Primer Foro Internacional de Energía

Financing the Energy and Power Sector in the Southern Cone

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Buenos Aires

Morgan Stanley

Overview

Oil & Gas

- The outlook is for continued strength in oil and natural gas prices for the next 12-18 months globally
  - Expectation of continued limited production growth from Venezuela, Iraq and Nigeria, combined with continued OPEC discipline
- Steep decline curves in North America and the North Sea and the high cost of developing new reserves in these regions motivate oil majors to look at international opportunities
  - Russia, Middle East and Asia are attractive both for oil and LNG
- Some majors are considering opportunities in Latin America but are generally prevented from pursuing them because they do not meet their return parameters
  - Major concerns include small scale and maturity of most markets and basins, and regulatory/legal risks
  - As a result, several players are exiting or would like to exit Bolivia, Ecuador, Peru, Colombia and Argentina
- The main themes that will shape the oil and gas industry and its financing perspectives in the region include:
  - Tariff and regulatory progress in Argentina
  - LNG projects: Pacific, Trinidad & Tobago, Camisea and Venezuela
  - Santos basin discoveries
  - Political situation in Venezuela

Overview (cont'd)

Power and Utilities

- As a more local and heavily regulated business, the power and utilities sector presents a diverse outlook by country, primarily based on regulatory aspects
- Generally, hydrology conditions have been positive across the region, resulting in low generation prices and less public focus on regulatory reform
- Contractual disputes over supply contracts have affected the financeability of companies and projects
- Several power and utilities players have left the region or are in the process of doing so, resulting in acquisition opportunities for local industrial or financial groups
  - These transactions are usually equity–financed
- The international capital markets continue to be open for quality Chilean issuers
  - Regulatory concerns prevent Brazilian and Argentine companies from accessing the international markets, but some local or securitized solutions are emerging

Notes
1. Insert footnotes for the page here

Emerging Markets Environment

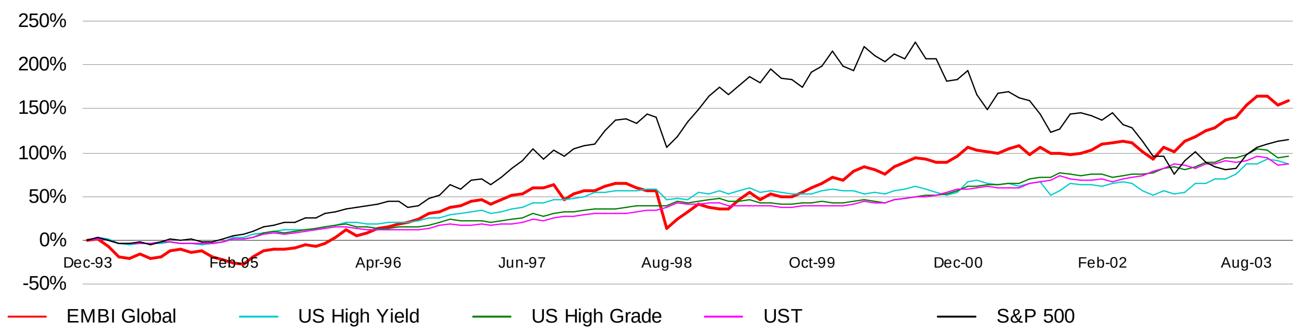
- The strength of the EM asset class has stemmed from the following factors:
  - Ø ***Low interest rate environment***
    - –With UST rates and investment grade yields at historical lows, crossover investors viewed EM as a higher yielding investment alternative relative even to US High Yield assets
  - Ø ***Strong technical environment:***
    - –Inflows to EM were unabated this year
  - Ø ***Fundamental strength:***
    - –Lowering headline risk typically driving investors away from the asset class

EM Environment

- After posting phenomenal returns in 2002, the Emerging Markets asset class has again extended its leading status among the world's major asset classes this year, despite setbacks due to Treasury volatility in July and August
- Thus far this year, EM in hard currency really broke away from the pack and posted returns of 16%, far in excess of the US Equity, High Yield, High Grade and Treasury markets
- The average annual return for the EMBI Global is now 10.4%, making it the #1 long-term returner
- Since 1993, EM hard currency has outperformed all asset classes in terms of cumulative returns

EM Hard Currency Outperforms

Cumulative Total Returns



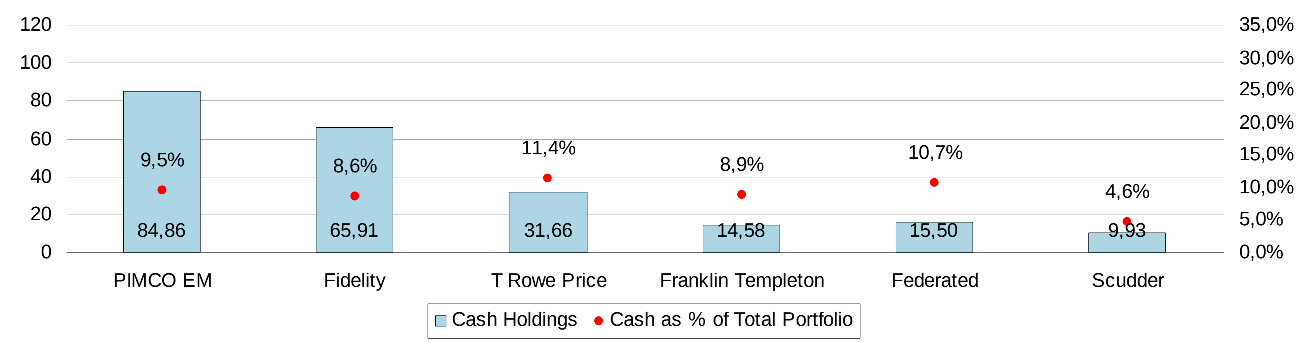
Source Morgan Stanley

Emerging Markets Environment (cont'd)

- In terms of the technical backdrop, the environment for Emerging Markets issuers is still strong
- In general, the largest Emerging Market bond funds have about 9% in cash at the moment
- Although the technical environment is clearly stronger than in years past, issuance levels have remained constant creating an issuer-friendly environment

Investor Cash Holdings- Emerging Market Debt Funds

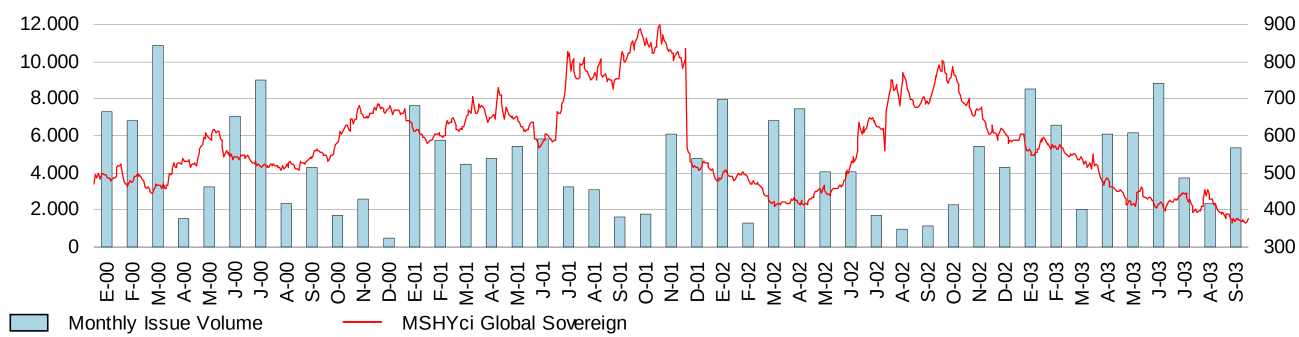
US$MM | % of Total Assets



Source Bloomberg

Monthly New Issue Volume vs. MSHYci Expanded Global Sovereign Index

New Issue Volume (US$MM) | Bid Spread (bps)



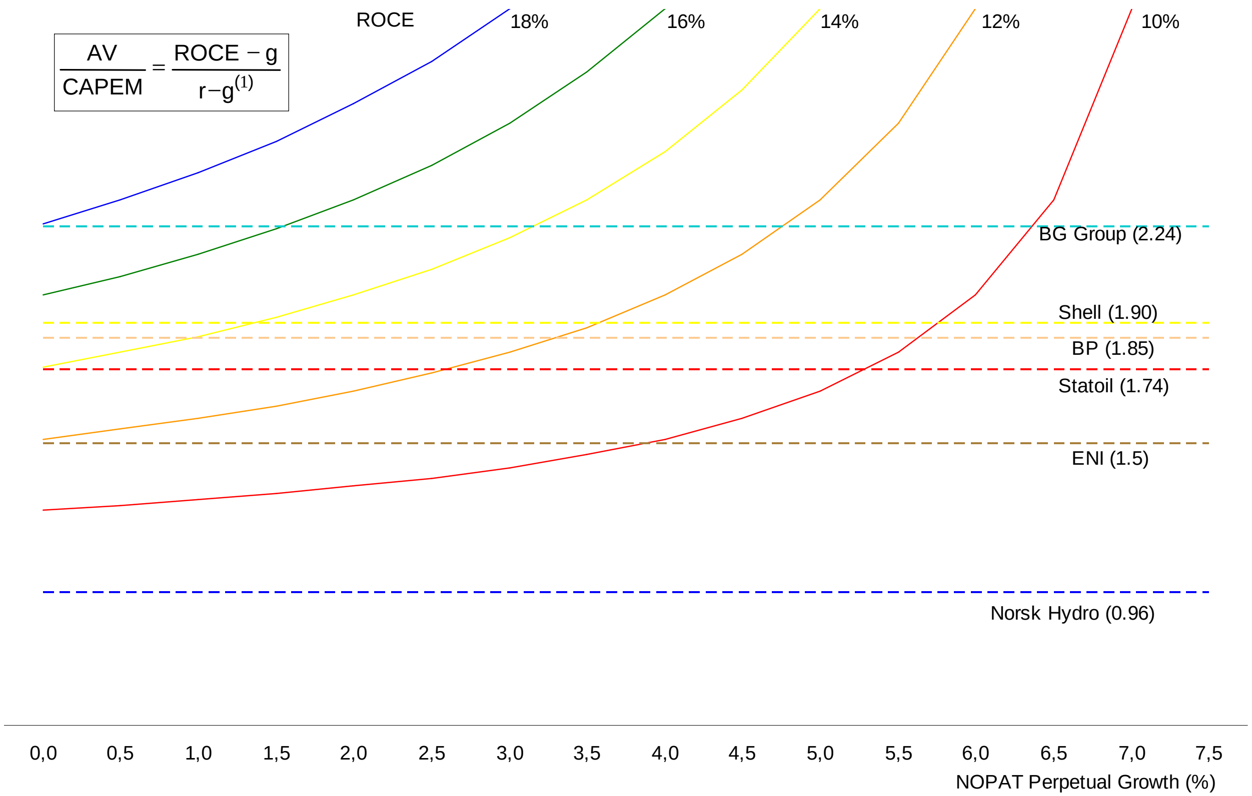
Source SDC/ Morgan Stanley

Industry-Wide Focus on Growth/Return Trade-Off
Oil & Gas

- **Returns and growth are sources of value creation, but market currently emphasises returns**
- **Creating value through superior returns, however, is increasingly difficult:**
  - **Limits to further cost cutting**

Valuation Sensitivity to Growth and Returns

Aggregate Value (AV) / Capital Employed (CAPEM)



Source Morgan Stanley, Oxford Institute of Energy Studies

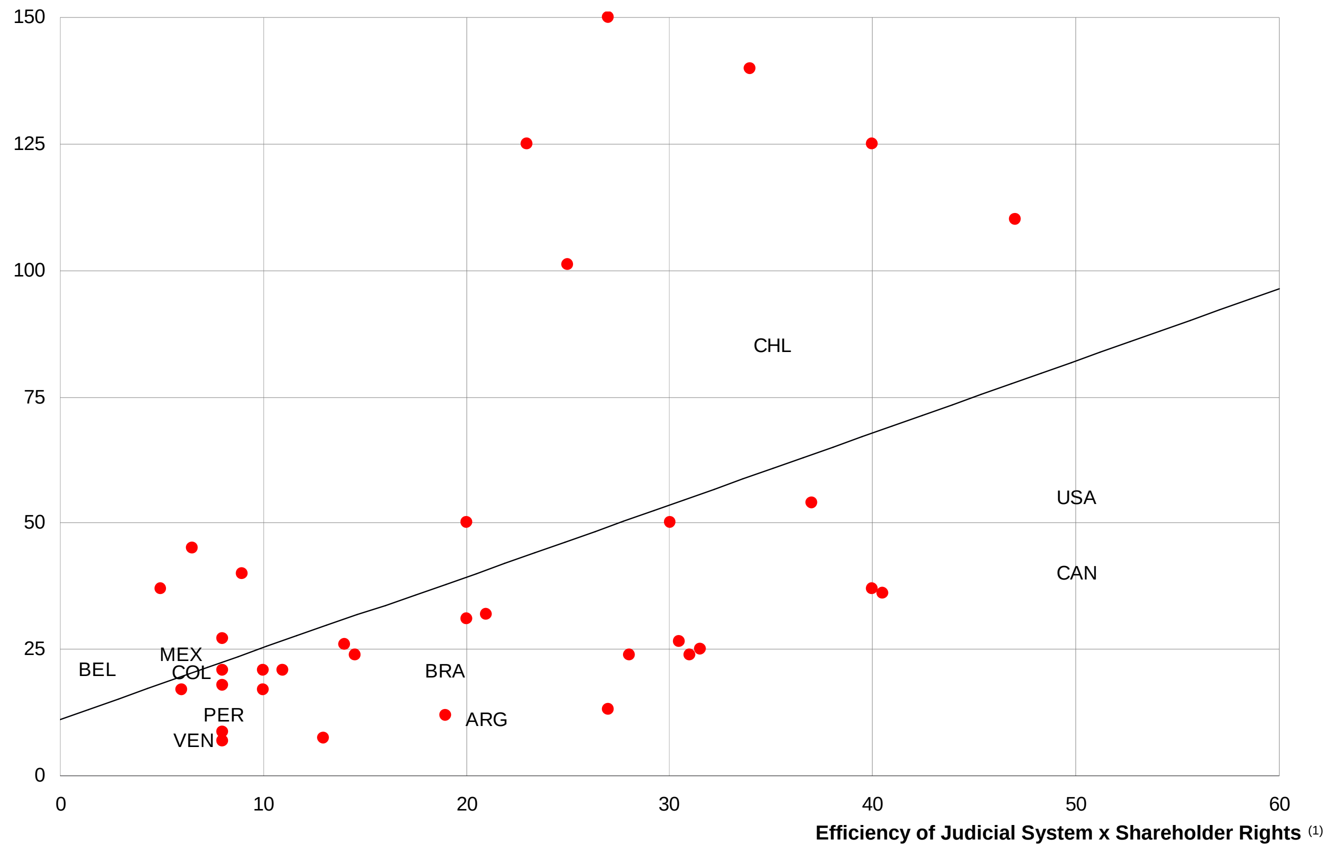
Notes
1. ROCE is normalised, g is NOPAT perpetual growth, r is the cost of capital (assumed at 8% for all peers)

Investor Protection and Transparency

- **International investors increasingly reward companies that protect shareholders' rights and operate under an efficient legal system**

Better Investor Protection ® Deeper Financial Markets

Stock Market Capitalization/GNP



Source Inter-American Investment Corporation Annual Report 2002

Notes

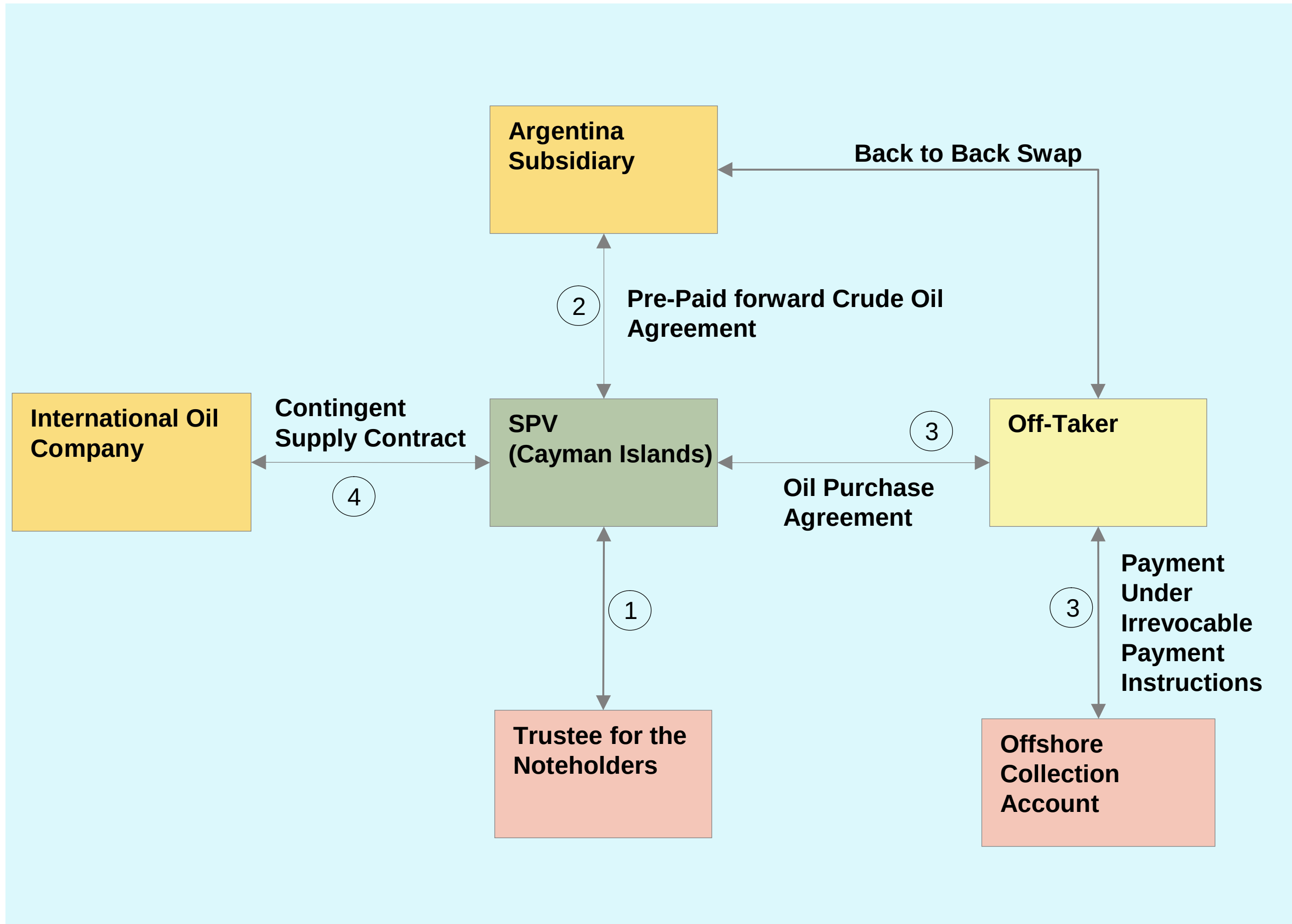
1. A measure of effective investor protection. It is computed as the efficiency of the judicial system index, which is an assessment of the efficiency and integrity of the legal environment as it affects businesses (scale from 0 to 10) times the shareholders rights index, which measures the shareholders rights as stated in the company law of each country

General Structuring Considerations for Oil & Gas Financings

- There are several ways to structure a financing for the Argentine subsidiary of an international oil company, including forward oil sales, securitization of receivables, bilateral loans, etc.
- Key issues that need to be considered when selecting a financing structure are:
  - Debt consolidation treatments under parent GAAP and United States GAAP pertaining to how certain transactions are viewed (financial or commercial) and how they may impact the parent's balance sheet and covenants
  - Tax treatment of certain structures as Argentine regulators have intensified level of scrutiny regarding tax based transactions (i.e., depending on the structure, a transaction may be subject to withholding taxes)
  - Restrictions of foreign currency flows imposed by Argentina's Central Bank regulations as some structures are more vulnerable to changes in central bank regulations and capital controls
  - Repatriation of funds from Argentina or any other jurisdiction to the parent
  - Rating agencies' and monoline insurance companies' views

Forward Oil Sale – Illustrative Transaction Structure

1. SPV issues the Notes pursuant to the Indenture with the Noteholders
2. Argentina Subsidiary enters into a forward sale of crude oil to SPV
3. Off-Taker enters into an Oil Purchase Agreement at fixed prices (“OPA”) with SPV and under irrevocable payment instruction makes payments to an offshore collection account
4. International Oil Company enters into a contingent Supply Contract with SPV, whereby International Oil Company is committed to delivering any fixed volume of oil to SPV that Argentina Subsidiary cannot deliver



Empresa Nacional de Electricidad S.A. ("Endesa-Chile")

July 18, 2003

Key Takeaways

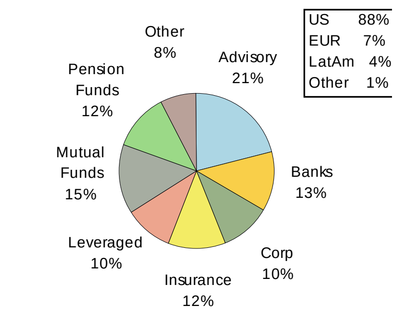
- Successful return of the Company to the capital markets after 4 years, following recent refinancing of bank debt
- Largest corporate deal in Latin America since January 2001
- YTD[1], Largest Chilean corporate transaction by a factor of 2 and largest non-government owned bond transaction in the Emerging Markets
- Transaction priced at tight end of original "Price Talk"
- First two-tranche non-sovereign issue in Latin America since Pemex in January of 2002
- Over 140 investors participated in the offering
- The total size of the investor order book was $1.6 billion
  - Original $250 MM transaction was 6.4x over-subscribed
- Transaction priced successfully despite a week of heavy volatility in UST and bond markets following Greenspan's Humphrey-Hawkins Testimony
  - 10yr UST notes fluctuated within a 45 bps range and widened 30 bps that week

Terms and Conditions

Issuer	Empresa Nacional de Electricidad S.A. ("Endesa-Chile")	
Ratings	Ba3 / BBB- / BBB-	
Amount	US$400 million	US$200 million
Maturity	August 1, 2013	August 1, 2015
Coupon	8.350%	8.625%
Issue Price	99.896	99.701
Issue YTM	8.365%	8.665%
Spread	T+440 bps	T+470 bps
UST	3.625% due 2013 (yield 3.965%)	
Distribution	144A/Reg S with Registration Rights	
Bookrunners	Morgan Stanley, Santander	

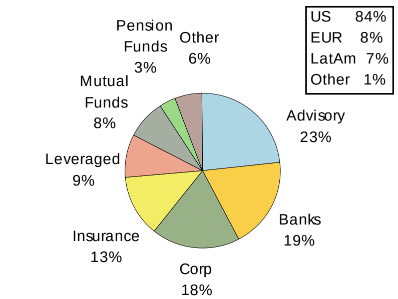
10-Year Distribution

By Investor Type



12-Year Distribution

By Investor Type

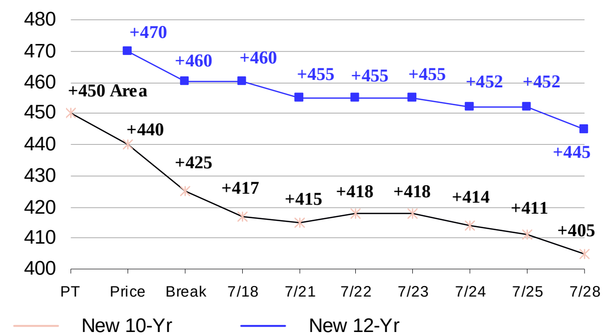


Brief Transaction Highlights

- The transaction came on the back of a very successful Roadshow, despite volatility in the US Treasury market
- This transaction helped dramatically improve the capitalization and amortization schedule of Endesa-Chile
- The buyer base was a mix of Investment Grade, Emerging Market and High Yield accounts
- Bonds tightened dramatically at the break and continued tightening substantially in the secondary market as weakness in Treasurys continued and investor demand for the credit remained focused and strong

Bond Performance

Spread to UST



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Notes

1. 1/1/03-7/18/03