale agreement promise contract for the B series. Table 20 analyze the “Chispas” A series shares and B series shares relative capacity to elect “Chispas” board members and the relative price paid by EE for the A and B series shares. From the table can be seen that the B series shares relative capacity to elect “Chispas” board members is much higher than the relative price paid by EE for the B series shares respect what it paid for the A series shares.

	Minimum expected cost of the tender Offer	Market value of the patrimony bought	Expected benefit from buying 51% of the “Chispas” B series
Luz y Fuerza S.A.	159,014,845	212,299,035	53,284,190
Luz S.A.	18,278,542	71,888,280	53,609,738
Los Almendros S.A.	155,638,842	212,633,856	56,995,014
Chispa Uno S.A.	152,214,467	198,344,741	46,130,274
Chispa Dos S.A.	151,337,705	197,316,418	45,978,713
Total US\$	636,484,400	892,482,330	255,997,929

Source: Author estimates considering the minum number of shares to be bought in the Tender Offer, maximum number of shares to be bought from the employees at the employees price, A series Tender Offer price, and estimated value of the “Chispas” assets and liabilities. An exchange rate of 416.30 \$ per US\$ was considered.

Table 21 gives the expected benefit that EE can obtain buy buying the “Chispas” A and B shares considering the Tender Offer minimum number of A series shares by which EE commit to declare successful the Tender Offer. The benefit of US\$ 256 millions are determined from the right that EE obtains through the control of 51% of the B series shares to arbitrage the discount in the price by which the A series shares are traded in the stock market respect to the liquidation value that each share is entitled to if the companies are liquidated. Thus, the benefit only account for the benefit from buying the B series shares and having the A series shares as a financial investment.

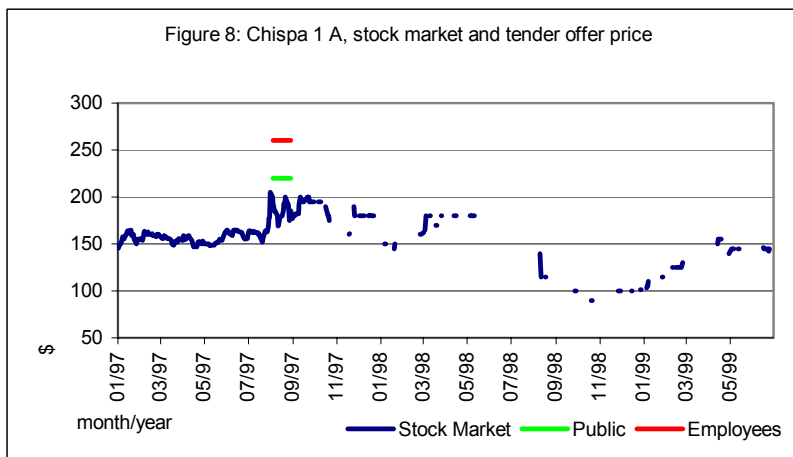
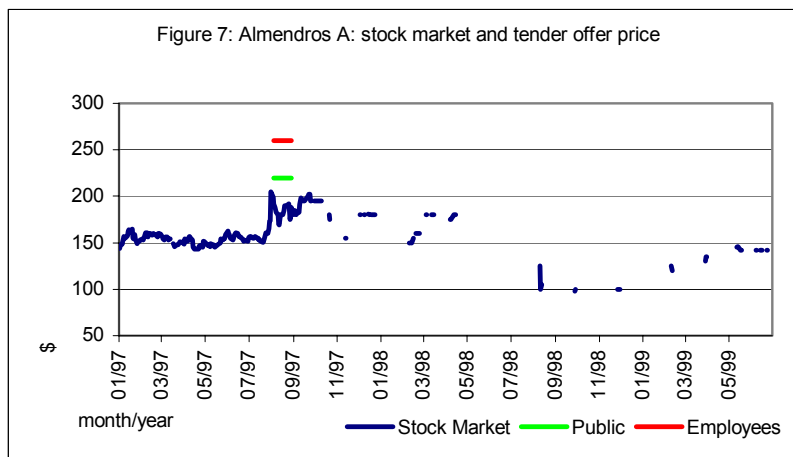
Table 22 determines the EE expected cost of the “Chispas” operation as it was originally envisage by the “key managers” and EE.

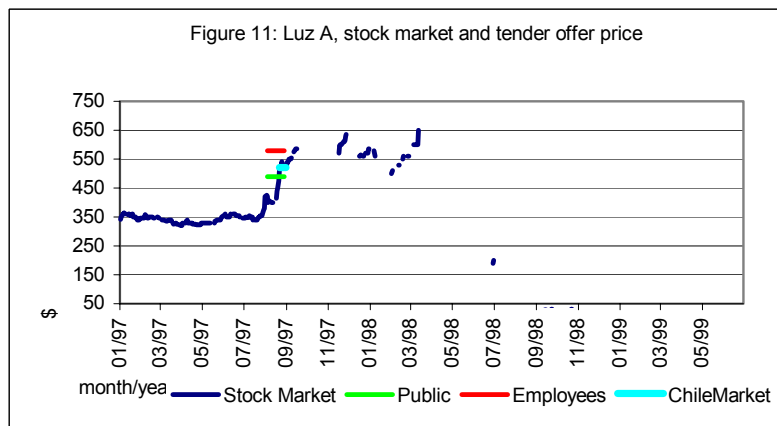
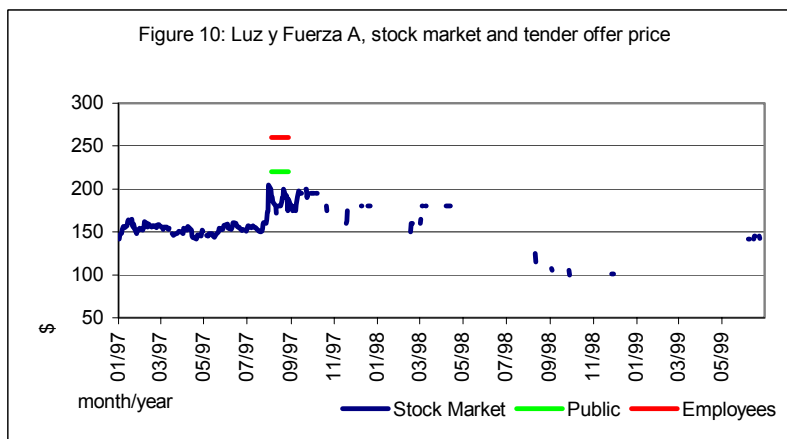
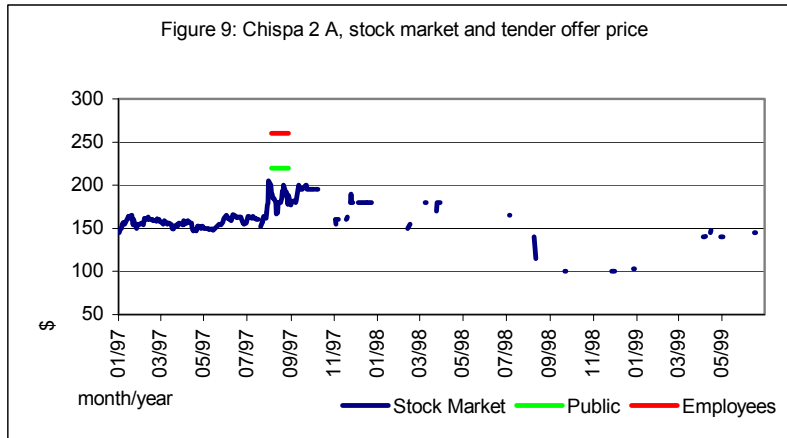
Table 22: Expected cost of the “Chispas” operation for EE	
	Millions of US\$
Tender Offer minimum expected cost	636.5
Purchase and sale agreement for 51% of the “Chispas” B share series	249.2
Purchase and sale agreement promise for 49% of the “Chispas” B share series	256.8
Cost of the preferential option for EE shares	89.4
ENDESIS capital allowance	550.0
ENERSIS minimum capital allowance	178.0
Total cost of the operation	1,960.0

Source: Author estimates and contracts.

E. “Chispas” A series stock prices and abnormal returns

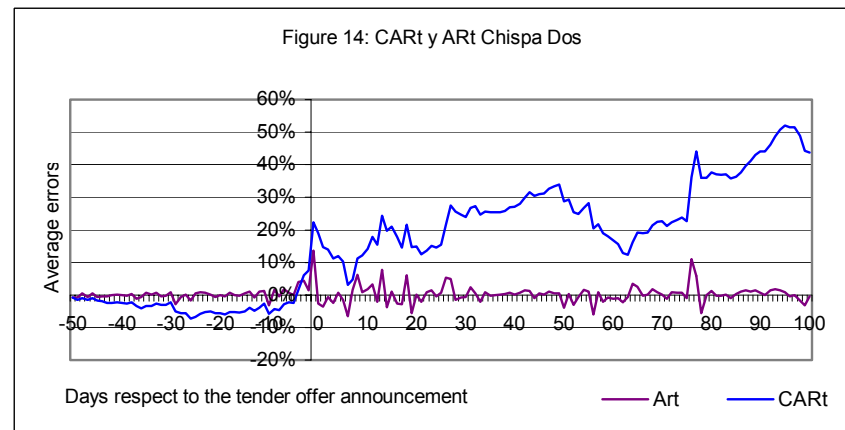
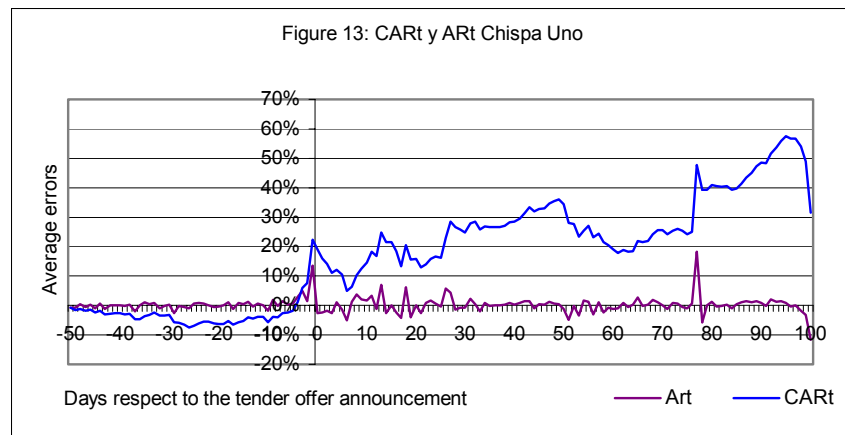
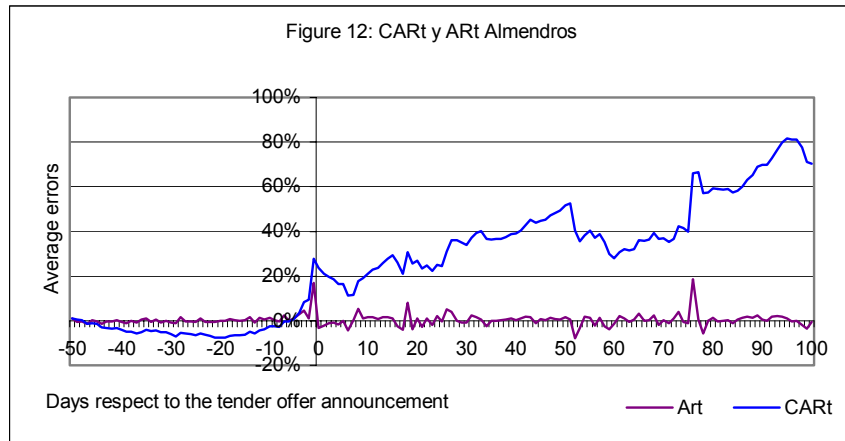
Figures 7 to 11 graph the “Chispas” A series stock market price and the employees and public EE Tender Offer price. In the case of Luz S.A., the price of the competing tender offer open by ChileMarket is added to the graph.

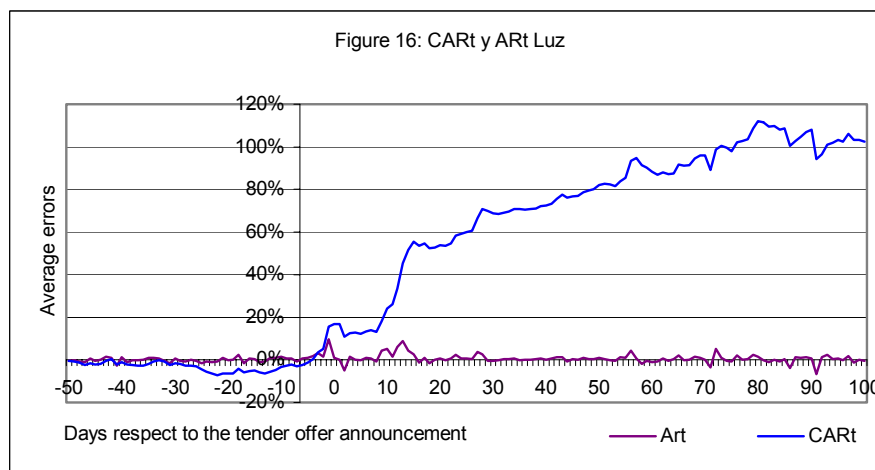
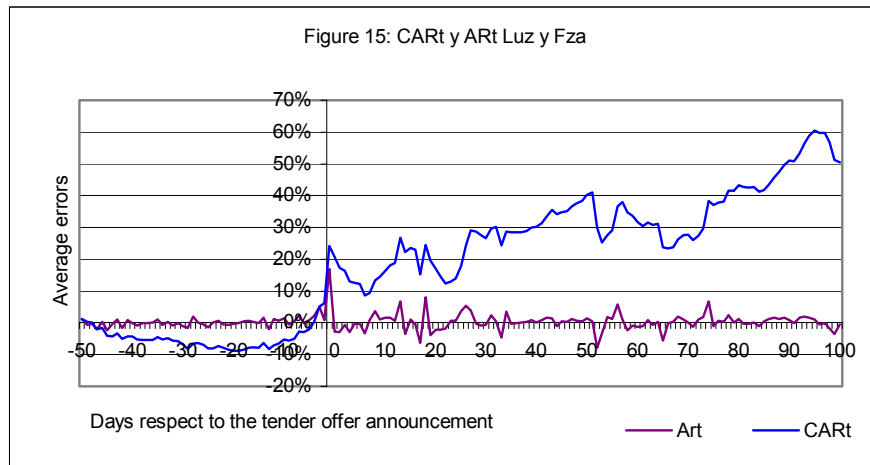




Is interesting to notice from figures 7 to 11 that the “Chispas” A series shares lost presence in the stock market after the EE Tender Offer, what in the case of Luz S.A. is more marked since the company was liquidated as a result of the ChileMarket competing Tender Offer, meaning that the Luz S.A. A series shares definitely went out of the market.

Figures 12 to 16 graph the “Chispas” A series abnormal return (ARt) and accumulated abnormal return (CARt) for the stock market price measured from a stock market price projection based on the stock price past performance, date zero correspond to the day when the “Chispas” operation become publicly known by the market. Is interesting to notice that for the “Chispas” A series shares the raw estimate of the CARt indicates that the shares performance after 100 days was positive respect to the projected trend determined by their past performance and the stock market performance.





VII. The “key managers” lost of ENERSIS control

The novelty of the operation by which in 1997 EE was intended to obtain the control of ENERSIS was misunderstood by the press, wrongly was made up an image where the key managers have handle an operation to benefit as “Chispas” B shares series stockholders at the expenses of the “Chispas” A share series stockholders. The campaign of discredit against the “key managers” press the ENERSIS board, who on October 22 of 1997 decide to finish the contract of José Yuraszeck, while previously the other key managers have abandon their strategic positions within the organization.

The departure of the key managers from the ENERSIS governance meant that they were not in a position from where they can retain the control of ENERSIS, as was required by the series B shares purchase and sale agreement promise. Thus, by October 29 1997, EE and the key managers agree to rescind the shares purchase and sale agreement promise and the managerial contract for the following five years on the ENERSIS Holding. Simultaneously to the cancellation of those contracts, a new purchase and sale

agreement was sign between EE and the key managers for the remaining 49% of the “Chispas” B share series at US\$ 36 million.

This means that the key managers left the ENERSIS group, where EE obtained the absolute control on Los Almendros, Luz y Fuerza, Chispa 1, and Chispa 2, companies that together controlled 26.2% of ENERSIS. Thus, by the end of 1997 after the takeover on the “Chispas”, EE was able to choose three of the seven ENERSIS board members.

Table 23 calculates the final cost of the “Chispas” operation for EE, operation that at the end was completely different to the operation that originally was designed between EE and the “key managers”. The “key managers” went out of ENERSIS and EE bought only the control of the “Chispas”, with the exception of Luz S.A. that went on liquidation as a result of the ChileMarket competing Tender Offer for the companies shares that successfully organized more than 50% of the shares with which in an extraordinary shareholders meeting was requested the selling of the company assets. Further details of the ChileMarket competing offer are provided in the following section.

At the end, EE compromised, through what was left from the original “Chispas” operation, resources for US\$ 1,313 millions, below the original minimum expected cost of US\$ 1,960 million.

Table 23: Cost of the “Chispas” operation for EE	
	Millions of US\$
“Chispas” Tender Offer	856.5
Purchase and sale agreement for 51% of the “Chispas” B share series	249.2
Shares purchase and sale agreement for 49% of the “Chispas” B share series	36.0
Cost of ENERSIS shares (5.71%) bought by EE directly in the stock market*	194.0
Minus EE revenues from A shares series from to the liquidation of Luz*	23.0
Total cost for taking the “Chispas” control.**	1,312.7
1997 expected cost of the operation	1,960.0
Source: Author estimates and contracts.	
*An exchange rate of \$ 455 per US\$ was considered, and a stock market price of \$ 227 for ENERSIS shares was considered.	
**Finally Luz is not under EE control.	

VIII. The ChileMarket battle to control Luz S.A.

Competing interest of other “Chispas” shareholders, in their majority from Luz S.A., different to the “key managers”, causes of political interest, and the complexity of the “Chispas” operation for the great majority, ease a campaign of discredit against the “key managers” and EE. The campaign triggered the discredit and exit from ENERSIS of the “key managers” and the public lack of confidence in EE. Among the things that contributed and seriously damaged the image of the “Chispas” operation was the materialization of a competing Tender Offer for 20% of the shares of Luz S.A. This competing Tender Offer, backed by a group of Luz A series shareholders who control about 30% of the A series shares, was led by ChileMarket. The operation was intended to compete for the prize that can be obtained arbitraging the discount in the market price of the Luz A shares, requiring the liquidation of the company. This last, was in opposition with the interest of EE in Luz S.A. as an ENERSIS shareholder.

Table 24 compares the basic features of both Tender Offers, the EE Tender Offer for the Luz S.A. A series shares and the ChileMarket Tender Offer for 20% of Luz S.A. shares. In their origin both Tender Offer have different interest for the control of Luz S.A. EE was interested in Luz S.A. as a mean to control ENERSIS, while the ChileMarket Tender Offer in Luz S.A. was back of the prize at which the A series share were entitled if the company is liquidated.

Table 24: Tender Offer War on Luz S.A. A shares	
Buyer	
ENDESA Spain	ChileMarket*
Tender offer announcement	
08/03/1997	08/22/1997
Tender offer price per share	
\$490 general public / \$580 employees	\$520
Selling offers final reception date	
Tender offer closing date August 30, 1997	Tender offer closing date September 1, 1997
Tender offer mechanism	
Private sell	Private sell
% Luz S.A. offered to buy	
100%	20%
75,923,500 shares	15,194,700 shares
% Luz S.A. offered in the Tender Offer	
21.7%	20%
16,451,711	15,194,700 shares
Amount of transaction (2)	
US\$ 22.2 mill.	US\$ 19 mill.

* The ChileMarket Tender Offer was for 20% of the Luz S.A. shares, without distinguishing the shares series.

The Luz S.A. shareholders behind the ChileMarket tender offer was an opportunistic behavior by which the tried to expropriate the “key managers” value of corporate control.

IX. The EE lack of control on ENERSIS

In 1998, it become evident and spread to the press that EE doesn't have the control of the ENERSIS group. Disagreements respect to the companies strategies between ENERSIS board members elected with EE votes the ones elected with pension fund and other shareholders votes reach un uphill when in December, the last ones agree to sell the 25.28% of ENDESA S.A. and to concentrate the companies activities in the distribution area. The episode remarked the fact that EE bought the control on the “Chispas” companies but not on ENERSIS. The board decision to sell the participation on ENDESA was ratified by an extraordinary shareholders meeting held on February 4, 1999.

For EE the expectation that the shares of ENDESA in ENERSIS can be sold and the lack of EE control on the holding, after they invested US\$ 1,312.7 million by the failed “Chispas” operation, force EE to announce a Tender Offer on ENERSIS. The EE

Tender Offer on ENERSIS is his reaction to counter act the ENERSIS board decision to sell ENDESA shares and to really obtain the control of the holding.

X. ENERSIS S.A. Takeover

On January 22, 1999, EE announces his interest to run a tender offer to buy 32% of ENERSIS S.A. The operation will be run parallel in Chile and the US: a tender offer in Chile to buy 1,481,408,811 shares or 21.785% of ENERSIS S.A. at a price of 320 Chilean pesos, and a tender offer in the United States to buy 694,591,189 shares or 10.215% of ENERSIS S.A. at a price of 16,000 Chilean pesos for each ADR (1 ADR of ENERSIS S.A. is equivalent to 50 ENERSIS S.A. shares). The operation is expected to demand an investment of US\$ 1,450 millions. The operation requires that in an Extraordinary shareholders meeting is approved an increase in the allowed property concentration from 32% to 65%. An ENERSIS extraordinary shareholders meeting for February 24 was call to vote respect the increase in the allowed property concentration from 32% to 65% as required by EE. This shareholders meeting rejected de proposition. But, in a second try, in an extraordinary shareholders meeting held on March 30, 1999, the proposition to increase the allowed property concentration from 32% to 65% was approved. Thus, EE gets the doors open to run his tender offer on ENERSIS.

By the mean time, in January 1999, DUKE energy emerged as an interested party who wants to buy ENDESA. On February 18, 1999, DUKE Energy announces his interest to run a tender offer to buy 51% of ENDESA S.A. With this, the pie that EE wants to control was under a severe threat of being set apart, running against the clock in his interest to obtain the control of ENERSIS with ENDESA in it.

A. EE Tender Offer for ENERSIS

After some preliminary signals of the interest of DUKE Energy in ENDESA, in January 1999, and the interest of the majority of ENERSIS board, with the exception of EE representatives, to sell ENDESA shares, EE was force to announce a Tender Offer for ENERSIS. Table 25 the basic features of the EE Tender Offer on ENERSIS shares.

Table 25: ENDESA Spain Tender Offer on ENERSIS S.A.				
Tender offer announcement			Auction date	
01/22/99			04/07/99	
	Percentage	Number of Shares	Price per Share	Amount of transaction
Total shares to buy	32.08%	2,176,000,000	\$ 320	US\$ 1,422 mill.
Shares to buy in Chile	21.785%	1,481,408,811	\$ 320	US\$ 968 mill.
Shares to buy in the U.S.	10.215%	694,591,189	\$ 320	US\$ 454 mill.
ENERSIS S.A. stock market share price (\$)				
Highest ENERSIS S.A. stock market price in the last five years (09/17/97)				\$314.5
Lowest ENERSIS S.A. stock market price in the last five years (4/04/94)				\$145.0
01/21/99				\$235.0
04/06/99				\$240.0
Calculations made using an exchange rate of 490 Chilean pesos per U.S. dollar.				
20.1% of ENERSIS S.A. is traded as ADR's in the U.S. One ADR is equivalent to 50 shares.				

Table 26 estimates the EE Tender Offer premium paid in the Tender Offer share price respect to the ENERSIS stock market price in different dates, dates that antecede or

coincide with some particular events. The date of the EE Tender Offer announcement for ENERSIS shares provided a share premium of 27%. These premium have been calculated respect to the stock market price, however to know the convenience of the Tender Offer for ENERSIS shareholders it must be address the expected prorating factor, what indicates *ex - ante* the potential number of shares that an ENERSIS shareholder can sell at the Tender Offer price.

Table 27 provides the *ex - ante* and the actual (*ex - post*) prorating factor of the EE Tender Offer for ENERSIS. As we see from the table, EE bought almost one of each two shares that were offered. Thus, each shareholder that offered his shares in the Tender Offer, sell half of them, meaning that the Tender Offer benefit for ENERSIS shareholders is conditional to the future price of the share in the market. It should be noticed that the *ex - ante* and the *ex - post* prorating factors discriminates against ADR's holders.

Table 26: ENDESA Spain Tender Offer Premium for ENERSIS S.A. Shares		
	ENERSIS stock market price (\$)	EE tender offer premium respect to stock market price (%)
Tender Offer premium before the Tender Offer bidding date		
01/22/99 EE announces a Tender Offer to obtain the control of ENERSIS, the price offered is \$ 320 per share	235.00	27%
02/18/99 DUKE announces his interest to obtain the control of ENDESA S.A.	259.00	19%
02/19/99	258.00	19%
02/24/99 1 st ENERSIS shareholder meeting rejects the EE tender offer requirement to increase the property concentration limit	252.00	21%
02/25/99 EE withdraw the tender offer for ENERSIS	251.00	22%
03/9/99 A second ENERSIS shareholder meeting is call to propose a change in the property concentration limit.	262.00	18%
03/10/99	263.00	18%
03/30/99 2 nd ENERSIS shareholders meeting approves an increase in the property concentration limit as was required by the EE tender offer	252.00	21%
04/7/99 EE obtains the control of ENERSIS	240.00	25%
Tender Offer premium after the Tender Offer bidding date		
04/08/99 ENDESA S.A. shareholders meeting approves an increase in the property concentration limit as was requested by Duke	220.00	31%
04/13/99 ENERSIS announces a tender offer to obtain the control of ENDESA S.A.	232.02	27%
04/16/99 DUKE announces a counter offer for ENDESA S.A.	226.00	29%
04/20/99 ENERSIS announces a counter offer for ENDESA S.A.	225.00	30%
04/21/99 DUKE tender offer for ENDESA S.A. is withdraw.	206.00	36%
04/28/99 Is suspended the ENERSIS tender offer for ENDESA S.A.	177.00	45%
05/10/99 Suspension of the ENERSIS tender offer for ENDESA S.A. shares is cancel	189.00	41%
05/11/99 ENERSIS obtains the control of ENDESA S.A.	190.00	41%
20.1% of ENERSIS S.A. is traded as ADR's in the U.S. One ADR is equivalent to 50 shares. ENERSIS S.A. shares not as ADR's in hands of foreign investors were added to the ENDESA Spain Tender Offer in the U.S. Premium = [(Tender offer price – stock market price)/stock market price]*100		

Table 27: Prorating Factor for ENDESA Spain Tender Offer on ENERSIS S.A.

	Percentage of ENERSIS	Number of Shares	Prorating Factor
Ex - ante analysis: Minimum expected prorating factor			
Maximum shares that can be offered to the tender offer in Chile	48.49%	3,297,320,000	0.4492
Maximum shares that can be offered to the tender offer in the U.S.	20.10%	1,366,800,000	0.5082
Ex - post analysis: Realized prorating factor for offered shares			
Shares offered to sell to the tender offer in Chile	42.9%	2,922,880,924	0.5068
Shares to sell to the tender offer in the U.S.	22.01%	1,496,000,000	0.4643

20.1% of ENERSIS S.A. is traded as ADR's in the U.S. One ADR is equivalent to 50 shares. ENERSIS S.A. shares not as ADR's in hands of foreign investors were added to the ENDESA Spain Tender Offer in the U.S. 31.91% of ENERSIS S.A. shares belong to ENDESA Spain.

Table 28: ENDESA Spain Tender Offer Premium on ENERSIS S.A. selling shareholders (Chile)

	ENERSIS stock market price (\$)	EE tender offer premium respect to stock market price (%) Adjusted by the prorating factor
Tender Offer premium for a selling shareholder before the Tender Offer bidding date*		
01/22/99 EE announces a Tender Offer to obtain the control of ENERSIS, the price offered is \$ 320 per share	235.00	14%
02/18/99 DUKE announces his interest to obtain the control of ENDESA S.A.	259.00	3%
02/19/99	258.00	3%
02/24/99 1 st ENERSIS shareholder meeting rejects the EE tender offer requirement to increase the property concentration limit	252.00	6%
02/25/99 EE withdraw the tender offer for ENERSIS	251.00	6%
03/9/99 A second ENERSIS shareholder meeting is call to propose a change in the property concentration limit.	262.00	2%
03/10/99	263.00	1%
03/30/99 2 nd ENERSIS shareholders meeting approves an increase in the property concentration limit as was required by the EE tender offer	252.00	6%
04/7/99 EE obtains the control of ENERSIS	240.00	11%
Tender Offer premium for a selling shareholder after the Tender Offer bidding date**		
04/08/99 ENDESA S.A. shareholders meeting approves an increase in the property concentration limit as was requested by Duke	220.00	23%
04/13/99 ENERSIS announces a tender offer to obtain the control of ENDESA S.A.	232.02	19%
04/16/99 DUKE announces a counter offer for ENDESA S.A.	226.00	21%
04/20/99 ENERSIS announces a counter offer for ENDESA S.A.	225.00	21%
04/21/99 DUKE tender offer for ENDESA S.A. is withdraw.	206.00	28%
04/28/99 Is suspended the ENERSIS tender offer for ENDESA S.A.	177.00	41%
05/10/99 Suspension of the ENERSIS tender offer for ENDESA S.A. shares is cancel	189.00	35%
05/11/99 ENERSIS obtains the control of ENDESA S.A.	190.00	35%

20.1% of ENERSIS S.A. is traded as ADR's in the U.S. One ADR is equivalent to 50 shares. ENERSIS S.A. shares not as ADR's in hands of foreign investors were added to the ENDESA Spain Tender Offer in the U.S.

*A \$ 190 ex - post stock market share price is considered, and the ex - ante prorating factor of table 27 is used.

** The ex - post prorating factor of table 27 is used.

Table 28 calculates the EE Tender Offer premium considering the *ex – ante* and the *ex – post* prorating factor determine by table 27.

B. ENERSIS stock prices and abnormal returns

Figure 17 show the ENERSIS stock market price and the EE Tender Offer price. It can be seen that the offered price is higher than any ENERSIS stock price previously observed.

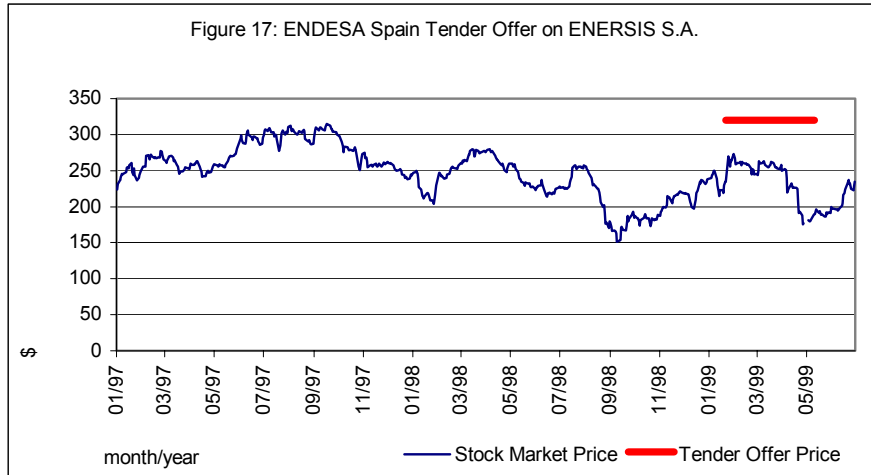
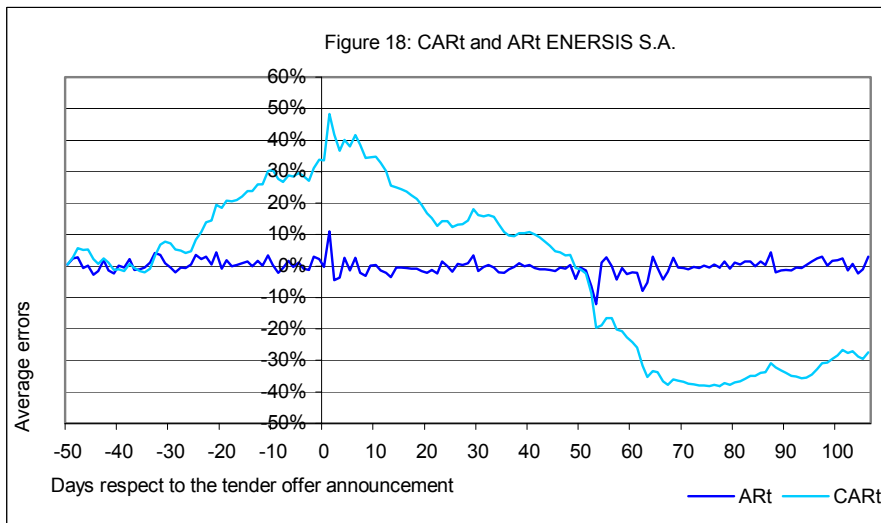


Figure 18 show the ENERSIS abnormal return (ARt) and accumulated abnormal return (CARt) for the stock market price measured from a stock market price projection based on the stock price past performance and market performance, date zero correspond to the day when the ENERSIS operation become publicly known by the market. Is interesting to notice that initially the raw estimate of the CARt indicates a positive reaction by the stock market, situation that fifty days after the announcement is reversed as the interest of EE to run an additional Tender Offer from ENERSIS over ENDESA mature.



XI. ENDESA Chile Takeover

DUKE Energy announces his interest to run a tender offer to buy 51% of ENDESA S.A. The operation will be run parallel in Chile and the US: a tender offer in Chile to buy 3,680,947,436 shares or 44.88% of ENDESA S.A. at a price of 250 Chilean pesos, and a tender offer in the United States to buy 501,947,400 shares or 6.12% of ENDESA S.A. at a price of 7,500 Chilean pesos for each ADR (1 ADR of ENDESA S.A. is equivalent to 30 ENDESA S.A. shares). The operation requires extraordinary shareholders meeting to approve an increase in the allowed property concentration from 26% to 65%. DUKE Energy established that the reception of selling offers for at least 44.28% of the shares is prerequisite to declare successful the Tender Offer.

A. The Tender Offer War for ENDESA S.A.

Table 29: Tender Offer War on ENDESA S.A.			
Buyer			
DUKE Energy	ENDESA Spain	DUKE Energy counteroffer	ENDESA Spain counteroffer
Tender offer announcement			
02/18/1999	04/13/1999	04/16/1999	04/20/1999
Tender offer price per share			
\$250	\$305	\$275	\$360
Selling offers final reception date			
Tender offer closing date April 20, 1999	Tender offer closing date April 20, 1999	Tender offer closing date April 22, 1999	Tender offer closing date April 22, 1999
Tender offer mechanism			
Auction in the electronic stock market, April 22, 1999	Auction in the stock market, April 22, 1999	Auction in the electronic stock market, April 22, 1999	Auction in the stock market, April 22, 1999
Successful offer auction date			
05/11/99 (3)			
% of ENDESA S.A. offered to buy (1)			
51.0%	29.7%	60.0%	34.7%
4,182,894,836 shares	2,435,921,110 shares	4,921,052,748 shares	2,846,008,839 shares
3,680,947,436 Chile	2,050,438,645 Chile	4,318,223,778 Chile	2,460,526,374 Chile
501,947,400 U.S.	385,482,465 U.S.	602,828,970 U.S.	385,482,465 U.S.
Amount of transaction (2)			
US\$ 2,134 mill.	US\$ 1,516 mill.	US\$ 2,762 mill.	US\$ 2,091 mill.
ENDESA S.A. stock market share price (\$)			
Highest ENDESA S.A. stock market price in the last five years (05/12/95)			\$354.0
Lowest ENDESA S.A. stock market price in the last five years (9/21/98)			\$124.0
02/17/99			\$211.5
04/12/99			\$238.0
04/16/99			\$242.6
04/20/99			\$260.0
05/10/99			\$220.0
(1) Shares in the Chilean market and ADR in the U.S.			
(2) Calculations made using an exchange rate of 490 Chilean pesos per U.S. dollar.			
(3) The 4.7% of ENDESA S.A. in ADR's is bought on the 05/14/99 in the U.S..			

Table 29 presents the most important characteristics of the Tender Offer War on ENDESA S.A. between EE and DUKE Energy. The contest to control ENDESA officially start with the DUKE Energy Tender Offer announcement in February 18 1999. Later on, and after EE reaches the control of ENERSIS on April 7, EE officially announces, on April 13, a competing Tender Offer for the control of ENDESA, where uses ENERSIS as the platform to run the Tender Offer bid. The formal entry of EE in the contest for the control of ENDESA force DUKE Energy on April 16 to increase the Tender Offer price for the shares of ENDESA and to increase the percentage of shares to be bought. Finally, on April 20, EE, through ENERSIS, is forced to make a counteroffer to the DUKE Energy counteroffer. The EE counteroffer significantly increased the Tender Offer share price and the percentage of shares to be bought. Confronted with the EE counteroffer, DUKE Energy on April 21 withdraw the Tender Offer for ENDESA.

Table 30: Tender Offer Premiums for ENDESA S.A. Shares			
	ENDESA S.A. stock market share price (\$)	ENERSIS tender offer premium (%) respect to stock market price	DUKE Energy tender offer premium (%) respect to stock market price
01/22/99 EE announces a Tender Offer to obtain the control of ENERSIS, the price offered is \$ 320 per share	153.00	99%	63%
02/18/99 DUKE announces his interest to obtain the control of ENDESA S.A. through a tender offer, the price offered is \$ 250 per share	216.50	41%	15%
02/24/99 1 st ENERSIS shareholder meeting rejects the EE tender offer requirement to increase the property concentration limit	216.00	41%	16%
02/25/99 EE withdraw the tender offer for ENERSIS	217.00	41%	15%
03/9/99 A second ENERSIS shareholder meeting is call to propose a change in the property concentration limit.	217.00	41%	15%
03/10/99	219.00	39%	14%
03/30/99 2 nd ENERSIS shareholders meeting approves an increase in the property concentration limit as was required by the EE tender offer	225.00	36%	11%
03/31/99	227.00	34%	10%
04/7/99 EE obtains the control of ENERSIS	226.00	35%	11%
04/08/99 ENDESA S.A. shareholders meeting approves an increase in the property concentration limit as was requested by Duke	240.00	27%	4%
04/13/99 ENERSIS announces a tender offer to obtain the control of ENDESA S.A. the price offered is \$ 305 per share	239.50	27%	4%
04/16/99 DUKE announces a counter offer for ENDESA S.A. the new price offered is \$ 275 per share	242.60	26%	13%
04/20/99 ENERSIS announces a counter offer for ENDESA S.A. the new price offered is \$ 360 per share	260.00	38%	6%
04/21/99 DUKE tender offer for ENDESA S.A. is withdraw.	235.00	53%	17%
04/28/99 Is suspended the ENERSIS tender offer for ENDESA S.A.	200.00	80%	38%
05/10/99 Suspension of the ENERSIS tender offer for ENDESA S.A. shares is cancel	220.00	64%	25%
05/11/99 ENERSIS obtains the control of ENDESA S.A.	190.00	89%	45%
20.1% of ENERSIS S.A. is traded as ADR's in the U.S. One ADR is equivalent to 50 shares. ENERSIS S.A. shares not as ADR's in hands of foreign investors were added to the ENDESA Spain Tender Offer in the U.S. Premium = [(Tender offer price – stock market price)/stock market price]*100			

Table 30 provides DUKE Energy and EE (ENERSIS) Tender Offer paid in the Tender Offer share price respect to the ENDESA stock market price in different dates, dates that antecede or coincide with some particular events. As it happened the EE Tender Offer for ENERSIS, these premium have been calculated respect to the stock market price, however to know the convenience of the Tender Offer for ENDESA shareholders it must be address the expected prorating factor, what indicates *ex - ante* the potential number of shares that an ENDESA shareholder can sell at the Tender Offer price. *Ex - ante* and *ex - post* prorating factors are calculated in table 31.

As we see from the table, ENERSIS bought almost one of each two shares that were offered in Chile and one of each three shares that were offered in the US. Thus, each shareholder that offered his shares in the Tender Offer in Chile, sell half of them, meaning that the Tender Offer benefit for ENDESA shareholders is conditional to the future price of the share in the market. Again should be noticed that the *ex - ante* and the *ex - post* prorating factors discriminates against ADR's holders.

Table 31: Tender Offer War on ENDESA S.A.				
	DUKE Energy 1 February 18	ENERSIS 1 April 13	DUKE Energy 2 April 16	ENERSIS 2 April 20
Per share price \$ (Chilean pesos)	\$ 250	\$ 305	\$ 275	\$ 360
Percentage to be bought	51.00%	29.70%	60.00%	34.70%
Percentage to be bought in Chile	44.88%	25.00%	52,65%	30.00%
Percentage to be bought in ADR's	6.12%	4.70%	7.25%	4.70%
<i>Ex - ante</i> analysis: Minimum expected prorating factor				
Prorating factor in Chile	0.7377	0.4109	0.8654	0.4931
Prorating factor in the U.S.	0.4409	0.3386	0.5223	0.3386
<i>Ex - post</i> analysis: Actual prorating factor for offered shares				
Prorating factor in Chile				0.5571
Prorating factor in the U.S.				0.3350

(1) 25.28% of ENDESA S.A. belongs to ENERSIS S.A.

(2) 13.88% of ENDESA S.A. is traded as ADR's in the U.S. One ADR is equivalent to 30 shares.

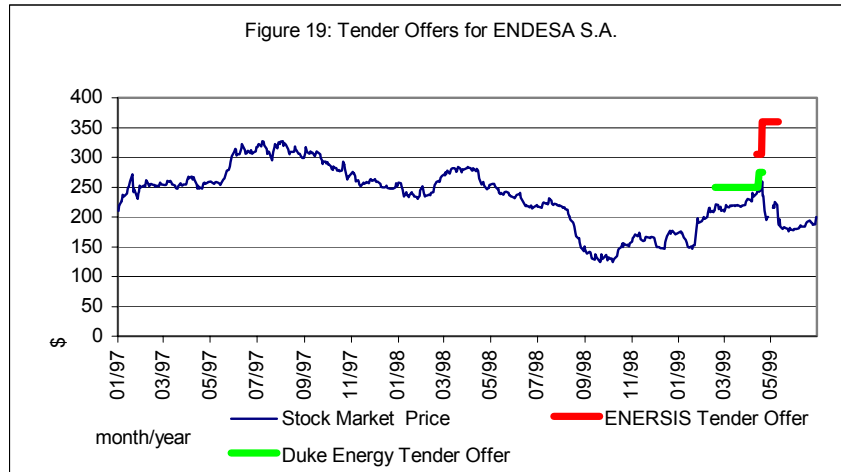
Table 32 provides *ex - ante* and *ex - post* Tender Offer premiums for shareholders that plan to sell or sell their ENDESA shares, premiums are adjusted for the prorating factors calculated in table 31.

Table 32: Tender Offer Premiums for ENDESA S.A. selling shareholders (Chile)			
	ENDESA S.A. stock market share price (\$)	ENERSIS tender offer premium (%)	DUKE Energy tender offer premium (%)
Tender Offer premium for a selling shareholder before the Tender Offer bidding date*			
02/18/99 DUKE announces his interest to obtain the control of ENDESA S.A. through a tender offer, the price offered is \$ 250 per share	216.50		9%
02/24/99 1 st ENERSIS shareholder meeting rejects the EE tender offer requirement to increase the property concentration limit	216.00		10%
02/25/99 EE withdraw the tender offer for ENERSIS	217.00		9%
03/9/99 A second ENERSIS shareholder meeting is call to propose a change in the property concentration limit.	217.00		9%
03/10/99	219.00		8%
03/30/99 2 nd ENERSIS shareholders meeting approves an increase in the property concentration limit as was required by the EE tender offer	225.00		5%
03/31/99	227.00		4%
04/7/99 EE obtains the control of ENERSIS	226.00		5%
04/08/99 ENDESA S.A. shareholders meeting approves an increase in the property concentration limit as was requested by Duke	240.00		-1%
04/13/99 ENERSIS announces a tender offer to obtain the control of ENDESA S.A. the price offered is \$ 305 per share	239.50	2%	-1%
04/16/99 DUKE announces a counter offer for ENDESA S.A. the new price offered is \$ 275 per share	242.60	0%	9%
04/20/99 ENERSIS announces a counter offer for ENDESA S.A. the new price offered is \$ 360 per share	260.00	16%	2%
04/21/99 DUKE tender offer for ENDESA S.A. is withdraw.	235.00	28%	13%
04/28/99 Is suspended the ENERSIS tender offer for ENDESA S.A.	200.00	51%	
05/10/99 Suspension of the ENERSIS tender offer for ENDESA S.A. shares is cancel	220.00	37%	
Tender Offer premium for a selling shareholder after the Tender Offer bidding date**			
05/11/99 ENERSIS obtains the control of ENDESA S.A.	190.00	50%	

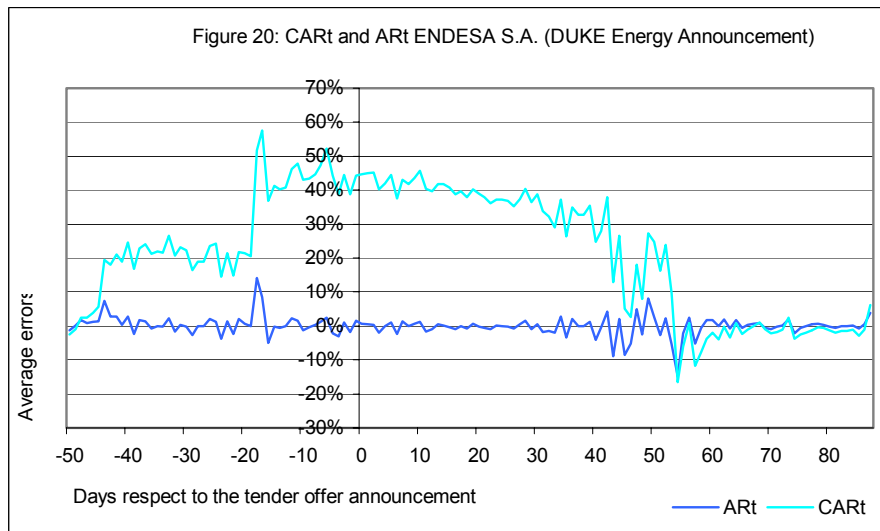
20.1% of ENERSIS S.A. is traded as ADR's in the U.S. One ADR is equivalent to 50 shares. ENERSIS S.A. shares not as ADR's in hands of foreign investors were added to the ENDESA Spain Tender Offer in the U.S.
 *A \$ 200 *ex – post* stock market share price is considered, and the *ex – ante* prorating factor of table 31 is used.
 ** The *ex – post* prorating factor of table 31 is used.

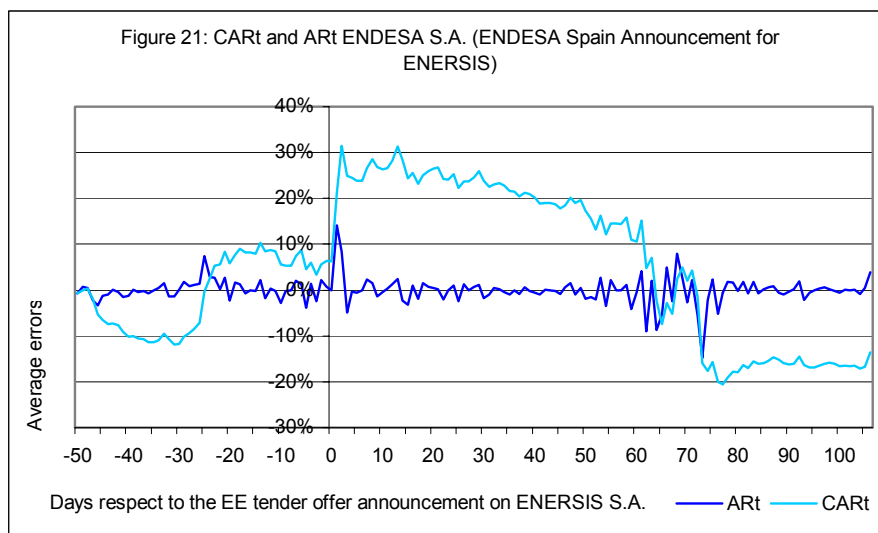
B. ENDESA stock prices and abnormal returns

Figure 19 show the ENDESA stock market price and DUKE Energy and ENERSIS Tender Offer and counteroffer prices.



Figures 20 and 21 show the ENDESA abnormal return (AR_t) and accumulated abnormal return (CAR_t) for the stock market price measured from a stock market price projection based on the stock price past performance and market performance. In figure 20 date zero correspond to the day when the DUKE Energy operation become publicly known by the market, and in figure 21 date zero correspond to the day when EE announces his Tender Offer for ENERSIS. Is interesting to notice that initially the raw estimate of the CAR_t indicates a positive reaction by the stock market, situation that fifty days after the announcement vanishes.





XII. Final Comments: The EE control of the ENERSIS group

More than a half year later, EE finally obtains the control of the holding ENERSIS. The contracts finally included differ considerably respect to the initial strategic alliance envisage between EE and the “key managers” back in 1997. From an initial and more complex operation that demanded from EE an investment of US\$ 1,960 million, where EE will gradually, in a period of five years, obtain the “key managers” de facto control that they have on the ENERSIS group, with the “key managers” commitment for five years managing the holding and a swap that allows the “key managers” and Chilean investors the entry in the property of EE, EE ended investing US\$ 4,826 millions, after was forced to run two additional Tender Offers, one directly for the control of ENERSIS S.A. and the other directly for the control of ENDESA S.A.

Differing from the initial strategic alliance between EE and ENERSIS, that was a friendly takeover from EE on ENERSIS, EE ended having an hostile takeover over the ENERSIS holding as a reaction to the diverging position that EE faced from ENERSIS holding pension fund elected board members and ENERSIS company executives.

	Millions of US\$
“Chispas” Tender Offer	856.5
Purchase and sale agreement for 51% of the “Chispas” B share series	249.2
Shares purchase and sale agreement for 49% of the “Chispas” B share series	36.0
Cost of ENERSIS shares (5.71%) bought by EE directly in the stock market*	194.0
ENERSIS Tender Offer	1,422.0
ENDESA Tender Offer	2,091.0
Minus EE revenues from A shares series due to the liquidation of Luz*	23.0
Total cost for taking the control of ENERSIS Holding and ENDESA S.A.	4,825.7
1997 expected cost of the operation	1,960.0
Source: Author estimates and contracts.	
*An exchange rate of \$ 455 per US\$ was considered, and a stock market price of \$ 227 for ENERSIS shares was considered.	

The EE Tender Offer for ENERSIS was financed by EE, demanding an investment of US\$ 1,422 millions. The EE (ENERSIS S.A.) Tender Offer for ENDESA S.A. was financed by ENERSIS S.A., what required short and medium term loans for US\$ 2,091 millions. These loans implied that the ENERSIS S.A. debt to equity ratio increased from 1.25 in March 1999 to 4.05 in June 1999. In August 1999, Standard & Poor's decreased risk rating of EE, ENERSIS and CHILECTRA. EE risk rating is reduced from AA to A+, and ENERSIS and CHILECTRA risk rating is reduced from A+ to A. Standard & Poor's decision was explained by the "volatility and risk" of the investments made in Chile. ENERSIS S.A. already plan to restructure its' debt to equity ratio, registering in the Stock and Securities Superintendence a capital increase for US\$ 932 millions.

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