

endesa chile 06

ANNUAL REPORT

ENDESA CHILE WAS CONSTITUTED AS EMPRESA NACIONAL DE ELECTRICIDAD S.A. THE PAID-IN CAPITAL OF THE COMPANY AMOUNTS TO THCH\$ 1,138,620,063, DIVIDED INTO 8,201,754,580 SHARES. ENDESA CHILE SHARES ARE TRADED ON CHILEAN STOCK EXCHANGES, THE NEW YORK STOCK EXCHANGE IN THE FORM OF AMERICAN DEPOSITARY RECEIPTS (ADR) AND THE LATIN AMERICAN STOCK EXCHANGE OF THE MADRID STOCK EXCHANGE (LATIBEX). THE PRINCIPAL ACTIVITIES OF ENDESA CHILE AND ITS SUBSIDIARIES ARE RELATED TO THE GENERATION AND SALE OF ELECTRICITY AND ALSO THE SALE OF CONSULTANCY AND ENGINEERING SERVICES OF ALL KINDS. ITS TOTAL ASSETS WERE THCH\$ 5,284,686,787 AT DECEMBER 31, 2006. ENDESA CHILE IS CONTROLLED BY THE CHILEAN COMPANY ENERSIS S.A. AND OPERATES IN THE ELECTRICITY MARKET OF FIVE COUNTRIES IN LATIN AMERICA. THE NET INCOME FOR THE YEAR 2006 WAS THCH\$ 189,541,318 AND THE OPERATING INCOME WAS THCH\$ 504,475,115. THE PERMANENT PERSONNEL EMPLOYED BY ENDESA CHILE AND ITS SUBSIDIARIES IN LATIN AMERICA AT DECEMBER 31, 2006 WERE 1,681 WORKERS.

SANTIAGO STOCK EXCHANGE: ENDESA

NEW YORK STOCK EXCHANGE: EOC

LATIBEX (MADRID): XEOC



endesachile06

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CHAIRMAN'S LETTER

TO SHAREHOLDERS

To our Shareholders,

I am pleased to present you with the annual report and financial statements of Endesa Chile for the year 2006.

And I should like to begin by sharing some thoughts which I believe are fundamental in making an analysis and which have permitted the strengthening of the undisputed leadership that Endesa Chile has had in Chilean electricity generation for decades.

One of these relates to the hydroelectric vocation of our Company. We have worked decidedly in promoting water as the source of generating clean, own-sourced, renewable, secure and economic energy; and the year 2006 has again proved us correct. The Company's first-class hydroelectric facilities, that also enabled us beat the record for generation in July, became a great support for Chile's Central Electricity Grid (SIC).

Our Ralco hydroelectric plant, with its 690 MW of capacity, was again one of the pillars of the grid. History finally proved our Company was right with respect to the need to go ahead with this undertaking, misunderstood and criticized unjustly by many, but valued in all its magnitude now. We feel that Endesa Chile is the natural energy supplier of Chile, so we have never eluded our responsibility with respect to the country's development. Furthermore, we have always placed that development foremost when taking decisions regarding new projects.

In the same area, we participated in 2006 in an original event. We joined forces with another important player in the industry, Colbún S.A., to constitute a company to develop the hydroelectric projects in Chile's 11th Region of Aysén, on the rivers Baker and Pascua. It will finally be HidroAysén, a company in which we have a 51% shareholding, which will evaluate the construction of 2,400 MW that we project for the zone.

You can be assured that HidroAysén, as the depositary of our best practices, will carry out its work with full respect for the communities in the zone and the environment. The company has an excellent group of professional, advised by prestigious institutions, who are working on the environmental and engineering study stages.

Endesa Chile, through HidroAysén, will work to present the best social and environmentally sustainable project, which is solid in terms of the energy support for the country which needs it so much.

However, Endesa Chile is much more than its participation in HidroAysén. We are also developing and studying different project alternatives, with different kinds of technology, some of which will start up during 2007.

One example is another important commitment we assumed during 2006. In September, our Company, together with Enap and Metrogas, signed the agreement defining the structure of the LNG project which we understand to be crucial for the independence of the Chilean electricity system. It is no mystery that supplies of Argentine gas will be increasingly complex so it is our duty, as the principal generators of the industry, to seek formulas for alleviating the fuel deficit which we have already faced over the last two years. In that scenario, we are convinced that LNG is an excellent alternative, which has an increasingly more extensive market and is in full development.

We have also wagered on non-conventional renewable energies (NCRE). Through our subsidiary Endesa Eco, formed especially for the development of renewable energy projects, we have presented the environmental impact assessment for the first wind turbine park to provide energy to the SIC. This is the Canela project, to be located in the 4th Region and with an installed capacity of 18.15 MW, which will enter the grid in the second half of 2007.

And the wager on renewables does not end there. Endesa Eco is also developing a mini pass-through hydroelectric plant at Ojos de Agua in the 7th Region, which will have 9 MW of capacity to be fed into the grid in 2008.

Also, following the efforts made during 2006, we shall this year be injecting new capacity through the expansion of the San Isidro plant. 220 MW will enter in open cycle during the first half, using diesel oil, and the cycle will be closed in 2008 to increase its capacity to 300 MW. But it is 2009 that will be the landmark for San Isidro II, when it will reach its full capacity of 377 MW using natural gas supplies from the LNG plant being built in Quintero and in which, as I have already said, our Company has an active participation.

During 2007 also, 32 MW will enter the grid from the Palmucho hydroelectric plant, located at the base of our Ralco plant's dam to take advantage of the ecological flow.

We also have on file the expansion of our Bocamina plant, located in the town of Coronel. In July, we submitted the scope of the project to the environmental impact evaluation system. The project consists of the construction and operation of a second generating unit of approximately 350 MW installed capacity, using coal as the fuel. The project also includes the installation of a hose filter in the first unit in order to reduce particle matter emissions.

All this shows that we are before a live company, in a full development phase, with very ambitious projects and great prospects for the future. And, why not say it, committed to continue being an important part of the engine of growth of Chile.

FINANCIAL STRENGTH

Endesa Chile produced a net income of Ch\$ 189,541 million in 2006, a 67.8% increase over the year before.

The year 2006 was also one of consolidation of our Company as investment grade. The three international agencies that rate Endesa Chile, Standard & Poor's, Fitch Credit Rating and Moody's, granted us this classification and placed us at the level that we have been working for during all these years. Endesa Chile is a world class company and the market has thus recognized it as such.

You may be assured that we shall continue to apply the same rigor as has produced such good results until now, and that our obsession about having a financially-robust company will continue to be a priority for the management.

Regarding financing, a Yankee bond for US\$ 150 million matured in April 2006 and a domestic bond for approximately US\$ 200 million matured in August. Both payments were met from the Company's own funds plus those of its subsidiaries and available sources of funds.

A revolving credit for US\$ 200 million was signed in January, with a 5.5 year term and a very competitive interest rate for the market conditions. And in December, in order to increase the Company's sources of available funds, a new revolving credit facility, also for US\$ 200 million, was signed, for a term of three years and with conditions even better than those of the January agreement.

With respect to the foreign subsidiaries, a series of transactions were carried out in 2006 to refinance short-term loans and increase the average life of the debt. These include loans signed by Edegel, in Peru, and Hidroeléctrica El Chocón, in Argentina; and the placement of bonds in the domestic markets by Edegel, in Peru, and Emgesa and Betania, in Colombia.

OPERATING RESULT

Operating income in 2006 amounted to Ch\$ 504,475 million, 25.1% more than in the previous year. The increased production reflects the favorable hydrology in the different markets where Endesa Chile operates, and the higher water levels in the reservoirs, especially in Chile.

Consolidated EBITDA (operating income plus depreciation and amortization) amounted to Ch\$ 680,889 million, a 17.7% increase over 2005. The distribution of EBITDA by country, adjusted for the shareholdings in each subsidiary, shows that Chile contributes 76.2%, Colombia 10.1%, Argentina 7.9% and Peru 5.9%.

It is important to point out that these figures do not include Endesa Cachoeira, in Brazil, which was de-consolidated at the beginning of the last quarter of 2005.

SUSTAINABILITY AND THE ENVIRONMENT

The year 2006 was very positive with respect to actions in sustainability and the environment carried out by Endesa Chile. We could say, as we have commented, that this was a period of consolidation, because the year was marked by concrete progress and external recognitions which fill all those forming part of this Company with pride.

In April 2006, Endesa Chile submitted its first communication of progress regarding the ten principles of the global compact, based on the Global Reporting Initiative (GRI). Also, the sustainability report was published for the fourth consecutive year in Chile, and the first reports were published by the subsidiaries Emgesa, Colombia, and Endesa Costanera, Argentina.

In May, our Peruvian subsidiary Edegel received the "Sustainable Development 2006" award. In July, Endesa Chile obtained ninth place in the II Ranking Prohumana and Capital Magazine, which recognizes the leading companies in corporate social responsibility.

On July 21, Endesa Chile was recognized by Acción RSE as a pioneering company with respect to the publication of sustainability reports and for its constant improvements in relations with the communities and the environment.

In September, our Company obtained an important result in the evaluation of corporate sustainability made by the agency Sustainable Asset Management (SAM Research). This Swiss agency, responsible for selecting the member companies of the Dow Jones Sustainability Indexes (DJSI), granted a rating to Endesa Chile that places it in the range of the leading global companies in this matter.

In November 2006, Endesa Chile received the Sofofa Social Responsibility 2006 prize, jointly with Gerdau Aza. This distinction, in the words of the organizers, publicly recognizes the company as the best example of integral and permanent commitment with corporate social responsibility. The award was given to Endesa Chile as a result of its outstanding efforts in environmental matters, in relations with the community, its surroundings and employees, and in the promotion of permanent specific programs directed to the communities where the Company operates.

In November also, the Company received the prize for the "Most emblematic electrical project of the decade" by the International Council of Large Electricity Networks (Cigre), stressing the contribution of our Ralco hydroelectric plant to the country's development.

In December, and in the presence of the President of the Republic, Michelle Bachelet, we inaugurated the Ralco plaza and museum, a cultural center that seeks to conserve and transmit the value, culture and history of the Pehuenche ethnic group. This initiative was promoted by our Company jointly with the Pehuén Foundation, CMPC and the municipality of Alto Bío-Bío.

With respect to certifications, the installed capacity that has the ISO 14001 standard reached 95.3%. Notable were the obtaining of their respective certifications by the Bocamina plant in Chile and Termocartagena, in Colombia, both in December.

Other important events were the solution of 16 environmental liabilities in the generating plants in South America, the carrying out of environmental inspections in all the subsidiaries, the analysis and implementation of sites for the conservation of the biodiversity at the Company's facilities and the environmental management of the different projects under construction.

CORPORATE GOVERNANCE

In April, during the “First Investors Meeting Chile 2006”, organized by Capital Magazine and Santander Investment, our Company was awarded as best in the category “Investor Relations: Companies with ADR and Large Market Capitalization”. On this occasion, Endesa Chile was noted as one of the companies that adds most value for its shareholders and for its brilliant performance in its relations with the investor community.

On November 16, on the second day of the Eighth Latibex Forum in Madrid, Endesa Chile was awarded a prize by the Affinitas alliance, led by the prestigious Spanish law firm Garrigues, as the Chilean company listed on the Latin American Securities Market (Latibex) of the Madrid Stock Exchange with the best corporate governance practices, emphasizing the Company’s efforts in good governance and transparency policies.

You may be assured that, from my position as chairman of Endesa Chile, I shall work unceasingly so that such recognitions continue to be part of the Company’s assets and that transparency in our actions continues to be one of our principal virtues.

I should like to thank you, our shareholders, for the trust you have placed in our board in directing the business of Endesa Chile. We shall use our very best efforts to maintain this Company in the place it merits and which has been earned through effort, work and tenacity: to be part of the history and the future development of this country and undisputed leader in the Latin American electricity generation industry.



MARIO VALCARCE DURÁN

Chairman

HIGHLIGHTS OF THE YEAR



Acquisition of Cartagena plant

Emgesa, subsidiary of Endesa Chile in Colombia, entered the Atlantic coast electricity generating market in February 2006, with the purchase of the assets of the generator Termocartagena S.A for approximately US\$ 17 million and the announcement of investments of US\$ 15 million to be made between 2006 and 2007. At the time of its acquisition, the plant had an installed capacity of 186 MW, distributed between three generating units that operate with fuel oil or gas, and have the possibility of being converted to coal.



First prize in Investor Relations

On April 19, 2006, during the "First Grand Investors Meeting Chile 2006", Endesa Chile won first prize in the category "Investor Relations: Companies with ADR and High Market Capitalization with Ranking in Top 100", organized by Capital Magazine and Santander Investment, distinguishing the generator as one of the companies that adds greatest value for its shareholders and shows a good performance in relations with the investor community.



Leader generator in Peru

On June 1, 2006, the merger was completed between the Peruvian subsidiary of Endesa Chile, Edegel, and Etevensa, a subsidiary of Endesa Internacional. As a result, the group consolidates its position as the leading generator in Peru in a system with growing demand and well-adapted regulations. The merger improves the generating mix, incorporating into Edegel the first combined cycle plant of 457 MW in that market using gas from Camisea.



Commitment with liquefied natural gas project

On September 29, 2006, Endesa Chile, ENAP, Metrogas and GNL Chile (in which Endesa Chile currently has a 33.33% shareholding) signed an agreement defining the structure of the liquefied natural gas (LNG) project, in which Endesa Chile has a 20% holding and which forms part of the strategy for facing the lack of gas from Argentina. In February, a letter of agreement was signed with British Gas (BG) for the development of a LNG re-gasification plant in the bay of Quintero, with its corresponding fuel supply by BG. The participations in the terminal project are 40% BG and 60% equally between Endesa Chile, ENAP and Metrogas.



Canela, the first wind generators park on the SIC

In October 2006, the 4th Region National Environmental Commission approved the environmental impact declaration for the Canela wind-turbine project, presented in June by Endesa Chile through its subsidiary Endesa Eco. This first wind-generators park on the Central Electricity Grid (SIC) will provide an annual average generation of 26,000 MWh. The wind park's generation will supply clean energy and diversify the energy matrix, through the incorporation of non-conventional renewable energies (NCRE), thus contributing to preserving the security of electricity supplies.



Sofofa Social Responsibility 2006 prize

In November 2006, Endesa Chile was the winner of the Sofofa Social Responsibility 2006 prize. This award was earned by the Company's efforts focused on environmental matters, relations with the community, its surroundings and its employees, and on the promotion of permanent and specific programs directed to the localities where it operates. In addition, there is the work carried out to communicate and achieve consensus in measures for minimizing negative aspects and maximizing the positive aspects of all its projects.



Best corporate governance practices of Chilean companies

On November 16, 2006, during the second day of the Eighth Latibex Forum in Madrid, Spain, Endesa Chile was awarded a prize by the Affinitas alliance, led by the prestigious Spanish law firm Garrigues. This award was made for having the best corporate governance practices of all the Chilean companies listed on Latibex. The award is intended to distinguish the efforts of Latin American companies in good governance and transparency policies. Endesa Chile was also distinguished in the field of corporate social responsibility (CSR).



Leading company in Corporate Social Responsibility

On July 13, 2006, Endesa Chile obtained ninth place in the II Ranking ProHumana and Capital Magazine, sponsored by the Confederación de la Producción y el Comercio de Chile (CPC), which rewards the leading companies in corporate social responsibility (CSR). The study evaluates the development and implementation of CSR from the perspective of the company's employees, reflecting the valuation, knowledge, perception and practices that they have of their companies based, in the case of Endesa Chile, on compliance with the seven commitments of the corporate sustainability policy.



Total commitment with the community and the environment

On July 21, 2006, Endesa Chile received an award from Acción RSE, stressing the leadership shown in the transparency of its corporate social responsibility performance; this through the publishing of its sustainability reports, a document that has enabled it to inform about its performance with the community and the environment.



Centrales Hidroeléctricas de Aysén S.A.

On August 31, 2006, the board of Endesa Chile agreed to the constitution of the company Centrales Hidroeléctricas de Aysén S.A. On September 6, the board of the company was appointed and on October 10, the shareholders agreement was signed which defined the capital contribution of Endesa Chile at 51%. The preparation of the environmental impact study was awarded to an international consortium formed by SWECO, POCH Ambiental and EPS. Centrales Hidroeléctricas de Aysén S.A. received the prize as the best corporate initiative 2006 by the Diario Financiero.



Excellence in Corporate Sustainable Development

In September 2006, Endesa Chile received an important result in the corporate sustainability evaluation made by the agency Sustainable Asset Management (SAM Research), the entity responsible for selecting the member companies of the Dow Jones Sustainability Indexes (DJSI), the best known indicator in the world to attract large investors committed to Corporate Sustainable Development (CSD). The rating placed the Company among the five leading electricity companies in the world in this matter. This important achievement was due to the commitment and efforts of all areas of the organization and its employees.



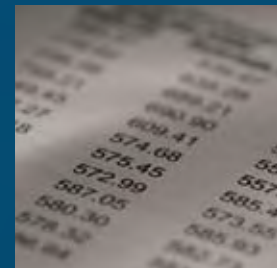
Tender process for electricity supplies

On October 31, 2006, the tender process was closed for electricity supplies for the period 2010-2024 to the distributors Chilectra, CGE Distribución S.A., Chilquinta, Emel and Saesa, where the Company had an outstanding participation. Endesa Chile and subsidiaries were awarded 6,395 GWh annually, corresponding to 100% of its offers and 59% of the total offers made, at an average monomic price of the energy at around US\$ 65 per MWh. From 2010 onward therefore, Endesa Chile will reduce its dependence on the regulated price, thus ensuring the stability of its future cash flows.



Inauguration of Ralco park and museum in Alto Bio-Bío

On December 6, 2006, and in the presence of the President of the Republic, Michelle Bachelet, the Ralco plaza and museum was inaugurated, a cultural center that seeks to conserve and transmit the value, culture and history of the Pehuenche ethnic group. This initiative was promoted by Endesa Chile and the Pehuén Foundation, together with Compañía Manufacturera de Papeles y Cartones (CMPC) and the municipality of Alto Bio-Bío.



Strong financial position

On December 14, 2006, the international credit-rating agency Moody's Investors Service granted Endesa Chile its Baa3 rating, with stable prospects, with which the Company consolidated its investment grade position with the principal rating agencies. The generator is thus in a stronger position in the international capital markets and for its future financing requirements and has managed to obtain a reduction in the spreads on its Yankee bonds in the secondary market.

MANAGEMENT



CHAIRMAN

Mario Valcarce Durán
Commercial Engineer
Universidad Católica de
Valparaíso
Tax No.: 5,850,072-8



VICE CHAIRMAN

Pedro Larrea Paguaga
Mining Engineer
Universidad Politécnica
de Madrid
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DIRECTORS

Jaime Bauzá Bauzá
Civil Engineer
Pontificia Universidad
Católica de Chile
Tax No.: 4,455,704-5



Héctor López Vilaseco
Degree in Law and
Economics
ICADE, Madrid
Tax No.: 14,738,725-3

DIRECTORS

The company is managed by a board of directors composed of nine members elected at the shareholders' meeting. The directors are elected for a term of three years and may be re-elected.

The present board was appointed at the ordinary shareholders' meeting held on March 21, 2006 except for Mario Valcarce Durán and Pedro Larrea Paguaga who were appointed at the ordinary board meeting held on October 26, 2006, in replacement of Luis Rivera Novo and Antonio Pareja Molina.



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Leonidas Vial Echeverría
 Vice Chairman of Santiago
 Stock Exchange
 Tax No.: 5,719,922-9

DIRECTORS' REMUNERATION

In accordance with clause 50 bis of the Corporations Law, the ordinary shareholders' meeting determines the remuneration and expense budget of the members of the Directors' Committee.

DIRECTORS' REMUNERATION RECEIVED DURING 2006

(Thousands of Pesos)

Director	Endesa Chile	Subsidiaries	Directors' Committees (1)	Profit Sharing	TOTAL
Mario Valcarce Durán (2)	8,343	1,601	1,322	-	11,266
Pedro Larrea Paguaga (3)	6,257	-	-	-	6,257
Enrique García Álvarez	20,685	-	2,641	-	23,326
José Fernández Olano	20,024	-	2,641	-	22,665
Carlos Torres Vila	18,044	-	-	-	18,044
Héctor López Vilaseco	20,685	-	-	-	20,685
Jaime Bauzá Bauzá	20,685	-	9,901	-	30,586
Jaime Estévez Valencia (4)	17,343	-	6,599	-	23,942
Antonio Tuset Jorratt (5)	3,342	-	1,984	-	5,326
Leonidas Vial Echeverría	18,705	-	-	-	18,705
Luis Rivera Novo (6)	34,348	-	6,599	-	40,947
Antonio Pareja Molina (7)	20,812	-	-	-	20,812
TOTAL	209,273	1,601	31,687	-	242,561

(1) Relates to the remuneration received as a member of the Directors' and Audit Committees.

(2) Mario Valcarce Durán is a director of Endesa Chile since October 26, 2006.

(3) Pedro Larrea Paguaga is a director of Endesa Chile since October 26, 2006.

(4) Jaime Estévez Valencia is a director of Endesa Chile since March 2006.

(5) Antonio Tuset Jorratt was a director of the Company until February 2006.

(6) Luis Rivera Novo was a director of the Company until October 26, 2006.

(7) Antonio Pareja Molina was a director of the Company until October 26, 2006.

REPORT OF THE DIRECTORS' COMMITTEE

In accordance with clause 50 bis of the Corporations Law, introduced by Law 19,705, published in the Official Gazette on December 20, 2000, an extraordinary board meeting of Endesa Chile, held on March 21, 2006, elected the present members of the Directors' Committee of Empresa Nacional de Electricidad S.A., these being Luis Rivera Novo, Jaime Bauzá Bauzá and Jaime Estévez Valencia. On October 26, 2006, at the Company's ordinary board meeting No.1375, and as a result of the resignation as a director and the chairman of the Company by Luis Rivera Novo, the director Mario Valcarce Durán was appointed as a member of the Directors' Committee. Mr Mario Valcarce is related to the controlling group of the Company and the directors Jaime Bauzá and Jaime Estévez are independent directors in accordance with the Corporations Law.

The Directors' Committee met on 12 occasions during 2006, basically examining the Company's operations and contracts with related companies and generally reporting on the matters referred to in clause 50 bis of the Corporations Law, and reporting its resolutions to the Company's board.

Among the special matters on which the Directors' Committee pronounced, notable for its importance was the approval of the merger of the related company Endesa Brasil S.A. with the related company Endesa Internacional Limitada, as well as the approval of the merger, currently being developed at the time of this report, of the Colombian subsidiaries Emgesa S.A. and Central Hidroeléctrica de Betania S.A. Both mergers were approved by the Directors' Committee on seeing that these reflected market conditions, in accordance with clause 50 bis of Law 18,046, and therefore were reported favorably to the board of Endesa Chile for the latter's formal approval.

The ordinary shareholders' meeting of Endesa Chile held on March 21, 2006 adopted the following resolution regarding the remuneration and budget of the Directors' Committee: set a remuneration for attendance at meetings of 36 Unidades de Fomento, with a limit of 12 remunerated meetings each year, and an annual expense budget of 2,729 Unidades de Fomento.

During 2006, the members of the Directors' Committee were remunerated with a total of 1,296 Unidades de Fomento.

In 2006, the Directors' Committee made no use of the annual expense budget set by the shareholders' meeting.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee of Empresa Nacional de Electricidad S.A. was created by board resolution No.1358-6 adopted at its ordinary meeting held on June 30, 2005, in accordance with the requirements of the United States Sarbanes Oxley Act and the complementary regulations issued by the Securities and Exchange Commission (SEC) and the New York Stock Exchange (NYSE), as Endesa Chile is an issuer of American Depositary Receipts (ADR) which are duly registered on the New York Stock Exchange, and also a bonds issuer registered on that market.

The most relevant functions of the Audit Committee include (i) to be one of the proponents to shareholders meetings in the appointment and remuneration of the external auditors, (ii) to control the work of the Company's external auditors, (iii) to approve in advance the external audit services to be provided by the external auditors and (iv) to establish procedures for the receipt and handling of complaints relating to accounting, internal control and audit matters.

On March 21, 2006, the board appointed the following directors as members of the Audit Committee of Endesa Chile: Enrique García Alvarez, who chairs the Committee, Jaime Bauzá Bauzá, and José María Fernández Olano who was appointed as the Committee's financial expert.

The Audit Committee met on four occasions during 2006, pronouncing on matters of its competence, including the follow-up of the internal control letter from the external auditors and the internal certification process for the purposes of Section 404 of the United States Sarbanes Oxley Act, to:

- Evaluate the design and operational effectiveness of the controls of documented financial reports of Endesa Chile and its respective subsidiaries.
- Identify control weaknesses that might compromise the result of the internal control model certification in order to comply with Section 404 of 2007 and establish the respective action plans for arriving at a quick solution of these points.
- Improve the documentation of the group internal control model (documentation of processes and controls not updated or incomplete, processes not yet documented, etc.)
- Train the user areas in their understanding and knowledge of the internal certification process that has to be made to comply with the requirements of the Sarbanes Oxley Act.

The Company's Audit Committee considered and resolved complaints received through the Company's ethics channel and approved the services provided by the external auditors other than the regular audit services.

On March 21, 2006, the ordinary shareholders meeting agreed to set the remuneration and budget of the Audit Committee, being a remuneration for attending meetings of 36 Unidades de Fomento, with a limit of 12 remunerated meetings a year and an annual expenses budget of 2,729 Unidades de Fomento.

During 2006, the members of the Audit Committee were remunerated with a total of 576 Unidades de Fomento.

In 2006, the Audit Committee made no use of the annual expense budget set by the shareholders' meeting.



Huampani, Peru.

PRINCIPAL EXECUTIVES



CHIEF EXECUTIVE OFFICER

Rafael Mateo Alcalá
Industrial Engineer
Escuela Técnica Superior
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COMMUNICATIONS

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Tax No.: 10,871,675-4

GENERAL COUNSEL

Carlos Martín Vergara
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Universidad Católica de Valparaíso
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ADMINISTRATION AND FINANCE

Manuel Irrázaval Aldunate
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Pontificia Universidad Católica de Chile
Tax No.: 7,011,664-2

HUMAN RESOURCES

Juan Carlos Mundaca Álvarez
Commercial Engineer
Universidad de Santiago
Tax No.: 7,160,389-K

PLANNING AND CONTROL

Julio Valbuena Sánchez
Engineer in Roads, Canals and Ports
Universidad Politécnica de Madrid
Tax No.: 21,188,517-3

TRADING AND SALES

José Venegas Maluenda
Civil Industrial Engineer
Pontificia Universidad Católica de Chile
Tax No.: 7,893,919-2

ENERGY PLANNING

Rafael Errázuriz Ruiz-Tagle
Civil Engineer
Universidad de Santiago
Tax No.: 7,003,379-8

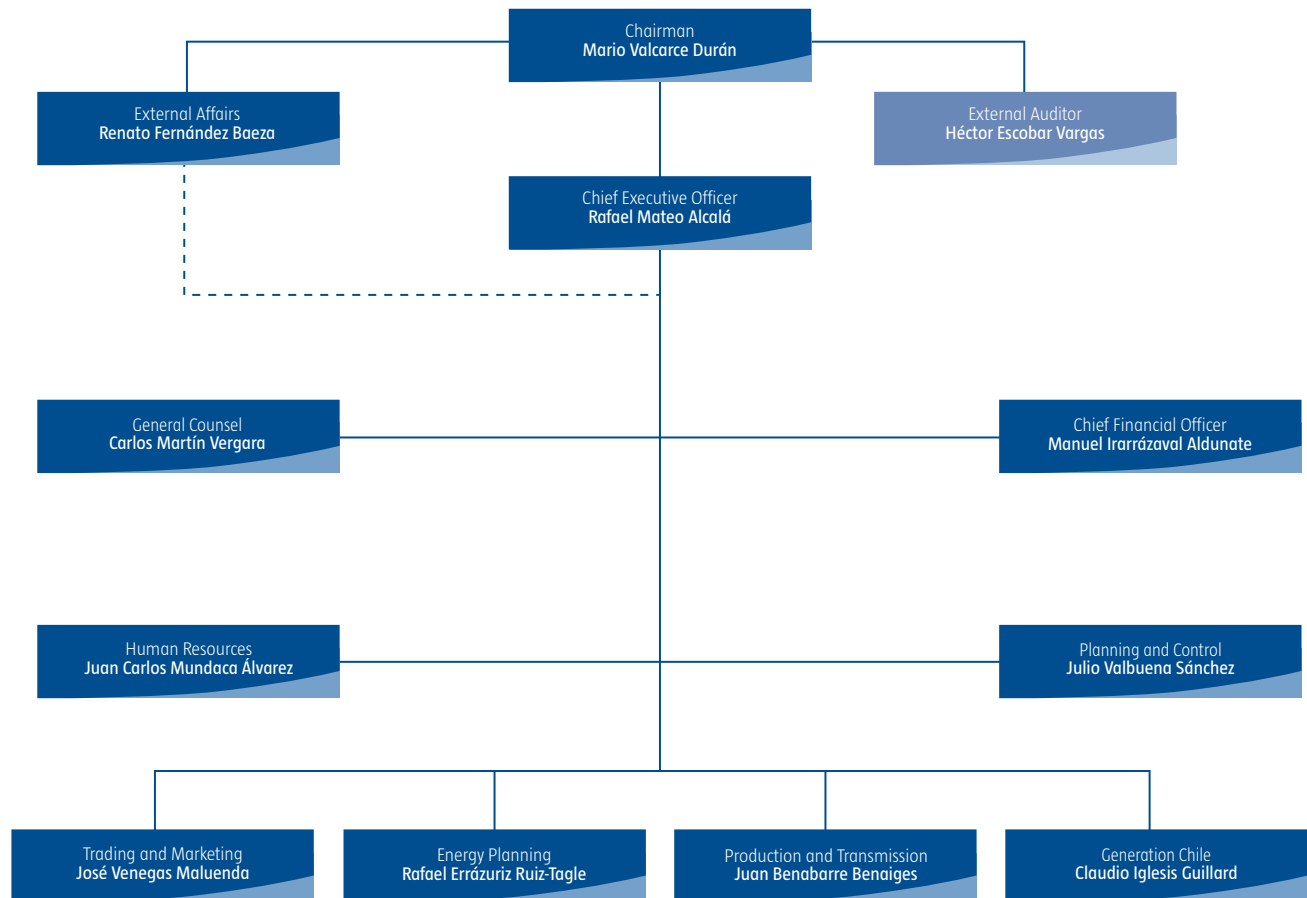
PRODUCTION AND TRANSMISSION

Juan Benabarre Benaiges
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Tax No.: 5,899,848-6

GENERATION CHILE

Claudio Iglesias Guillard
Civil Electrical Engineer
Universidad de Chile
Tax No.: 7,289,154-6

ORGANIZATION STRUCTURE



REMUNERATION OF THE PRINCIPAL EXECUTIVES AND MANAGERS

The total remuneration received by the principal executives and managers of Endesa Chile, whether or not they report directly to the chief executive officer, amounted to Ch\$ 2,284,180,630 in 2006.

INCENTIVE PLAN

Endesa has an annual bonus plan for its executives based on meeting objectives and the level of individual contributions to the Company's results. This plan includes a definition of ranges of bonuses according to the hierarchical level of the executives. The bonuses paid to the executives consist of a certain number of gross monthly remunerations.

SEVERANCE INDEMNITIES

No severance indemnities were paid in 2006 to the company's senior executives.

MANAGEMENT OF THE PRINCIPAL SUBSIDIARIES

GENERATION ARGENTINA

José Miguel Granged Bruñen

Industrial Engineer

Escuela Técnica Superior de Ingenieros Industriales de Zaragoza

Argentine passport: 93,797,057

GENERATION BRAZIL

Francisco Bugallo Sánchez

Electrical Engineer

Universidad de Cartagena, Spain

Spanish passport: 33224179-N

GENERATION COLOMBIA

Lucio Rubio Díaz

Degree in Economic and Business Sciences

University of Santiago de Compostela

Spanish passport: 32642408-A

GENERATION PERU

José Griso Gines

Merchant Marine Captain

Sub Secretaría de Marina Mercante

Spanish passport: 32401928-B

INGENDESA

Rodrigo Alcaíno Mardones

Civil Structural Engineer

Universidad de Chile

Tax No.: 6,130,728-1



Butterfly Valve, Ralco, Chile.



CORPORATE GOVERNANCE

Endesa Chile is managed by its Executive Officers under the direction of its Board of Directors which, in accordance with the by-laws, or articles of incorporation and by-laws, of Endesa Chile, consists of nine directors who are elected at the annual regular shareholders meeting. Each director serves for a three - year term and the term of each of the nine directors expires on the same day. However, the directors can be reelected indefinitely. Staggered terms are not permitted under Chilean law. If a vacancy occurs on the board during the three - year term, the Board of Directors may appoint a temporary director to fill the vacancy. In addition, the vacancy will trigger an election for every seat on the Board of Directors at the next Regular Annual Shareholders' Meeting. The current Board of Directors was elected in March 2006. Nevertheless, during that year, two vacancies occurred, and therefore, a new Board of Directors must be elected in the Annual Regular Shareholder's Meeting that took place on April 24, 2007. See Item 6.A – Directors and Senior Management, for more details on the disclosure of the terms of the directors' offices. The members of the Board of Directors do not have service contracts with Endesa Chile or any of its affiliates that provide benefits upon termination of employment.

Chilean corporate law provides that a company's Board of Directors is responsible for the management, administration and representation of a company in all matters concerning its corporate purpose, subject to the provisions of the company's by-laws and the stockholders' resolutions. In addition to the by-laws, the Board of Directors of Endesa Chile has adopted regulations and policies that guide our corporate governance principles. The most important of these regulations and policies are the following:

The Internal Regulations on Conduct in Securities Markets was approved by the Board on June 2002, which determines the rules of conduct that must be followed by members of the Board of Directors, senior management and other managers and employees who, due to the nature of their job responsibilities, may have access to sensitive or confidential information, with a view to contributing to transparency and to the protection of investors. These regulations are

based on the principles of impartiality, good faith, placing the company's interests before one's own, and care and diligence in using information and acting in the securities markets.

The Charter Governing Executives ("Estatuto del Directivo"), approved by the Board in July 2003, and the Employees Code of Conduct, which explain our principles and ethical values, establish the rules governing dealings with customers and suppliers, and establish the principles that should be followed by employees in their work: ethical conduct, professionalism and confidentiality. They also impose limitations on the activities our senior executives and other employees may undertake outside the scope of their employment with us, such as non-compete limitations.

The Bases of Corporate Governance of Endesa Chile ("Bases del Gobierno Corporativo"), approved by the Board of Directors in February 28, 2005 has four principal purposes:

1. Commit the efforts of the Board and Management to focus on maximizing the value of the company for all its shareholders, and also for its employees, customers and suppliers;
2. Reaffirm the Board's duty to provide guidelines for the Management to attain the best practices at each level of the Organization;
3. Emphasize one of the most important objectives of the Board which is to make known the company's Vision, its Objectives and the Strategy for achieving them;
4. Emphasize the responsibility of the Board to continuously control the performance of the Management in line with the company's Vision and Strategy.

The aforementioned regulations and rules reflect our core principles of transparency, respect for stockholders' rights, and the duty of diligence and loyalty of the directors imposed by Chilean law.

COMPLIANCE WITH NYSE LISTING STANDARDS ON CORPORATE GOVERNANCE

The following is a summary of the significant differences between our corporate governance practices and those applicable to domestic issuers under the corporate governance rules of the New York Stock Exchange.

Independence and Functions of the Audit Committee: Under the NYSE corporate governance rules, all members of the Audit Committee must be independent. We are subject to this requirement as of July 31, 2005.

Under the NYSE corporate governance rules, the audit committee of a U.S. company must perform the functions detailed in the NYSE Listed Company Manual Rules 303A.06 and 303A.07. Non-U.S. companies have been required to comply with Rule 303A.06 beginning July 31, 2005. Non-U.S. companies are not required to comply with Rule 303A.07. As of July 31, 2005 we comply with the independence and the functional requirements of Rule 303A.06. As required by the Sarbanes Oxley Act and the NYSE corporate governance rules, on June 29, 2005, the Board of Directors of Endesa Chile created an Audit Committee, composed of three directors, who are also directors of the company. The current directors of this Committee, who satisfy the requirements of independence of NYSE are: Enrique García, José María Fernández and Jaime Bauzá. Mr. José María Fernández, is relying on the exemption provided by Rule 10A-3(b)(1)(iv)(B). Mr. Fernández sits on the board of directors of Endesa Internacional, S.A., an affiliate of the Company. Mr. Fernández otherwise meets the independence requirements of Rule 10A-3(b)(1)(ii).

As required by Chilean Law, Endesa Chile also has a Directors' Committee composed of three members of the Board. Although Chilean Law requires that a majority of the Directors' Committee (two out of three members) must

be composed of directors who were not nominated by the controlling shareholder and did not seek votes from the controlling shareholder (a "non-control director"), it permits the Directors' Committee to be composed of a majority or even a unanimity of control directors, if there are not sufficient non-control directors on the board to serve on the committee. Currently, our Directors' Committee is composed of two non-control directors and of one director appointed by the controlling shareholder.

Our Directors' Committee performs the following functions:

- Examination of Annual Report, Financial Statements and the Reports of the External Auditors and Inspectors of the Accounts;
- Formulation of the proposal to the Board of Directors for the selection of external auditors and private rating agencies;
- Examination of information related to operations by the Company with related parties and/or related to operations in which the Company board members or relevant executive officers may have personal interest;
- Examination of the compensation framework and plans for managers and executive officers; and
- Any other function mandated to the committee by the by-laws, the board of directors or the shareholders of the company.

The current members of this Committee are Mario Valcarce D., Jaime Bauzá B. and Jaime Estévez V.

By agreement adopted by the Special Shareholders' Meeting held on March 21, 2006, a new chapter was included in the Endesa Chile's by-laws, which refers to the "Directors' Committee and Audit Committee" See "Item 19, exhibit 1.1. By-laws" for details or visit our website.

CORPORATE GOVERNANCE GUIDELINES

The NYSE's corporate governance rules require listed companies to adopt and disclose corporate governance guidelines. Although Chilean law does not contemplate this practice, other than with respect to the codes of conduct described above, the Company establishes guidelines in The Bases of Corporate Governance of Endesa Chile ("Bases del Gobierno Corporativo"), approved by the Board of Directors in February 2005.



Abanico, Chile.

KEY DATA

ON ENDESA CHILE CONSOLIDATED

As of December 31 of each year	2002	2003	2004	2005	2006
IN ARGENTINA					
Number of employees	284	283	311	311	316
Number of generating plants	5	5	5	5	5
Installed capacity (MW)	3,622	3,622	3,623	3,624	3,639
Electricity generated (GWh)	7,291	7,997	11,290	12,333	13,750
Energy sales (GWh)	7,897	9,259	11,604	12,579	13,926
IN BRAZIL (1)					
Number of employees	52	53	53	-	-
Number of generating plants	1	1	1	-	-
Installed capacity (MW)	658	658	658	-	-
Electricity generated (GWh)	2,467	3,024	3,262	2,645	-
Energy sales (GWh)	3,591	3,770	3,902	2,898	-
IN CHILE					
Number of employees	818	708	725	765	789
Number of generating plants	20	21	22	22	22
Installed capacity (MW)	3,935	3,763	4,477	4,477	4,477
Electricity generated (GWh)	16,286	16,524	16,797	18,764	19,973
Energy sales (GWh)	18,344	18,681	18,462	20,731	20,923
IN COLOMBIA					
Number of employees	315	319	319	326	376
Number of generating plants	8	9	10	11	11
Installed capacity (MW)	2,735	2,589	2,609	2,657	2,779
Electricity generated (GWh)	10,699	10,794	11,881	11,864	12,564
Energy sales (GWh)	14,639	14,481	15,148	15,077	15,327
IN PERU					
Number of employees	154	152	154	158	200
Number of generating plants	8	8	8	8	9
Installed capacity (MW)	1,003	967	967	969	1,426
Electricity generated (GWh)	4,279	4,287	4,136	4,516	6,662
Energy sales (GWh)	4,158	4,443	4,328	4,600	6,767
(Millions of constant Chilean pesos as of December 31, 2006)					
Total assets	7,144,273	5,925,517	5,624,786	4,976,835	5,284,687
Total liabilities	3,937,042	2,986,888	2,772,770	2,346,577	2,555,188
Minority interest	1,640,626	1,320,277	1,192,505	953,512	935,188
Shareholders' equity	1,566,606	1,618,352	1,659,511	1,676,746	1,794,310
Sales	1,027,258	997,769	1,092,305	1,146,623	1,337,121
Cost of sales	(608,390)	(596,794)	(665,531)	(704,081)	(793,260)
Operating income	379,131	367,013	390,339	403,154	504,475
Non-operating result	(343,213)	(194,077)	(174,645)	(158,384)	(124,204)
Net income	(10,204)	84,710	88,628	112,946	189,541
Current ratio	0.48	0.84	1.27	0.54	0.91
Debt ratio (2)	1.23	1.02	0.97	0.89	0.94

(1) On September 30, 2005, following the formation of the holding company Endesa Brasil S.A., Centrais Eléctricas Cachoeira Dourada S.A. ceased to be a subsidiary of Endesa Chile and became a subsidiary of Enersis S.A. As from 2005, the workforce and installed capacity of the Cachoeira Dourada plant in Brazil have not been included. The table therefore shows the generation and sales of Cachoeira Dourada for the first nine months of 2005.

(2) Total liabilities / Shareholders' equity plus minority interest.



THE COMPANY

Name
Kind of Entity
Tax No.
Address

Telephone
Fax

PO Box
Web Site
Investor Relations Telephone
Investor Relations Fax
External Auditors

Empresa Nacional de Electricidad S.A. (ENDESA or ENDESA CHILE)
A Chilean Corporation (Sociedad Anónima Abierta)
91.081.000-6
Santa Rosa 76
833-0099 SANTIAGO
(56-2) 6309000
(56-2) 6354720
(56-2) 6353938
1392, Santiago
www.endesa.cl
6342329
6354980
Ernst & Young Serv. Prof. de Auditoría Ltda.

CONSTITUTION

DOCUMENTS

Empresa Nacional de Electricidad S.A. was constituted by public deed dated December 1, 1943 signed before the Santiago notary Luciano Hiriart Corvalán.

By Ministry of Finance Supreme Decree 97 of January 3, 1944, its existence was authorized and its bylaws approved which stated that the objects of the company were to exploit the production, transport and distribution of electricity and, in particular, to carry out the Country Electrification Plan approved by the council of Corfo at its meeting No.215 of March 24, 1943.

The extracts of the mentioned corporate deed and decree were published together in the Official Gazette of January 13, 1944 and inscribed in the Santiago Trade Register (folio 61 N° 62 and 65 N° 63 respectively) on January 17, 1944.

It was declared legally established by Ministry of Finance Supreme Decree 1,226 of February 23, 1945, published in the Official Gazette on March 6, 1945 and inscribed in the Santiago Trade Register (folio 727 N° 532) on March 16 that year.

The bylaws of the Company have suffered numerous modifications among which was that of 1980 which eliminated its objectives of carrying out the country's electrification plan, which responsibility the law assigned to the National Energy Commission; that of 1982, which adapted the bylaws to Law 18,046, the new Corporations Law; that of 1987, which adapted the bylaws to the terms of Decree Law 3,500 of 1980, thereby permitting the resources of the pension funds to be invested in the company's shares; and that of 1988 which expanded the company's objects to include the provision of consultancy services.

The modification of 1992 should also be mentioned which again expanded the objects, expressly permitting the company to make investments in financial assets, develop projects and carry out activities in the energy field and others in which electricity is essential and to participate in public works infrastructure concessions in the civil or hydraulic areas, either directly or through subsidiary or related companies, in both Chile and abroad; also that of 1994 which added to its bylaws the trading name of Endesa, increased its capital so that part of this could be placed in the international markets through the ADR mechanism in any of its forms, and adapted the bylaws to the new provisions introduced by Law 19,301 to Decree Law 3,500 of 1980 which permitted, among other things, an increase in the maximum percentage of share concentration to 26%; that of 1995 which modified the arbitration system, allowing difficulties between shareholders or among these and the company or its managers to be settled alternatively by arbitration or the ordinary courts of justice; that of 1999 which permitted an increase in the maximum percentage of share concentration to 65% of the capital with voting rights of the company; that of 2005 which modified the bylaws by incorporating the trading name of Endesa Chile in addition to that of Endesa; and that of 2006 which added to the bylaws a new title called "Directors Committee and Audit Committee" in order to include in the bylaws a series of regulations with respect to the Directors' Committee, as referred to in Law 18,046, and to the Audit Committee which the board of the Company created to meet the provisions of the United States Sarbanes Oxley Act, to which the Company is subject as it has ADR and bonds registered in that market.



HISTORICAL

SUMMARY

Empresa Nacional de Electricidad S.A. was created on December 1, 1943 as a subsidiary company of the fiscal entity Corporación de Fomento de la Producción (Corfo) in order to carry out the country's electrification plan, including the generation, transport, production and distribution of electricity.

For 42 years, Endesa Chile belonged to the state of Chile and achieved a preponderant role in the sector, becoming one of the country's largest companies and the basis of the nation's electricity development. Investments were substantial, and important engineering, electrification and irrigation works were carried out.

In the mid 1980s, as a result of the privatization policy followed by the Chilean government at that time, Endesa Chile was instructed to prepare itself for privatization for which it was separated from its distribution activities, and was adapted so that the pension funds and individuals could become shareholders in the company.

The privatization process was carried out starting in 1987 with a series of public offers. Given the size of the company for the domestic market, the process was only completed in 1989. Following its privatization, important changes were made to the organization which was restructured as a holding company with subsidiaries, to better control the different businesses of the company.

In May 1992, the company's internationalization process was begun with the acquisition through consortia of Central Costanera S.A. (today Endesa Costanera S.A.) and later, in August 1993, of Hidroeléctrica El Chocón S.A., both in Argentina. In October 1995, Edegel S.A.A. was acquired in Peru. In December 1996, Central Hidroeléctrica de Betania S.A. E.S.P. was acquired and later, in September 1997, in a consortium with the Spanish parent company, Endesa, Emgesa S.A. E.S.P., both in Colombia. Lastly, in September 1997, Centrais Elétricas Cachoeira Dourada S.A., Brazil was acquired.

On July 27, 1994, the shares of Endesa Chile began to be traded on the New York Stock Exchange (NYSE), with the ticker symbol EOC.

In May 1999, Enersis S.A., a subsidiary of Endesa Spain, which at that time held 25.3% of Endesa Chile's share capital, acquired on the Santiago Stock Exchange and in the US markets, through a tender process, an additional 34.7 % of the company to give it control of the Company.

On December 17, 2001, Endesa Chile's shares began to be traded on the Madrid Stock Exchange through the Latin American Securities Market (Latibex), under the ticker symbol XEOC.

In September 2004, Endesa Chile started up its 690 MW Ralco hydroelectric plant. This represented a 20% increase in the installed capacity of Endesa Chile and subsidiaries on the SIC, and a 6% increase in Chile's total installed capacity.

On September 13, 2004, Endesa Chile signed a letter of adhesion to the United Nations Global Compact, an international initiative by which the Company committed itself to adopt ten universal basic principles related to respect for human rights, labor regulations, the environment and the fight against corruption.

On April 18, 2005, Endesa Chile constituted the subsidiary called Endesa Eco S.A. to promote and develop renewable energy projects like mini-hydroelectric plants, wind, geothermal, solar and biomass energy plants, and also to act as depositary and trader of emission reduction certificates obtained by these projects.

Effective October 1, 2005, Endesa Chile ceased to consolidate Centrais Eléctricas Cachoeira Dourada S.A. and contributed its holding in Companhia de Interconexão Energética S.A. (CIEN) to the formation of a new company called Endesa Brasil S.A. This new entity also comprises the assets contributed by Endesa Internacional, Enersis and Chilectra and contemplates the advantages associated with a larger size in a market the size of Brazil. As from October 2005, Endesa Brasil S.A. is included in the financial statements of Endesa Chile as an investment in related companies, with a shareholding at December 31, 2006 of 37.65%.

On March 2, 2006, the subsidiary of Endesa Chile in Colombia, Emgesa, completed the purchase of the assets of Termocartagena, located on the Atlantic coast, at its minimum price under a tender process of close to US\$ 17 million, reaching an installed capacity at December 31, 2006 of 142 MW.

On June 1, 2006, the merger was completed between the subsidiary of Endesa Chile in Peru, Edegel, and Etevensa, a subsidiary of Endesa Internacional, with which Edegel raised its installed capacity to 1,426 MW at December 31, 2006, with the incorporation of the Ventanilla plant that added 457 MW.

Endesa Chile, directly and through its subsidiaries, currently operates 47 plants in Latin America, with an installed capacity 12,320 MW, being one of the largest electricity generating companies in the region.

HOLDINGS IN SUBSIDIARY

AND RELATED COMPANIES

SUBSIDIARY COMPANIES	% HOLDING	
	2005	2006
IN ARGENTINA		
Endesa Costanera S.A.	64.26	64.26
Hidroeléctrica El Chocón S.A.	47.44	47.44
Endesa Argentina S.A.	99.99	99.99
Hidroinvest S.A.	69.92	69.92
IN BRAZIL		
Endesa Brasil Participacoes Ltda.	100.00	100.00
Ingendesa Do Brasil Ltda.	99.99	99.99
IN CHILE		
Empresa Eléctrica Pehuenche S.A. (Pehuenche S.A.)	92.65	92.65
Empresa Eléctrica Pangué S.A. (Pangué S.A.)	94.98	94.98
Compañía Eléctrica Tarapacá S.A. (Celta S.A.)	100.00	100.00
Compañía Eléctrica San Isidro S.A. (San Isidro S.A.)	100.00	100.00
Empresa de Ingeniería Ingendesa S.A. (Ingendesa)	99.99	99.99
Sociedad Concesionaria Túnel El Melón S.A.	99.96	99.96
Endesa Inversiones Generales S.A. (Enigesal)	99.96	99.96
Inversiones Endesa Norte S.A.	100.00	100.00
Endesa ECO S.A.	100.00	100.00
IN COLOMBIA		
Emgesa S.A. E.S.P. (Emgesa) (1)	22.42	23.45
Central Hidroeléctrica de Betania S.A. E.S.P. (1)	85.62	99.99
IN PERU		
Edegel S.A.A. (Edegel) (2)	37.90	33.06
Generandes Perú S.A.	59.63	59.63
IN PANAMA & CAYMAN ISLANDS		
Compañía Eléctrica Cono Sur S.A.	100.00	100.00
Endesa Chile Internacional	100.00	100.00

(1) In 2006, the minority interest in Central Hidroeléctrica de Betania S.A. E.S.P was bought.

(2) The reduction in the holding in Edegel in 2006 is explained by the absorption of Etevensa and the consequent reduction in the holding of Generandes Perú in Edegel.

RELATED COMPANIES	% HOLDING	
	2005	2006
IN ARGENTINA		
Comercializadora de Energía del Mercosur S.A. (CEMSA)	45.00	45.00
Compañía de Transmisión del Mercosur S.A. (CTM) (1)	37.85	37.65
Transportadora de Energía S.A. (TESA) (1)	37.85	37.65
Termoeléctrica Manuel Belgrano S.A. (2)	11.98	10.82
Termoeléctrica José de San Martín S.A. (2)	11.98	10.82
IN BRAZIL		
Endesa Brasil S.A. (1)	37.85	37.65
Centrais Elétricas Cachoeira Dourada S.A. (1)	37.71	37.50
Compañía de Interconexión Energética S.A. (Cien) (1)	37.85	37.65
Ampla Energia e Serviços S.A. (1)	17.75	17.65
Ampla Investimentos E Serviços S.A. (1)	17.75	17.65
Companhia Energética Do Ceará (Coelce) (1)	18.14	18.04
CGTF-Central Geradora Termelétrica Fortaleza S.A. (1)	37.85	37.65
Investluz S.A. (1)	30.53	30.37
IN CHILE		
Electrogas S.A.	42.50	42.50
Transmisora Eléctrica de Quillota Ltda. (Transquillota)	50.00	50.00
Inversiones GasAtacama Holding Limitada	50.00	50.00
GasAtacama S.A. (GasAtacama)	50.00	50.00
Gasoducto Atacama Chile S.A. (Gasoducto Atacama Chile)	50.00	50.00
GasAtacama Generación S.A. (Gasatacama Generación)	50.00	50.00
Gasoducto Atacama Argentina S.A. (Gasoducto Atacama Argentina)	50.00	50.00
Inversiones Electrogas S.A.	42.50	42.50
Gasoducto Taltal S.A.	50.00	50.00
Consorcio Ingendesa-Minmetal Ltda.	50.00	50.00
Sociedad Consorcio Ingendesa-Ara Ltda.	50.00	50.00
Consorcio Ara-Ingendesa Ltda.	50.00	50.00
Progas S.A.	50.00	50.00
GNL Chile S.A. (2) (3)	23.57	33.33
Centrales Hidroeléctricas de Aysén S.A. (2) (4)	-	51.00
IN CAYMAN ISLANDS		
Energex Co.	50.00	50.00
Atacama Finance Co.	50.00	50.00

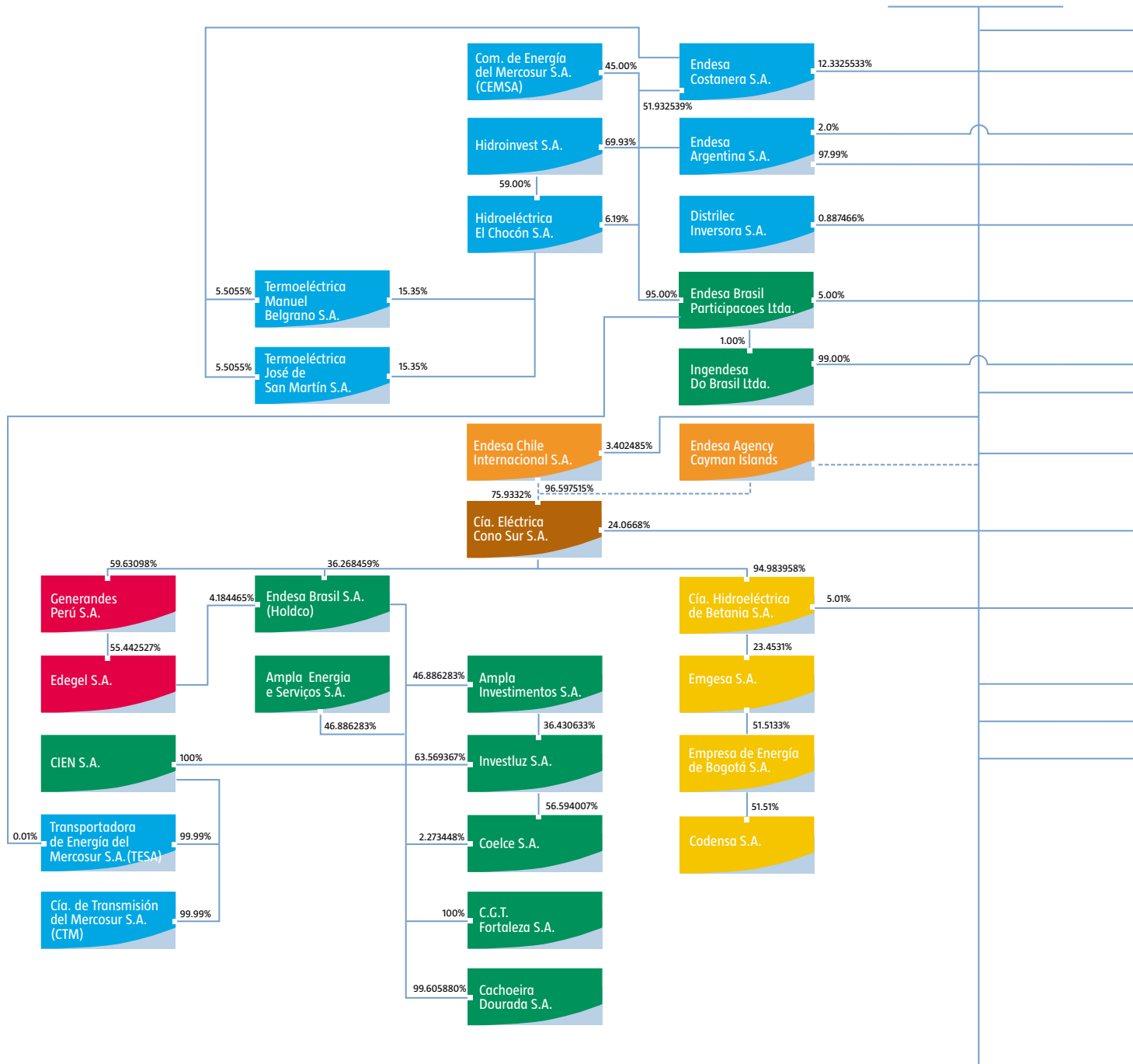
(1) The change in the holding of Endesa Chile in these related companies in 2006 is explained by the reduction in the indirect shareholding of Endesa Chile in Endesa Brasil through Edegel as a result of the absorption of Etevensa and the consequent reduction in the holding of Edegel.

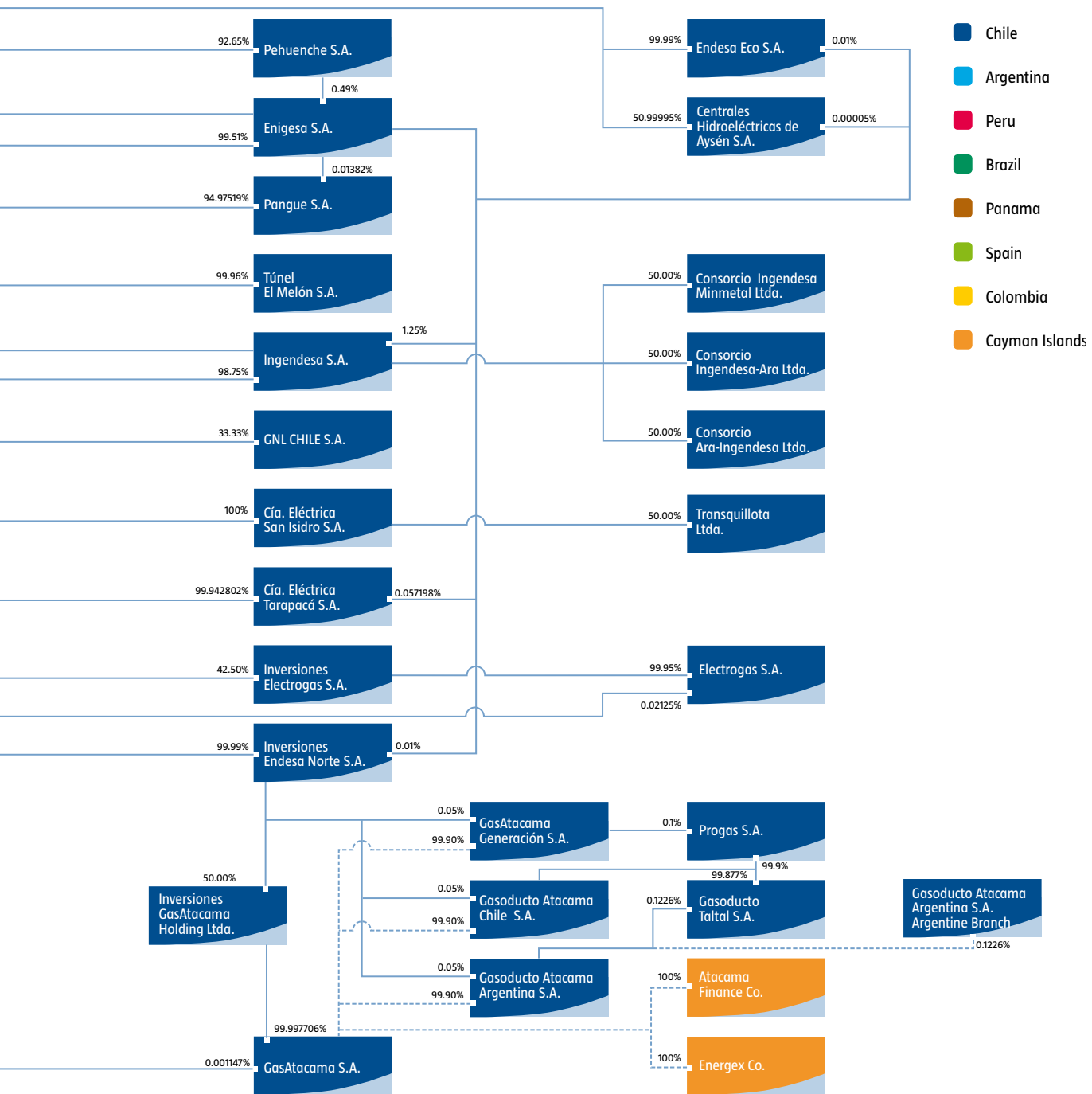
(2) Companies in a development and start-up stage.

(3) The company Gestora del Proyecto GNL S.A. changed its name on February 27, 2006 to GNL Chile S.A.

(4) Company constituted on September 4, 2006 which is not consolidated by Endesa Chile.

CORPORATE STRUCTURE







HUMAN RESOURCES

PERSONNEL

The following table shows the personnel employed by Endesa Chile and its subsidiaries at December 31, 2006 (1):

Company	Senior Executives	Professionals & Technicians	Other Employees	TOTAL
ARGENTINA				
Endesa Costanera S.A.	6	244	17	267
Hidroeléctrica El Chocón S.A.	1	42	6	49
Total Personnel in Argentina	7	286	23	316
CHILE				
Endesa Chile	30	433	38	501
Pehuenche S.A.	0	3	0	3
Pangue S.A.	0	0	0	0
Celta S.A.	1	0	0	1
San Isidro S.A.	0	0	0	0
Endesa Eco	0	0	0	0
Ingendesa (2)	4	226	31	261
Túnel El Melón S.A.	1	21	1	23
Total Personnel in Chile	36	683	70	789
COLOMBIA				
Emgesa S.A.	7	308	26	341
Central Hidroeléctrica de Betania S.A. E.S.P.	1	33	1	35
Total Personnel in Colombia	8	341	27	376
PERU				
Edegel S.A.A.	7	177	16	200
Total Personnel in Peru	7	177	16	200
TOTAL PERSONNEL ENDESA CHILE & SUBSIDIARIES	58	1,487	136	1,681

(1) Relates to the permanent personnel.

(2) The number of personnel in the subsidiary Ingendesa in Chile includes those of the subsidiary of Ingendesa in Brazil and the branch in Peru.

HUMAN RESOURCES ACTIVITIES

TRAINING

The purpose of the training plan in 2006 was to continue to strengthen a new style of work in people, permitting the acquisition of skills that develop a capacity for enterprise, innovation and ethical sensitivity in the three dimensions of sustainability, i.e. environmental, economic and social, and the development of other skills in the technical-professional area, that meet the needs of the electricity generating business.

A total of 476 workers received training in 2006, implying a 94.8% coverage in participation in training activities, reaching 2,052 participations. Total training hours in the year were 26,973, producing a training rate of 2.32% (hours training / hours worked). The training ratio was 53.73 hours per person (training hours / average workforce).

SAFETY AND OCCUPATIONAL HEALTH

The safety and occupational health area work plan for 2006 comprised three pillars: the integration of the activities in all the plants of Endesa Chile, the development of an occupational health plan and a vigilant safety attitude with the emphasis of the loss control program, OHSAS 18001 standards and contractors' safety.

Regarding the risk prevention indicators, 2006 produced a frequency rate, which measures the number of accidents per million man-hours worked, of 1.7 among own workers and 13.7 among workers of contractor workers. In 2006, the seriousness rate, which measures the number of days lost per million man-hours worked, was 8 among own workers and 92 in the case contractor firms. These figures are below the average for companies in the sector, according to the mutual aid system in Chile.

The senior management's commitment toward safety and occupational health actions is confirmed by the formation of the Safety and Occupational Health Committee (COSESA) which will define the policies and lines of action in these areas as a strategic element of the business and support for the sustainable development of Endesa Chile.

HUMAN RESOURCES MANAGEMENT

In 2006, the human resources management visited every one of the facilities, giving talks on the health system and complementary insurance, meetings for the formation of the teams of delegates of "Espacio Endesa Chile" in each plant and revision of the plans and budgets of sports and cultural activities in the period, meetings with the management areas on the use of the new application gathering of variable information of shift personnel (INFOVAL); and the giving of personalized attention constantly, according to the individual needs of employees.

HUMAN RESOURCES DEVELOPMENT

According to the results of a working atmosphere survey carried out in October 2004, an action plan was prepared and published in 2005 for tackling aspects considered as being of development potential, in particular:

- Assisted rotations, apprenticeships and job rotation.
- Internal job offers, to generate professional development opportunities for workers of Endesa Chile, through internal competitions.
- Publishing of the working environment survey to communicate its results and the action plan for the period 2005-2006.

In order to encourage a satisfactory working climate and the search for integrating, standardizing and achieving coherence between the Company's needs and those of each of its workers, the "Who Am I?" program was finalized. Its objective was to generate development opportunities, identify the best candidate in internal selections, train people for improving their skills and conforming effective teams.

LABOR RELATIONS

This program is made up of various human capital indicators like skills, personality traits, motivation and styles of leadership in forming teams. During the year, all the workers of Endesa Chile with more than six months working for the Company were interviewed and completed different questionnaires and also received a confidential feed-back report which will be the basis for the leadership skills development program.

As has been a constant in the Company, labor relations have been developed harmoniously with the workers' representatives, through direct and constant dialogue.

In December 2006, a collective work contract was signed with representatives of the unions of engineers and execution engineers of Chile, covering the period from January 1, 2007 to December 31, 2009.

148 workers' proposals were received in Chile in 2006 within the Innovation and Creativity Program.

The collective contracts in Chile signed earlier remain in force.



More than 26,000 training hours took place during 2006.



THE ENVIRONMENT

AND SUSTAINABLE DEVELOPMENT

Endesa Chile and all its subsidiaries have established Environmental and Sustainable Development Committees that are responsible for defining and controlling strategies and actions for meeting all the commitments set out in the Company's corporate sustainability policy. The committees comprise the senior executives of each of the companies.

With respect to adhesion to the United Nations Global Compact, Endesa Chile and subsidiaries, apart from committing themselves to developing actions for implementing the ten principles of the initiative, have to publish the progress achieved to inform the various stakeholders, through the so-called Progress Communication. In 2006, Endesa Chile responded to this commitment with its fourth sustainability report. The subsidiaries in Argentina, Colombia and Peru also did so through their respective sustainability reports 2005.

In 2006, and for the fourth consecutive year, Endesa Chile submitted itself to an evaluation of its sustainable performance made by the Swiss research institute, Sustainable Asset Management (SAM), which selects the companies that will form part of the Dow Jones Sustainability Indexes (DJSI). Endesa Chile obtained 74 points, 14 above the average of 60 points obtained by the 39 companies evaluated in the electricity sector and five points above the last company to enter the index (69%). It should be mentioned that Endesa Spain was recognized as the leading company in the sector globally, with 77 points.

Other results of great relevance in sustainability achieved in Chile in 2006 were the obtaining of ninth place in the 2nd Ranking of the most socially-responsible companies, prepared by the foundation PROhumana and Capital Magazine, and the winning of the SOFOFA Social Responsibility Prize 2006. In Peru, the subsidiary Edegel won the Sustainable Development Prize 2006 for projects promoting local development and environmental management.

Endesa Chile and its generating subsidiaries continue to consolidate the introduction of environmental management systems at their facilities, with the certification at December

2006 of 95.3% of their total installed capacity under the ISO 14001 standard. Outstanding in this area were the certifications of the thermal plants at Bocamina, Chile, and Cartagena, Colombia.

Endesa Chile has defined its environmental liabilities as "a project debt with the environment" that needs to be resolved during the operation of the facilities. To face this aspect, a five-year program 2006-2010 has been set to reduce existing environmental liabilities at the generating plants of Endesa Chile and its subsidiaries. The five-year target is to resolve at least 80% of the 50 liabilities identified at January 1, 2006. 21 environmental liabilities were resolved in 2006, involving plants in Chile and Colombia.

Regarding new projects, the environmental approvals were obtained in 2006 for the Ojos de Agua mini hydroelectric plant and the Canela wind-turbine park, while the environmental impact assessment for the expansion of the Bocamina thermal plant, second unit, was presented for approval.

Through its subsidiary Endesa Eco, the Company consolidated its policy of promoting and developing projects based on electricity generation from non-conventional renewable sources, the study and presentation of projects to the Clean Development Mechanisms (CDM) circuit, the signing of agreements with national and international organisms and the active participation in seminars, workshops and working meetings on climate change, reduction of emissions and the carbon bonds market.

As concrete projects, Endesa Eco began construction work on the Ojos de Agua (Chile's 7th Region) mini hydroelectric plant and the Canela (4th Region) wind-turbine generating park.

Further information concerning the economic, social and environmental performance demonstrating the implementation of Endesa Chile's sustainability policy is published in the Sustainability Report 2006.

TECHNOLOGY AND INNOVATION

Endesa Chile has retained its commitment with the challenge of promoting a corporate line in the areas of knowledge, technology and innovation as the source of the constant search for ideas that improve its production processes, profitability and efficiency, and its commitment with the environment and sustainable development.

In 2006, a diagnosis was completed about the present state of systemizing the processes of innovation and identification of areas on which to focus innovation. This study has served to define a strategic innovation and technology plan for Endesa Chile, which translates into the following two objectives:

- Systemize the capacity to develop innovations that generate more growth and profitability.
- Position innovation as an important source of creation of new and significant value for all stakeholders, leading to achieving sustainable long-term growth and profitability.

Under these principles, various initiatives have been promoted in key matters like energy efficiency, technological research and innovation in business processes.

Energy efficiency through specific programs like:

- Modernization of hydraulic turbines, improving efficiency and increasing capacity, thus obtaining more energy from the same flow generated.
- Introduction of a system of on-line optimization of fuel consumption and energy accounting of production, applicable to coal-fired thermal plants and combined-cycle plants, to permit more energy from each unit of fuel used.

Technological research projects: Endesa Chile-Pontificia Universidad Católica de Chile agreement. In March 2006, the Company formalized a cooperation agreement with the Pontificia Universidad Católica de Chile to promote research and innovation in the electrical sector, focused on two areas:

- Research and application in tidal energy: the objective is to study energy potential in specific zones of the Chilean coast and define the type of most suitable technology for the characteristics and conditions found.
- Applications of intelligent systems: directed to the development of research work in the area of analytic processing and artificial intelligence applications, information tools that have particularities that make them very useful for their application in the area of electricity generation, specifically in monitoring and process control functions.

Innovation in business processes:

- In late 2006, systematic work was begun to identify new processes and business models that can contribute value to society, using the skills of Endesa Chile. This work will conclude during the first quarter of 2007.
- During 2006 a modern monitoring and diagnostic center (MDC) of the state of the operating parameters of the generating plants was implemented at the head office of Endesa Chile. This center also received data from the San Isidro and GasAtacama combined-cycle plants. Integrated with the MDC, the generation control center (GCC) was developed in order to know in real time the principal operating parameters of Endesa Chile's plants in Latin America.

Both the MDC and GCC constitute an important technological advance in the development of predictive maintenance of the generating assets and the process of monitoring their operation.

NOVARE

The Novare program for employees became consolidated in 2006 as a means of promoting a culture of innovation. This program provides a selection process of innovative ideas and organizes an annual prize-giving ceremony for the best, with 19 Endesa group companies in eight countries of Europe and Latin America taking part. In the 2006 version, the prize for the best idea in the generating business was won by Florencio Sepúlveda, of the San Isidro plant in Chile. In addition, one of two honorable mentions in the same category was obtained by Carlos Grasso, of the Costanera plant. The winning of two of the three distinctions is recognition of the quality of our professionals in the search for innovative solutions that enable us to improve the performance of the Company's production assets.

CHALLENGES

To carry out the innovation strategy defined in 2006, taking advantage of the synergies of the organization and a plan focused on innovation.

To develop a common culture and a shared understanding of the importance of innovation in our practices and processes.

To implement, at the regional level, an ad-hoc structure for coordinating the region's innovation activities based on regulations that organize the innovation management system in the generating business.



OWNERSHIP OF THE COMPANY

At December 31, 2006, the share capital of the company amounted to 8,201,754,580 subscribed and paid shares distributed among 21,850 shareholders.

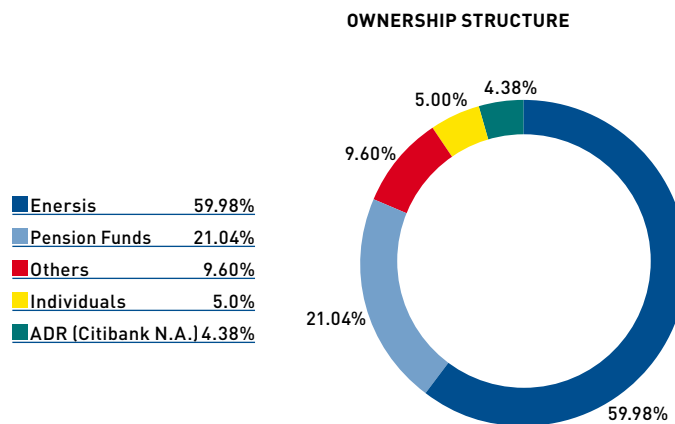
TWELVE LARGEST SHAREHOLDERS

Name	At December 31, 2006		
	TAX NO.	Number of Shares	% Holding
Enersis S.A. (1)	94,271,000-3	4,919,488,794	59.98%
AFP Provida S.A.	98,000,400-7	525,147,361	6.40%
AFP Habitat S.A.	98,000,100-8	442,104,541	5.39%
Citibank N.A. (Depository bank)	97,008,000-7	359,594,160	4.38%
AFP Cuprum S.A.	98,001,000-7	256,922,064	3.13%
AFP Bansander S.A.	98,000,600-k	245,715,239	3.00%
AFP Santa María S.A.	98,000,000-1	193,638,754	2.36%
Banchile Corredores de Bolsa S.A.	96,571,220-8	68,075,144	0.83%
AFP Planvital S.A.	98,001,200-k	62,407,830	0.76%
Citibank Chile Cta. de Terceros Cap. XIV	97,008,000-7	39,465,626	0.48%
Ultra Fondo de Inversión	96,966,250-7	34,440,716	0.42%
Coindustria Ltda.	80,231,700-k	33,834,298	0.41%
Total		7,180,834,527	87.55%

(1) Enersis S.A. is a subsidiary of the Spanish parent, ENDESA S.A.

Enersis S.A. is the controller of Endesa Chile, with a direct 59.98% shareholding. Enersis S.A. has no agreement to act together.

There were no share transactions in 2006 between the company's majority shareholders.



CHANGES IN OWNERSHIP

The most important changes in shareholdings in Endesa Chile were produced as follows during 2006:

- AFP PROVIDA increased its holding from 5.80% in 2005 to 6.40% in 2006.
- AFP BANSANDER increased its holding from 2.59% in 2005 to 2.99% in 2006.
- BANCHILE CORREDORES DE BOLSA increased its holding from 0.66% in 2005 to 0.83% in 2006.
- CELFIN CAPITAL CORREDORES DE BOLSA increased its holding from 0.28% in 2005 to 0.34% in 2006
- CITIBANK N. A., the depositary bank for the ADR holders, reduced its holding from 5.01% in 2005 to 4.38% in 2006.
- AFP CUPRUM reduced its holding from 3.42% in 2005 to 3.13% in 2006.
- CITIBANK CHILE ON BEHALF OF CHAP. XIV PARTIES, reduced its holding from 0.53% in 2005 to 0.48% in 2006.
- THE CHILE FUND INC. reduced its holding from 0.29 % in 2005 to 0.26% in 2006.

SHARE TRANSACTIONS OF ENDESA CHILE MADE BY DIRECTORS AND SENIOR EXECUTIVES OF THE COMPANY

There were no transactions in the shares of Endesa Chile during 2005 by majority shareholders, directors or executives that should be reported in accordance with Circular 585 of the Superintendency of Securities and Insurance.

SYNTHESIS OF COMMENTS AND PROPOSALS OF SHAREHOLDERS

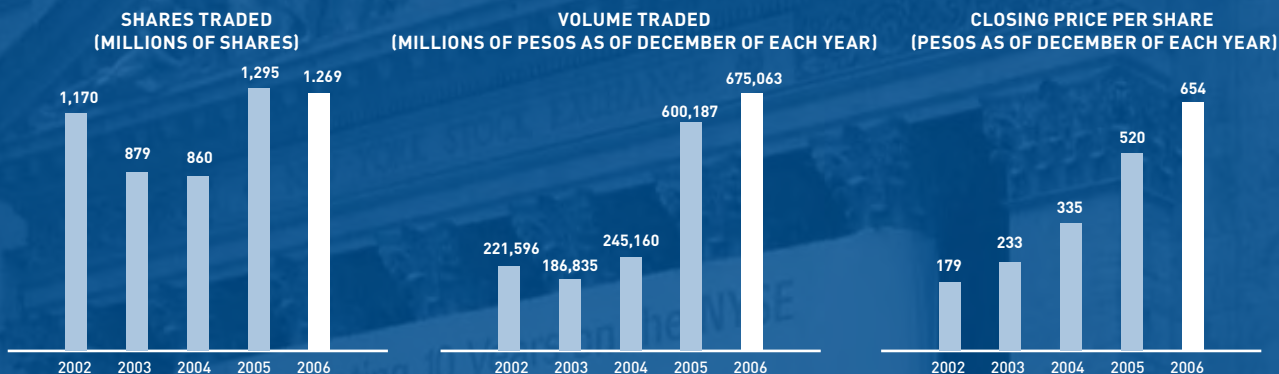
No comments were received in the Company with respect to the progress of the corporate business between January 1 and December 31, 2006 by the majority shareholders or groups of shareholders holding 10% or more of the issued shares with voting rights, in accordance with the provisions of clause 74 of Law 18,046 and clauses 82 and 83 of the regulations to the Corporations Law.

MARKET TRANSACTIONS

TRANSACTIONS ON THE CHILEAN STOCK EXCHANGES

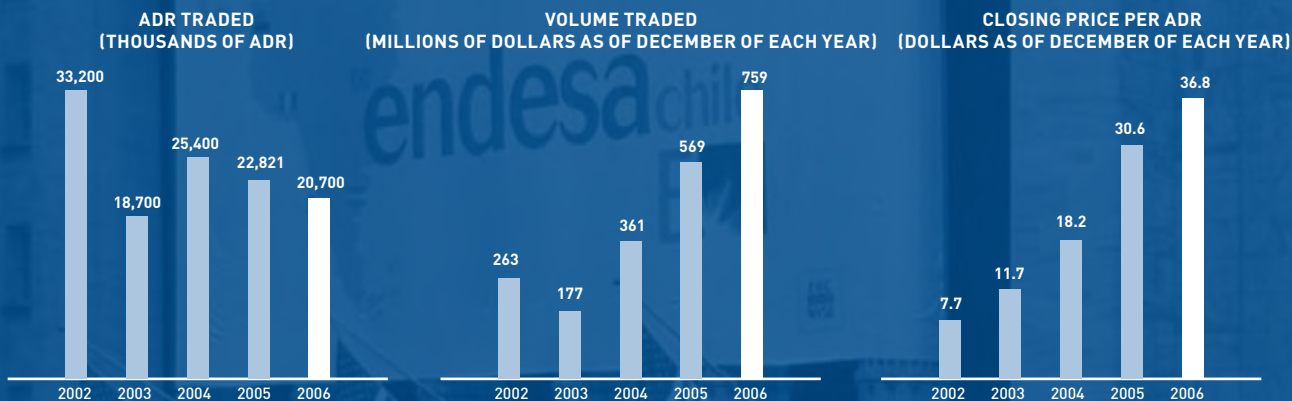
During 2006, 1,269 million Endesa Chile shares were traded on the Santiago Stock Exchange, the equivalent of Ch\$ 675,063 million. A further 241 million Endesa Chile shares were traded on the Chilean Electronic Exchange, the equivalent of Ch\$ 123,315 million, and 13 million shares on the Valparaíso Stock Exchange, equivalent to Ch\$ 6,646 million.

The Endesa Chile share price ended the year at Ch\$ 653.75 on the Santiago Stock Exchange, Ch\$ 653.0 on the Electronic Exchange and Ch\$ 653.60 on the Valparaíso Stock Exchange.



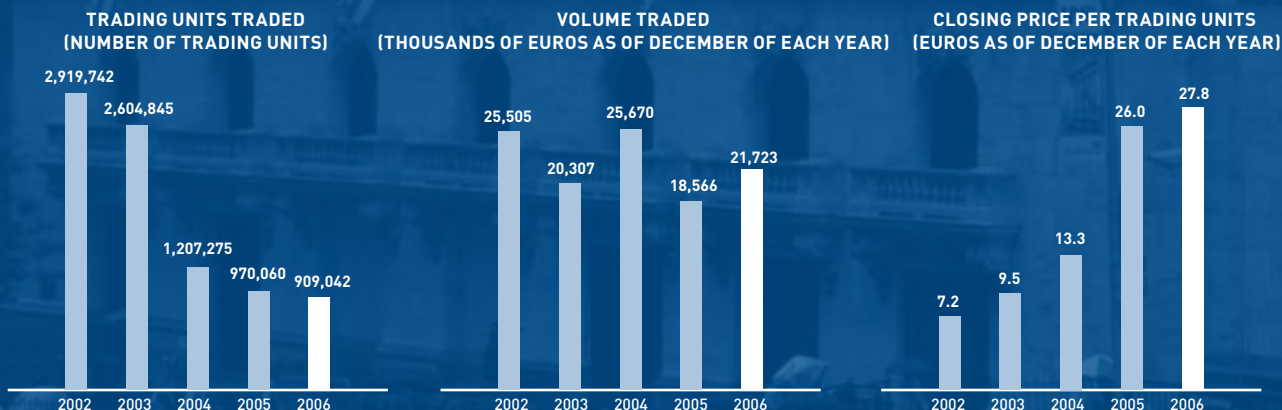
SHARE TRANSACTIONS ON THE NEW YORK STOCK EXCHANGE (NYSE)

20.7 million Endesa Chile ADR were traded in the United States, the equivalent of US\$ 758.9 million. An ADR represents 30 Endesa Chile shares. The price of the Endesa Chile ADR at the end of the year was US\$ 36.75.



TRANSACTIONS ON THE MADRID STOCK EXCHANGE (LATIBEX)

909,042 trading units of Endesa Chile were traded in 2006 on the Latin American Securities Market of the Madrid Stock Exchange (Latibex). The trading unit represents 30 shares. The unit price at the year-end was € 27.80.



QUARTERLY STOCK MARKET INFORMATION FOR THE LAST THREE YEARS

Santiago Stock Exchange			
Quarter	Units Traded	Volume Traded (Ch\$)	Average Price (Ch\$)
1st 2004	264,406,499	65,511,201,274	248.78
2nd 2004	165,605,998	43,919,501,749	264.46
3rd 2004	182,780,184	53,749,740,433	290.35
4th 2004	246,683,469	81,979,697,044	333.36
1st 2005	224,696,444	77,649,876,699	345.58
2nd 2005	418,158,246	189,184,941,997	452.42
3rd 2005	283,374,226	137,361,848,362	484.74
4th 2005	369,089,971	195,990,722,262	531.01
1st 2006	269,636,508	144,323,526,580	535.25
2nd 2006	307,491,875	151,969,432,902	497.40
3rd 2006	383,552,268	192,446,836,811	501.71
4th 2006	308,195,490	186,323,309,117	599.56

Chilean Electronic Exchange			
Quarter	Units Traded	Volume Traded (Ch\$)	Average Price (Ch\$)
1st 2004	122,153,430	30,367,812,297	247.25
2nd 2004	62,410,675	16,470,816,889	265.36
3rd 2004	29,516,830	8,722,856,151	290.88
4th 2004	58,831,108	19,496,668,877	330.84
1st 2005	65,311,043	22,101,868,959	344.97
2nd 2005	57,075,631	25,360,622,206	450.29
3rd 2005	46,521,123	22,427,290,936	482.61
4th 2005	67,260,309	35,662,243,142	531.50
1st 2006	61,556,506	32,883,082,904	534.91
2nd 2006	83,848,080	40,509,215,483	490.05
3rd 2006	69,333,707	34,783,956,839	501.72
4th 2006	26,295,753	15,138,611,038	579.78

Valparaíso Stock Exchange			
Quarter	Units Traded	Volume Traded (Ch\$)	Average Price (Ch\$)
1st 2004	6,582,704	1,664,486,099	252.85
2nd 2004	10,620,038	2,871,068,947	270.34
3rd 2004	15,997,732	4,481,810,106	280.15
4th 2004	445,903	147,496,648	330.78
1st 2005	2,413,903	846,241,334	350.57
2nd 2005	4,675,606	2,067,484,777	442.18
3rd 2005	1,471,823	718,153,701	487.93
4th 2005	2,693,487	1,449,851,381	538.28
1st 2006	3,058,364	1,618,062,981	529.06
2nd 2006	6,924,872	3,400,776,565	491.09
3rd 2006	1,188,650	602,650,232	507.00
4th 2006	1,727,811	1,024,504,990	592.95



POLICIES

OF INVESTMENT AND FINANCING

INVESTMENT POLICY 2007

During 2007, the Company will make investments as set out in its bylaws in the following investment areas, indicating the limit in each case.

1. ELECTRICITY GENERATION

The maximum limit shall be considered as the investment necessary for the Company to meet its main objects (the production, transport, distribution and supply of electricity) with a limit equivalent to 10 % of the shareholders' equity plus minority interest of Endesa Chile consolidated.

2. CAPITAL CONTRIBUTIONS TO SUBSIDIARY AND RELATED COMPANIES

2.1 Contributions will be made to the subsidiaries Pangué S.A., Pehuenche S.A., San Isidro S.A. and Celta S.A., and the related Electrogas S.A., Gasoducto Taltal, GasAtacama and its subsidiaries and Endesa Brasil S.A., for them to carry out their projects and make those investments necessary for meeting their respective corporate objects.

2.2 Contributions will be made to the subsidiaries Enigesas and Ingendesas so that they can meet their corporate objects.

2.3 Contributions will be made to the subsidiary Túnel El Melón S.A. for carrying out its development projects or those it decides to make to meet its objects. The maximum investment in these subsidiaries in 2007 shall be the equivalent of 3% of the shareholders' equity plus minority interest of Endesa Chile consolidated.

2.4 The global maximum investment limit in all the Chilean subsidiaries for 2007 shall be the equivalent of 15% of shareholders' equity plus minority interest of Endesa Chile consolidated.

3. Financial assets, titles, rights, securities, real estate and investments in companies, as set out in the bylaws, for making investments in the electricity sector. The maximum investment limit shall be that necessary for taking advantage of business opportunities, with a maximum of 15% of shareholders' equity plus minority interest of Endesa Chile consolidated.

4. Financial assets, titles, rights, securities, real estate and investments in companies, as set out in the bylaws, for developing projects and operations or activities in industrial processes related to obtaining energy sources and in those where electricity is an essential and determinant element and is intensively used in the process. The maximum investment limit shall not exceed 5% of the shareholders' equity plus minority interest of Endesa Chile consolidated.

5. Endesa Chile will invest in marketable securities in accordance with the portfolio selection and diversification criteria defined by the company's management, in order to optimize the return on its cash surpluses.

6. Within the framework approved by the shareholders' meeting, the board should agree the specific investments in works and studies to be carried out by the Company, both as to the amount and their methods of financing, and will adopt the measures for controlling such investments.

FINANCING POLICY 2007

The Company's financing policy considers that the level of debt, defined as the ratio of total liabilities to shareholders' equity plus minority interest in the consolidated balance sheet, should not exceed 1.50:1. Funding will come from the following sources:

- Own resources.
- Supplier credits.
- Loans from banks and financial institutions.
- Placement of securities in the domestic and international markets.
- Proceeds of assets sales and/or services provided by Endesa Chile.

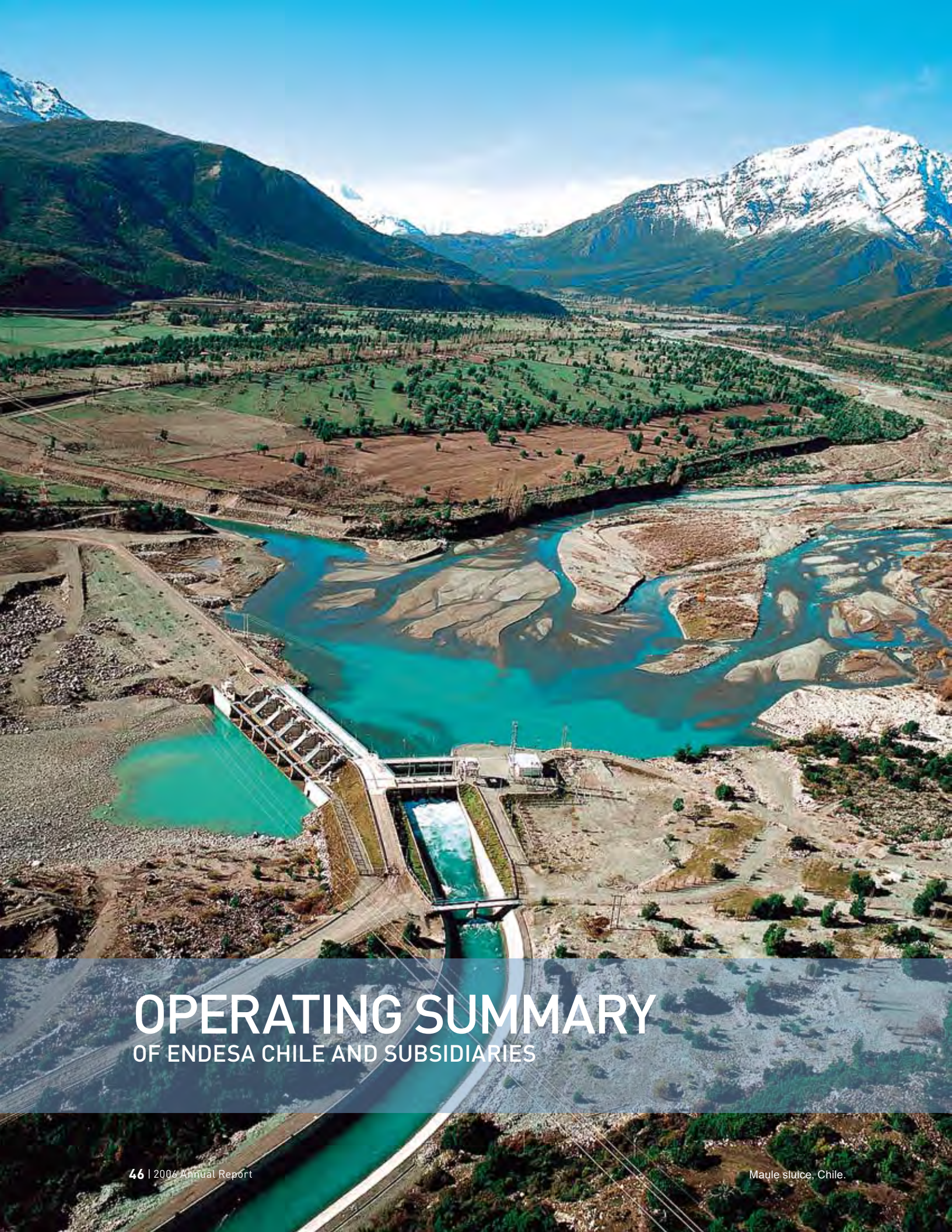
OTHER MATTERS

In order to carry out the investment and financing policies, the Company's management shall have sufficient powers to sign and amend contracts for the purchase, sale or rental of goods and services necessary for the development of the Company's own businesses, within the applicable legal framework, observing the market conditions relating in each case to goods and services of a similar kind, quality and characteristics. The management shall also be authorized to cancel obligations deriving from these contracts, according to the law, when convenient for the corporate interest.

Under the provisions of clause 120 of Decree Law 3,500, the disposal of assets or rights that are declared in these policies as essential for the Company's functioning, and the granting of guarantees over them, should be resolved by an extraordinary shareholders' meeting. In compliance with clause 119 of that law, the following assets are therefore declared as essential for the functioning of the company:

- the generating plants and emergency and reserve units with a capacity of over 50,000 kW, in operation or under construction, owned by the parent and subsidiaries;
- the shares held by Endesa in Empresa Eléctrica Pehuenche S.A., Empresa Eléctrica Pangué S.A., Endesa Argentina S.A., San Isidro S.A., Celta S.A. and Compañía Eléctrica Conosur S.A., meaning maintaining a holding of 50.1% of the subscribed and paid shares of those companies.

An extraordinary shareholders' meeting should also approve the granting of security or guarantees to cover third-party obligations, except when such obligations are assumed by subsidiaries, in which case the approval of the board shall be sufficient.



OPERATING SUMMARY

OF ENDESA CHILE AND SUBSIDIARIES

The principal activities of Endesa Chile and subsidiaries are related to the generation and sale of electricity and also the sale of consultancy and engineering services of all kinds. Endesa Chile operates 47 plants in four Latin American countries, with a total installed capacity of 12,320 MW.

In Argentina, through Endesa Costanera and Hidroeléctrica El Chocón, it operates a total of 3,638.7 MW capacity which represents 15% of the total on the Argentine electricity grid.

Endesa Chile is the principal electricity generator in Chile and one of the country's largest companies. It operates a total of 4,476.7 MW of capacity, representing 37% of the country's installed capacity. 76% of the installed capacity of Endesa Chile and its subsidiaries is hydroelectric and 24% is thermal. Endesa Chile participates in the Central Electricity Grid (SIC), Chile's main interconnected system covering some 93% of the population. The company and its Chilean subsidiaries have an installed capacity of 4,294.7 MW on this grid, representing approximately 50% of the SIC. The company also participates in the Northern Electricity Grid (SING) through its subsidiary Celta and indirectly through

Gasoducto Atacama Chile and GasAtacama Generación, supplying various mining companies. The installed capacity of Celta on the SING is 182 MW, representing 5% of the grid. With the inclusion of GasAtacama Generación, in which Endesa Chile has a 50% holding, the installed capacity on the SING is 27%.

In Colombia, through Central Hidroeléctrica de Betania and Emgesa, it operates a total of 2,778.7 MW of capacity, representing 21% of Colombia's installed capacity.

In Peru, through Edegel, it operates a total of 1,425.5 MW of capacity, representing 30% of the Peruvian grid.

Endesa Chile also participates in the Brazilian market through its related company Endesa Brasil, jointly with Enersis and the Spanish parent Endesa S.A. Endesa Chile has a 37.65 % shareholding in Endesa Brasil.

Endesa Brasil has 980 MW of installed capacity through Cachoeira and Fortaleza, plus two transmission lines with a total installed capacity of 2,100 MW, through CIEN. Endesa Chile operates the generating assets of Endesa Brasil.

INSTALLED CAPACITY, GENERATION AND ENERGY SALES OF ENDESA CHILE AND SUBSIDIARIES (1)

INSTALLED CAPACITY (MW) (2)	2005	2006
In Argentina	3,623.6	3,638.7
In Chile	4,476.7	4,476.7
In Colombia (3)	2,657.2	2,778.7
In Peru (4)	966.5	1,425.5
TOTAL	11,726.0	12,319.6

ELECTRICITY GENERATION (GWh)	2005	2006
In Argentina	12,333	13,750
In Brazil	2,645	-
In Chile	18,764	19,973
In Colombia	11,864	12,564
In Peru	4,516	6,662
TOTAL	50,122	52,949

ELECTRICITY SALES (GWh)	2005	2006
In Argentina	12,579	13,926
In Brazil	2,898	-
In Chile	20,731	20,923
In Colombia	15,077	15,327
In Peru	4,600	6,766
TOTAL	55,885	56,942

- (1) On September 30, 2005, following the formation of the holding company Endesa Brasil S.A., Centrais Eléctricas Cachoeira Dourada S.A. ceased to be a subsidiary of Endesa Chile and became a subsidiary of Enersis S.A. The installed capacity of the Cachoeira Dourada plant in Brazil is not therefore included at December 2005.
- (2) Capacities certified by Bureau Veritas in 2006. These figures represent the maximum capacities determined by the operating regulation of Endesa Chile, No.38 "Regulation for Defining the Maximum Capacity of Hydroelectric and Thermal Plants of Endesa Chile". They relate to the maximum design capacity of the generating units, mostly corroborated by contractual guarantee satisfaction tests made by the supplier of the equipment. In some cases, the maximum capacity certified may differ from the capacity declared to the regulatory authorities and customers in each country, as a result of the criteria defined by those authorities and to meet the corresponding contractual standards.
- (3) In March 2006, Emgesa began to manage the recently-acquired Cartagena plant. The same year, the San Antonio plant left the grid.
- (4) On June 1, following the merger of Etevensa with Edegel, the installed capacity of the Ventanilla plant was added, first operating in open cycle and then, in November, in combined cycle.

DESCRIPTION OF THE INDUSTRY SECTOR

Endesa Chile takes part in the generation and sale of electricity in four countries, each of which has a regulatory framework, energy matrices, a number of participants in the sector, growth patterns and different consumption levels. The following is a summary of the principal laws that regulate the business, the size of the market and the principal players, for each country in which Endesa Chile operates.

ARGENTINA

Law 24,065 of January 1992, the Argentine Electricity Law, divides the electricity industry into three sectors: generation, transmission and distribution. The generation sector is organized on the basis of independent producers which compete in selling their production on the Wholesale Electricity Market (MEM) or under private contracts with other parties. The transmission sector is made up of companies that transmit the electricity from the points of generation to those of the consumers on the basis of a free-access system. The distribution companies can buy electricity under contracts or on the MEM.

The Argentine dispatch system includes the Dispatch Control Organism (Compañía Administradora del Mercado Mayorista Eléctrico, Cammesa) which coordinates the most economic operation of the system. The National Electricity Regulating Entity (ENRE) is responsible for controlling and checking compliance with the regulations by the sector. The Secretary of Energy (SE) is the entity responsible for setting policies, rules and procedures governing the energy sector, especially electricity.

Generating companies sell their production to distribution companies and other large customers through the wholesale market under contracts. There are three kinds of price: contractual, seasonal and spot. Contractual prices are freely agreed between the parties. Seasonal prices are calculated by Cammesa every six months and sanctioned by the Secretary of Energy, and are those that distribution companies should pay when buying in the wholesale market. Finally, the spot price is used to price transactions between generators for supplying their generation surpluses or deficits to cover their contractual commitments.

Apart from the remuneration from sales of energy, generating companies receive a payment for power based on the capacity made available to the system at certain hours during the day and the base capacity calculated by Cammesa for each annual period (May-April).

The Argentine economic crisis, the consequent “pesification” in 2002 and the freezing of public utility tariffs caused imbalances in the gas and electricity markets. The Secretary



Operator of El Chocón, Argentina.

of Energy set special operating conditions for the electricity sector that broke with the marginalist system for the MEM. By its Resolution SE 240/03, neither the value of water stored in the reservoirs nor the variable costs of thermal generators operating with fuels other than gas, would form part of the calculation of the spot price and the MEM would only guarantee these generators' costs. In addition, with the freezing of end consumer tariffs, MEM revenues would not cover its credits with the generators, so Resolution SE 406/04 established as a priority the payment of the different creditors of the MEM, leaving as lowest priority the remuneration of the state electricity companies and the income component of the generators resulting from the difference between the sport price and variable cost. This difference produced a debt of MEM with the generators.

One of the effects of this crisis was the suspension of investments in generation which, added to the sustained growth in consumption following the freezing of charges, implies that supplies are at risk in the medium term. The Secretary of Energy, through Resolution SE 1427/2004, defined a project for re-adapting the MEM in order to obtain the necessary resources for building two 800 MW combined-cycle plants. The agreement basically consists of directing the credits of generators with the MEM produced between January 2004 and December 2006 to an investment fund (FONINMEM). On October 17, 2005, by Resolution SE 1193/05, the generators declared their adhesion to the agreement, committing their credits with the MEM and defining the construction of the two plants. The agreement states that the generators will recover their credits with a market return and retain ownership of the new plants pro rata to their contributions. In December 2005, the constitution and bylaws were signed for the two generating companies formed under the framework of the FONINMEM: these are Termoeléctrica Manuel Belgrano S.A. and Termoeléctrica José de San Martín S.A. At December 31, 2006, Endesa Costanera S.A. and Hidroeléctrica El Chocón S.A. have shareholdings of 5.5% and 15.4% respectively in these companies. It is expected that these plants will start operating with just gas turbines in mid 2008 and in complete combined cycle in mid 2009 (according to the seasonal planning of Cammesa of February-April 2007).

In the third quarter of 2006, the Secretary of Energy published Resolution 1281/2006 which regulates aspects related to the selling of energy at times of energy deficits and which modifies how the new plants to be installed on the MEM will be remunerated, as follows:

- Effective November 1, 2006, the energy sold on the spot market by the national state generators will be used firstly to supply the demands of the distributors that do not have the capacity to contract their supply in that market and that are not supported by contracts in the term market (MAT).
- Both hydroelectric generation without contract at the date of publication of the resolution and the thermal generation without own fuel, should be used to supply firstly the demand supported by the national state generation and then to meeting the demands of up to 300 kW of distributors' customers and are not backed by MAT contracts.
- Large users of over 300 kW will only be authorized to contract physical support for the balance not contracted in the MAT of their Base Demand 2005 with thermal generation with own fuel.
- The Energy Plus service is established, providing that new generating facilities will be remunerated at a price equal to the associated cost plus a profit margin to be defined by the SE. These prices will not be taken into account in calculating the market prices.

In the case of the gas market, Decrees 180 and 181 of 2004 established measures seeking to re-establish the market. Trust structures were created to cover the works necessary for gas transportation expansions, an electronic gas market was formed, and a way was established for recovering well-mouth prices (Resolution 208).

During 2005, several resolutions were issued concerning gas including Resolution SE 752, which defines the scheme of irrevocable gas purchase offers for the domestic Argentine market with a maximum price equivalent to the "export parity price" (US\$1.7 per MMBTU); Resolution SE 1056/2005, that

instructs Cammesa to recognize the gas pipeline expansion trust charges that the natural gas transport and/or distribution concession holders invoice or have invoiced to wholesale electricity market players in the application of that stipulated by Enargas; and Resolutions 1471/2005 and 1810/2005, that instruct Cammesa to participate in the gas market with irrevocable well-mouth offers, as well as a transportation open season from November 30, 2005. All these measures seek to increase the availability of gas and the operational activity of the MEM.

In 2006, the following resolutions were issued relating to the natural gas market: Resolution SE 496, which modifies the Natural Gas Market Domestic Supply Complementary Program defined in 2004 by Resolution SE 659 which regulates energy substitution operations, and Resolution 534/2006 which increased the basis for valuing natural gas exports and the duty affecting exports from 20% to 45%.

With respect to supplies of natural gas to the Group's plants in Argentina, it should be mentioned that, as a result of Resolution 752, the supply contract of Central Costanera had to be restructured into separate contracts for the supply of gas, transportation and distribution with Metroenergía and Metrogas respectively, in July 2006. The supply contract runs from that moment until December 2007. Although Dock Sud, a company forming part of the Endesa Group but which is not consolidated into Endesa Chile, and Costanera currently have natural gas supply contracts, the price conditions for 2007 are still not defined and will depend on the negotiations currently taking place between the Argentine government and the producers to define the commitments for the domestic market for the period 2007-2011.

In order to face the projected growth in domestic demand for the next few years, the Argentine government is concentrating on a series of measures for increasing the domestic availability of natural gas, including reaching agreements with producers to increase domestic production, motivating new investment in exploration and production, promoting expansions in transportation and distribution and signing agreements for the import of natural gas. Regarding the latter, the governments of Bolivia and Argentina signed a natural gas supply contract between

YPFB and ENARSA in October 2006, to expire in 2026, which contemplates for 2007 volumes compatible with the existing production and transportation infrastructure (7.7 MMm³/d) and, for subsequent years, larger volumes that reach 27.7 MMm³/d from 2010. This will require large investments in infrastructure.

In March 2006, the MEM and MEMSP (Patagonia) electricity grids were interconnected by a 500 kV line, so Argentina now has just one electricity grid, the MEM.

The installed capacity of the MEM at December 2006 was 24,033 MW, of which 41% was hydroelectric. Peak demand in 2006 was 17,395 MW and annual consumption was 97,871 GWh. During 2006, demand increased by 5.9%, excluding the Patagonia grid.

Endesa Chile, through its subsidiaries Endesa Costanera S.A. and Hidroeléctrica El Chocón S.A., is one of the principal operators in generation in Argentina, with 15% of total installed capacity on the MEM and 14% in terms of energy sales in 2006. To these are added CTM and TESA, transmission companies owning the interconnection lines with Brazil (Argentine section), coordinated by FONINMEM; and CEMSA, a trading company that has export contracts to that country through the related Brazilian company CIEN which is consolidated into Endesa Brasil, and therefore into Enersis. In addition, Endesa Chile, through its subsidiaries Endesa Costanera S.A. and Hidroeléctrica El Chocón S.A., is taking part in the construction of two new combined-cycle plants (FONINMEMEN), with holdings of 5.5% and 15.4% respectively.

Other important operators in this market are AES, Pluspetrol, Pérez Companc and TotalFinaElf.

CHILE

The electricity sector in Chile is regulated by the General Electricity Services Law contained in Ministry of Mining Decree Law No.1 of 1982 and its corresponding regulations contained in Decree 327 of 1998. Three government entities are responsible for the application and compliance with the law: the National Energy Commission (CNE) has the authority to propose the

regulated tariffs (node prices) and to prepare indicative plans for the construction of new generating units; the Superintendency of Electricity and Fuels (SEC) regulates and checks compliance with the laws, regulations and technical standards for electricity generation, transmission and distribution, liquid fuels and gas; and lastly, the Ministry of the Economy revises and approves the tariffs proposed by the CNE and regulates the granting of concessions to generating, transmission and distribution companies based on a report from the SEC. The law also establishes the creation of a panel of experts whose prime function is to resolve disputes between electricity companies.

The law defines three kinds of activity: generation, transmission and distribution. The generating sector is made up of companies that generate electricity. The transmission sector comprises companies that transmit the electricity produced by the generating companies at high voltage, and sell this energy to different kinds of customers. Finally, the distribution sector comprises companies that buy the energy and then distribute it to the public.

According to the electricity law, companies involved in generation should coordinate their operations through the Economic Load Dispatch Center (CDEC) in order to operate the system at minimum cost while preserving service safety. The CDEC therefore plans and operates the system, including the calculation of marginal cost, the price at which transfers of energy between generators are valued.

The generating decision of each company is therefore dependent on CDEC's operating plan. Each company in turn can freely take the decision to sell this energy to regulated or non-regulated customers. Any surplus or deficit between their sales to customers and their generation is sold or bought to/from other generators at the marginal cost.

A generating company may have the following kinds of customers:



Tal-Tal, Chile.

(i) Regulated customers: relate to residential consumers, offices, small and medium-sized industries with a consumption of no more than 2,000 kW and which are located within the concession area of the distribution company. The transfer price between the generating and distribution companies has a maximum value called the node price, this being regulated by the Ministry of the Economy. Node prices are set every six months (April and October) based on a report by the CNE, itself based on projections of expected marginal costs of the system over the following 48 months in the case of the SIC, or 24 months in the case of the SING.

(ii) Non-regulated customers: relate to customers having a consumption in excess of 2,000 kW, mainly industrial and mining companies. These can negotiate electricity supply prices freely with generating or distribution companies. Customers with capacity of between 500 and 2.000 KW have the option to contract energy at prices to be agreed with their suppliers or continue being subject to regulated prices.

(iii) Spot market: relates to energy and capacity transactions between generating companies that result from the coordination made by the CDEC for achieving the economic operation of the system and the surpluses (deficits) of their production compared to their commercial commitments. They are transferred via sales (purchases) to the other generating members of the CDEC; in the case of energy, at marginal cost, and for capacity, transfers are valued at the corresponding node price fixed semi-annually by the authority.

Payment for the capacity of each generator in Chile is based on a calculation made centrally and annually by the CDEC, from which the firm capacity of each plant is obtained. This value is independent of its dispatch.

During 2005, the so-called Short Law II (No. 20,018) was published which, among other things, defines the obligation of distributor companies to have permanent supplies available to meet all their demand, having to arrange tenders for long-term contracts to meet this condition. It also establishes that drawings by distributors of energy subject to regulated prices without a current supply contract shall be at marginal cost and that the difference between this and the node price shall be paid by all of the regulated customers in the system; widens the

market price band for calculating the node price to up to 30% and makes it possible for generating companies to agree temporary reductions or increases with customers whose consumption is below 500 KW.

As a result of the publications of the Short Laws I and II, which amended DFL N° 1/82 (General Electricity Services and Technical Standard Law), published in May 2005, intensive activity was generated in 2006 in the preparation of regulatory projects by the electricity authority to complement and make more explicit the provisions of these laws. Electricity companies had to take part in this activity by making comments and alternative proposals to these documents to the authority. It is expected that some regulations will be published during 2007. In general, it is believed that this new regulatory framework will permit a better functioning of the market.

The regulatory projects dealt with during 2006 were the following:

- a) Transfers of capacity between generators, to regulate the calculation of firm capacity injected by generating units into each electricity grid and the determination of physical and monetary balances of the peak capacity transfers between generators. This regulation was published as Decree 62 on June 16, 2006 but only comes into effect in 2007.
- b) Service security and quality and complementary services, which contains provisions applicable to the service security and quality requirements of the grids compatible with the technical regulation of 2005, the procedures for approval and provision of the complementary services related to the above requirements and the prices system under which the provision of such services should be made. The comments of the electricity companies to this regulations project were sent in March 2006 and have still not been published.
- c) In September 2005, Decree 244 was published regulating non-conventional generating means (NCGM) and small generating means connected to a distribution company (PMGD) or directly to the grid (PMG). This gave rise, in March 2006, to three technical regulation projects

- for regulating various aspects linked to these kinds of generating units like: how the NCGMs can qualify as such, the form of connection and operation of the units belonging to the PMGD classification and procedures for measuring the injection of generation of these PMGDs to the distributor company's network. Comments were submitted in May 2006 but have not been published at February 2007.
- d) Structure, Functioning and Financing of Economic Load Dispatch Centers (CDEC), whose objective is to regulate the organization and activities and functions of the different units making up this organism. This project was commented by companies on two occasions, in September and November 2006. By the end of February 2007, the regulations have still not been published.
- e) Modification of Decree 327/98, the General Electricity Services Regulations for Energy Substitution Operations, that regulates eventual sales of natural gas to markets other than the electricity sector (industrial and others). Two versions have been commented on, in July and October, but this amendment has still not been introduced to the electricity regulations.
- f) Requirements for supply security plans to the Economic Load Dispatch Centers, regulating the form in which the security plans referred to in clause 102 bis of the Electricity Law shall be applied in the electricity grids in exceptional conditions of electricity supplies, and the way in which the higher costs caused by these plans shall be incorporated into the regulated tariffs. This project was commented on in July 2006 but the regulations had not been published at the end of February 2007.
- g) Regulations covering the proper application of clause 90 bis of the Electricity Law which contains provisions for regulating the system of offers of temporary reductions or increases of consumption which, in accordance with that clause, generating companies may do voluntarily to regulated customers on the electricity grids, on the basis of a compensation payment for such action. The companies made their comments in November 2006 but the regulations have still not been published.
- The Short Law II established that sales to distributor companies without contracts would be made at the grid's marginal cost. The application extends until 2009 under the powers that this law granted to the Ministry of the Economy.
- This constitutes an important and beneficial situation for Endesa Chile as it allows it sell energy to distributor companies without contract at a price in line with expected costs of production on the spot market in a period that could become especially high from the viewpoint of electricity production, particularly in 2009 when supplies are expected to very tight against demand, with high marginal costs.
- On October 31, 2006, the first long-term tenders took place of the distributors Chilectra, CGE Distribución, Chilquinta, Emel and Saesa. The supplies related to long-term contracts and will come into effect in 2010.
- The levels of Argentine natural gas restrictions have shown a sustained increase while the purchase price suffered another rise following the publication of Resolution 534/2006 which increased the export valuation base (the price set under the Argentina-Bolivia agreement) and the duty affecting exports from 20% to 45%.
- From a physical point of view, the Chilean electricity sector is divided into four electricity grids: SIC (Central Grid); SING (Northern Grid); and two minor isolated systems, Aysén and Magallanes.
- The SIC, the principal system, is 2,400 km. long, linking Taltal in the north with Quellón, on Chiloé Island, in the south. With a firm installed capacity at December 2006 of 8,561 MW, it is mainly hydroelectric based. 58% is hydroelectric and 42% thermal capacity. Peak demand on the SIC in 2006 was 6,064 MW and sales amounted to 38,259 GWh, representing an increase of 6.6%.
- Endesa Chile, acting directly and through its subsidiaries Pehuenche, Pangué and San Isidro, is the principal operator on this system, with 50% of total installed capacity and 52 % of energy sales in 2006. Other important operators in this market are AES Gener and Colbún.

The company, through its subsidiary San Isidro S.A., owns one of the four natural-gas combined-cycle plants operating on the SIC. This source of generation has allowed it to reduce its dependence on water and its revenue volatility, as these plants have the alternative of operating with fuel.

The SING covers the north of the country, from Arica to Coloso in the south, some 700 km. in all. The SING, with an installed capacity at December 2006 of 3,596 MW, is 99.6% thermal generated. Peak demand on the SING in 2006 was 1,774 MW and energy sales reached 12,027GWh, representing an increase of 4.2% over the previous year.

Endesa Chile, acting through its subsidiary Celta S.A. and its related GasAtacama Generación, is an important operator on the SING, with 26.7% of the total installed capacity and 35.7% in terms of energy sales in 2006. Other important operators in this market are Electroandina S.A., Norgener S.A. and Edelnor S.A.

COLOMBIA

Two pieces of legislation regulate the electricity business in Colombia: Law 142 of 1994 sets the regulatory framework for the supply of public residential services including electricity, and Law 143 of 1994 (the Colombian Electricity Law) establishes a regulatory framework for the generation, commercialization, transmission and distribution of electricity.

Under the Colombian Electricity Law, the Electricity and Gas Regulation Commission (CREG) is authorized to i) establish the conditions for a gradual deregulation of the market, ii) approve charges for the use of transmission networks, iii) establish the methodology for the calculation and publishing of the maximum tariffs for regulated customers, iv) establish regulations for the planning and coordination of the Colombian interconnected grid, v) establish the technical requirements of quality, reliability and safety of supplies, and vi) protect the rights of consumers.

The generating sector is organized on a competitive model where generators sell their production on an energy exchange

at spot prices or under contracts freely negotiated with other exchange participants and non-regulated customers, which are those with installed capacity of over 100 KW or whose average monthly consumption is more than 55 MWh.

Purchases and sales of electricity may be made between generators, distributors, traders and non-regulated customers. However, the CREG has been working since 2004 on a proposal for modifying the contracting procedures in the Colombian market to an electronic contracts system.

Generators received a charge for capacity depending on the estimated generation of each plant in critical hydrological conditions; this provision was in force until November 30, 2006. In October and November 2006, the CREG published various resolutions defining a new methodology for calculating reliability, effective from December 1, 2006. The amount to be remunerated to each plant depends on an individual optimization model related to the real capacity available at each plant and the price is defined by the authority at U\$ 13.045 per MWh for a period of three years until November 2009. With effect from December 2009, an auction process will start, whose regulations have still to be defined by the CREG. It is expected that the first auction for the period December 2009-November 2010 will take place during 2007.

The National Dispatch Center (CND) receives price offers daily from the generators participating on the exchange. These offers indicate the daily prices at which each generator is prepared to supply energy and the volume available. Based on these offers, the CND determines the real dispatch, incorporating the un-warranted generation required for safety reasons and/or limitations on the transmission networks. The surcharges for un-warranted generation are paid by consumers through the trading companies at a price that is independent of the offers made by the plants involved. On the other hand, the Administrator of the Trading Exchange System (ASIC) makes an ideal economic dispatch of the units and determines the exchange price that is equal to the price offered by the most expensive unit required to supply demand.

The trading activity established in the regulations allows participants that buy energy on the exchange to resell it to end users. Prices with non-regulated customers are agreed freely between the parties. Trading with regulated customers is subject to maximum charge regulations established by the CREG for each trader. The unit cost of providing the service to the regulated end-user is calculated taking into account the high-tension transmission charges, distribution charges, trading charges and generation charges.

Since 2003, the interconnection has been operating, permitting spot transactions with Ecuador through the Jamondino and Panamericana links. During 2006, energy exchanges with Ecuador were made up of 1,608 GWh of exported energy and 1.1 GWh of imported energy.

Installed capacity at December 2006 was 13,278 MW of which 67% corresponds to hydroelectric generation and the rest to thermal and co-generating capacity. Peak demand in 2006 was 8,639 MW and total demand reached 50,813 GWh, 4.1% more than the year before.

Endesa Chile, through its subsidiaries Betania and Emgesa, had a market share of 21% in terms of installed capacity and 22% in terms of energy sales in 2006. Emgesa began to operate the Cartagena plant in March 2006, which has three gas-fired units.

Other important operators in this market are AES, Unión Fenosa, Empresas Publicas de Medellín and ISAGEN.



Tequendama, Colombia.

PERU

The regulatory framework for the Peruvian electricity industry is fairly similar to the Chilean system. The Ministry of Energy and Mines defines the policies for this sector, preparing projections for the installation of new generating capacity.

The Tariff Regulation Management is the executive arm of Osinerg (Energy Investment Supervisory Organism), responsible for proposing to its directive council the tariffs for electricity and other energy sources in accordance with the criteria set out in the law.

The System Economic Operation Committee (COES) coordinates and operates the electricity system. An important difference between the Chilean and Peruvian pricing systems is that non-regulated customers in Peru are those with capacity of over 1,000 kW.

Another difference is in the payment for power, which provides for a remuneration dependent on the dispatch (which increases to 30% for payments for capacity in 2005 and another guaranteed (which reduced to 70% in 2005).

The term used for calculating the bar price (similar to the node price in Chile) was amended from four to three years (last historic year plus two future years) and this calculation was changed from semi-annual to annual. In 2006, a decree was published for resolving the problem of distributors that are left without supply contracts, obliging generating companies to sell to them at the regulated price.

On July 6, 2006, the amendment of the Electricity Concessions Law was approved to ensure the efficient development of electricity generation. The law includes tenders for supplying distributors, planning of transmission,

organization of the COES and participation of large customers in the spot market. The law should be complemented with regulations which are expected to be published during the first half of 2007.

In November 2006, agreement was reached between the generators and the government to resolve the problem of distributors without contracts for expiries occurring during 2006. This agreement was formalized in an urgent decree published on December 16.

Tenders were carried out for ensuring supplies for the period 2007-2010 of the distributors Distriluz and ElectroSur (December 14), and Luz del Sur and ElectroSurMedio (December 15). The participation was agreed of Electroperú for more than 75% of the energy tendered for both; the agreement was met.

The Peruvian electricity sector comprises the National Electricity Grid (SINAC) and a series of small systems that supply remote rural sectors.

The installed capacity of the SINAC at December 2006 was 4,800 MW of which 58% is hydroelectric. Peak demand in 2006 was 3,580 MW, and gross generation reached 24,763 GWh, representing growth of 7.7% over 2005.

Endesa Chile, through its subsidiary Edegel, which was merged with Etevensa on June 1, 2006, had a market share of 30% in 2006 in terms of installed capacity and 30% in terms of energy sales.

Other important operators in this market are Electroperú, Egenor, Enersur and Eepsa.

RISK FACTORS

Endesa Chile is an electricity generator that provides an essential public utility service and is subject to regulations and controls in different aspects of its business.

REGULATORY RISKS

The Chilean Electricity Law dates from 1982 and sets the procedures for fixing the tariffs for regulated customers and establishes the different mechanisms for regulating the sector. The latest amendment of the regulatory framework came into effect during 2006, allowing the signing of long-term contracts and at a fixed price with the regulated market, permitting Endesa Chile to be awarded around 7 TWh annually from the year 2010, for approximately ten years.

Of the other countries where the company operates, there is an electricity law in Argentina that dates from 1992, in Peru from 1993, in Colombia from 1994 and in Brazil from 1995. All this legislation regulates the electricity sector of each country and imposes obligatory rules. However, there are interpretations and instructions of the regulatory authority that are adapted to the complexity of the system and that can affect general business conditions.

ENVIRONMENTAL FACTORS

The sector is subject to environmental regulations requiring environmental impact assessments to be approved for future projects and also for plants currently in operation in order to minimize their contamination effects.

Endesa Chile and its subsidiaries have adapted their projects and operations to the environmental regulations of the different jurisdictions in which they are located, and have complied with these. They have also made environmental investments over and above those required by law. At December 31, 2006, 95.3% of their installed capacity in Latin America was certified under the ISO 14001 international standard. This makes for a better control and monitoring of aspects susceptible to causing an environmental impact, based on the principle of continuous improvement.

HYDROLOGY

A substantial part of the Company's operations are hydroelectric which means that it has a certain dependence on rainfall conditions in the zones and countries where it operates. In order to reduce the risk related to extreme drought situations, the Company has designed a commercial policy of accepting sale commitments in line with the firm energy capacity of its generating plants in a dry year, giving preference to its better contracts and customers, and including contract clauses covering the sharing of the risk with non-regulated customers.

EXCHANGE RISKS CAN HAVE AN ADVERSE EFFECT ON THE COMPANY'S OPERATING RESULTS AND FINANCIAL POSITION

The Chilean peso and other currencies in which Endesa Chile and its subsidiaries operate have been subject to volatility against the US dollar and may be subject to fluctuations in the future. Historically, a large part of our consolidated debt has been denominated in US dollars and despite a large portion of our revenues being indexed to the dollar, the match may not always be perfect and we could be exposed to fluctuations in our local currencies against the dollar.

THE VALUES OF OUR LONG-TERM ENERGY SALES CONTRACTS ARE SUBJECT TO FLUCTUATIONS IN THE MARKET PRICES OF CERTAIN BASIC PRODUCTS

We face an economic exposure with respect to market price fluctuations for certain basic products because of the long-term energy sales contracts we have signed. Our generating subsidiaries have substantial obligations under fixed-price, long-term electricity sales contracts, whose values fluctuate according to the market price for electricity. Our generating subsidiaries also have substantial obligations as the sellers of long-term energy supply contracts with prices that vary

according to the market price of electricity, the water levels of our reservoirs, the market prices of the principal inputs such as natural gas, oil, coal and other products related to energy, as well as the dollar exchange rate. It is impossible to introduce indexation formulas that correlate perfectly the changes in the market prices of these commodities and exchange rate and the market price of electricity or our electricity production costs, so there may be times when the price we received under these contracts is lower than our electricity production or acquisition cost. We do not use commodity derivatives for hedging our exposure to commodity price fluctuations.

REFINANCING RISK

Endesa Chile had debt which is subject to financial covenants and other standard contractual restrictions, principally related to the ratios of debt to adjusted cash flow, debt to equity and adjusted cash flow to financial expenses. A high percentage of Endesa Chile's debt also contains cross-default clauses that could be triggered by a default on other loans to the parent or some subsidiaries whose outstanding principal exceeds US\$ 30 million, measured on the unconsolidated balance sheet.

STATE INTERVENTION IN LATIN AMERICAN ECONOMIES

On occasions, the state authorities of Latin American countries change their monetary, credit and tariff policies, among others, in order to influence the direction of their economies. Changes made to these policies in the past or that might occur in the future with respect to tariffs, exchange controls, regulations and impositions could have an adverse effect on the commercial activity and operating results of Endesa Chile at the consolidated level, in the same way as inflation, devaluation, social instability and other political, economic or diplomatic developments.

LATIN AMERICAN ECONOMIC ENVIRONMENT

All Endesa Chile's operations are located in Latin America. Today, approximately 48% of its consolidated operating income comes from Chile and the remaining 52% from outside the country. Its results are therefore sensitive to the performance of the Latin American economy as a whole. The macroeconomic environment in Latin America has been favorable for Endesa Chile in 2006, with positive growth rates in all the countries where it operates.

NATURAL GAS DEFICIT IN ARGENTINA

The natural gas deficit in Argentina could continue to have a negative impact on some of our generating plants in Chile and Argentina, especially those that use Argentine natural gas as an input.

In Argentina, this deficit has produced gas supply cuts for the combined-cycle plants, forcing them to operate with oil. This causes an increase in operating costs, which are financed by the whole system, but end up reducing the margin on our contracts and spot market sales.

Currently, the Tal Tal plant of Endesa Chile and its subsidiary San Isidro depend on the natural gas supplied by Argentina, and have obligatory minimum purchase contracts with their

Argentine suppliers. The cuts in gas supplies have to be replaced with oil, affecting both the production volume and the operating costs of these plants. These cuts have no negative impact on the results of Endesa Chile, basically because of the appropriate commercial policy followed. However, if these cuts were to occur during a severe drought, they could well translate into reduced margins for the Company.

RISK OF CHANGE IN CONTROLLER

At the time of the closing of this annual report, E.ON, a German multinational energy and gas company, acting through a subsidiary, made a conditional offer for all the shares of Endesa Spain at € 38.75 per share in cash. The offer is conditional on the acceptance by at least 50% of Endesa Spain's shareholders with voting rights, and the amendment of clauses 32, 37, 38 and 42 of its bylaws. An extraordinary shareholders meeting of Endesa Spain has been called for this purpose for March 20, 2007. On February 6, 2007, the board of Endesa Spain declared that the offer was favorable, considering it fair and adequate. Endesa Chile cannot predict whether this offer will be successful nor can it be sure of the consequent effects on the Company's credit rating. Some of Endesa Chile's loan agreements give the creditor the right to demand the prepayment of these loans in the event of a change of the controller.



OPERATIONS

IN ARGENTINA

INSTALLED CAPACITY, ENERGY GENERATION AND SALES

INSTALLED CAPACITY (MW) (1)	2005	2006
ENDESA COSTANERA		
Costanera (Steam Turbine)	1,131.0	1,138.14
Costanera (Combined Cycle)	851.0	858.95
CBA (Combined Cycle)	321.6	321.60
TOTAL	2,303.6	2,318.69
EL CHOCÓN		
El Chocón (Hydroelectric)	1,200.0	1,200.00
Arroyito (Hydroelectric)	120.0	120.00
TOTAL	1,320.0	1,320.00
TOTAL ARGENTINA	3,623.6	3,638.69
ELECTRICITY GENERATION (GWh) (2)	2005	2006
ENDESA COSTANERA	8,402	8,709
EL CHOCÓN	3,931	5,041
TOTAL GENERATION IN ARGENTINA	12,333	13,750
ELECTRICITY SALES (GWh)	2005	2006
ENDESA COSTANERA	8,466	8,735
EL CHOCÓN	4,113	5,191
TOTAL SALES IN ARGENTINA	12,579	13,926

(1) Capacities certified by Bureau Veritas in 2006. These figures represent the maximum capacities determined by the operating regulation of Endesa Chile, No.38 "Regulation for Defining the Maximum Capacity of Hydroelectric and Thermal Plants of Endesa Chile". They relate to the maximum design capacity of the generating units, mostly corroborated by contractual guarantee satisfaction tests made by the supplier of the equipment. In some cases, the maximum capacity certified may differ from the capacity declared to the regulatory authorities and customers in each country, as a result of the criteria defined by those authorities and to meet the corresponding contractual standards.

(2) It relates to total generation less own consumption.

ACTIVITIES AND PROJECTS

ENDESA COSTANERA S.A.

During 2006, demand on the Argentine electricity grid increased by around 5.9% over 2005, following the growth trend seen since 2003. As a result, Endesa Costanera S.A. produced a net 8,709 GWh during the year, a record for the company.

To meet this increase in its dispatch in 2006, it was necessary to have a total of 1,519 million m³ of natural gas; 414,061 tons of fuel oil and 23,968 m³ of gas oil. With respect to liquid fuels, the authorities decided to continue with fuel purchases

through Cammesa on behalf of the state, both from foreign and domestic suppliers. Of the total fuel oil consumed by Endesa Costanera, 87% was supplied by Cammesa and 13% own fuel acquired by Endesa Costanera.

In operating terms, the generating units of Endesa Costanera supported the grid in critical situations in 2006, whether due to faults or fuel restrictions, recording more than a hundred start-ups during the year.

The refinancing of its short-term debt was completed successfully during 2006, giving priority to strict cash management in order to ensure the funds needed for the proper operation of the plant.

In regulatory matters, the wholesale electricity market (MEM) continued to be intervened by the authority in the setting of the hourly energy sale price and the payment of that produced by the generators. Due to these measures, the company receives part payment of its monthly credits, the balance being placed in FONINVEMEM.

HIDROELÉCTRICA EL CHOCÓN S.A.

With the continuance of the favorable hydrology in 2006, the company managed to break its record of 4,502 GWh set in 2001 by generating 5,041 GWh, 12% more than the previous record. The net generation of the El Chocón Arroyito complex was 28% more than in 2005, which left the reservoir at the end of 2006 at a level of 380.0 meters above its minimum level, which implies a reserve of 1,474 GWh.



El Chocón, Argentina.

Hidroeléctrica El Chocón S.A. continued to focus its commercial actions on diversifying its customer portfolio through trading in markets other than the spot market, giving priority to profitable long-term relations with customers of proven strength. As a result, it increased its share of the term contracts market by 18.7%, achieving 1,358.7 GWh of energy sold which was also a record.

Regarding the Argentine electricity grid, the capacity of the Comahue–Buenos Aires transmission line was increased from 4,600 MW to 4,900 MW in August 2006, providing greater access to the market. In March 2006, the MEM was linked to the Patagonia MEM Grid (MEMSP) by a 500 kV line linking the transformer stations of Choele Choel with Puerto Madryn.

Operationally, the accumulated availability during 2006 of the El Chocón and Arroyito complex was 99.4%.

A policy within corporate sustainability development continued to be applied in 2006, following the corporate concepts on this matter. The company maintained its OHSAS 18001:1999, obtained in 2005, during 2006.

In the finance area, there was an important improvement in the credit rating of the company's negotiable securities during the year, by both rating agencies, reflecting the behavior shown in complying with its obligations and the company's prudent policy followed in terms of debt and its operations. Moody's Latin America Clasificadora de Riesgo S.A. raised its rating by five steps, from BB- to BBB+. In September 2006, the negotiable securities were fully prepaid from the proceeds of a private debt instrument issue subscribed by Deutsche Bank A.G. and Standard Bank PLC (US\$ 50 million for each entity), the facility including the extension of principal payment date to September 2011.

PARTICIPATION IN FONINVEMEM

Because of the conditions prevailing in the MEM, the Secretary of Energy has promoted regulatory mechanisms for increasing the supply of electricity to ensure domestic supplies. The investments in FONINVEMEM were registered and Resolution 1281/06 published to give priority to the supply of each SADI demand segment to face the restrictions programmed on the MEM and encourage the incorporation of additional energy supplies through the Energía Plus Service.

In 2005, Endesa Costanera and Hidroeléctrica El Chocón S.A. signed, together with other generators, the definitive adhesion agreement for the construction of two combined-cycle plants and to maintain these facilities for a period of ten years. In December 2005, the constitution and bylaw documents were signed for the two generating companies created under the FONINVEMEM framework: Termoeléctrica Manuel Belgrano S.A. and Termoeléctrica José de San Martín S.A.

In October 2006, the works contracts were awarded for both plants to the German company, Siemens. Progress in the works of FONINVEMEM opens the way to begin changes in the MEM regulatory framework, as was foreseen in the final agreements with the authority. The first stage will start functioning in early 2008, the cost being around US\$ 1,100 million, and it will enable available capacity to be increased by about 10%.

At December 31, 2006, the participation in FONINVEMEM by Hidroeléctrica El Chocón S.A. amounted to US\$ 83.2 million, which represents around 19% of the total contributions. The participation of Endesa Costanera S.A. amounted to US\$ 5.4 million, being about 5% of contributions.



OPERATIONS

IN BRAZIL

ENDESA BRASIL

On May 24, 2005, the board of Endesa Chile approved the constitution of the holding company in Brazil with the name of Endesa Brasil S.A., which received the contribution of existing assets in that country owned by Endesa Internacional, Endesa Chile, Enersis and Chilectra. The purpose of this asset reorganization was to simplify the organizational structure to provide greater efficiency and transparency of flows. It also permits greater stability of local cash flows by being managed centrally, and the optimization of financing costs. It will also strengthen the group's positioning to take advantage of new investment opportunities, making it the third integrated private-sector group in Brazil.

In October 2005, Endesa Chile ceased to consolidate with Cachoeira Dourada, and Enersis began to consolidate Endesa Brasil S.A. by holding a direct and indirect participation of 53.6% in the holding company. In 2006, the International Finance Corporation entered Endesa Brasil S.A. as a new shareholder. Endesa Chile has a 37.65% shareholding in Endesa Brasil S.A.

Endesa Brasil S.A. controls the following companies:

FORTALEZA

This is a combined-cycle thermal plant using natural gas and diesel oil. It is located in Caucana, 50 kilometers from the capital of the state of Ceará. Its generating capacity is 322 MW, sufficient to serve a city of around 1.2 million residential and industrial consumers or to supply a third of the needs of Ceará.

Gross energy generation in 2006 was 248 GWh and energy sales were 2,705 GWh.

CACHOEIRA DOURADA

This is a pass-through hydroelectric plant that uses the waters of the river Paranaíba to generate electricity. It is located in the State of Goiás, 240 km. south of Goiânia and its declared capacity is 658 MW.

The gross energy generation in 2006 was 4,241 GWh and energy sales were 4,177 GWh.



Endesa Cachoeira, Brazil.



Endesa Fortaleza, Brazil.

CIEN

Cien provides for the energy integration of Mercosur and enables the export and import of electricity between Argentina and Brazil. It has two transmission lines with a total installed capacity of 2,100 MW. They cover a distance of approximately 500 km, from Rincón Santa María in Argentina to Itá in the state of Santa Catarina in Brazil.

Energy sales during 2006 were 6,394 GWh.



Endesa CIEN, interconnection Argentina - Brazil.

AMPLA

Ampla is an electricity distribution company that covers 73.3 % of the state of Rio de Janeiro, an area of 32,054 km². The population of the area is approximately eight million spread over 66 municipalities, the main ones being Niteroi, São Gonçalo, Petrópolis, Campos and the coastal area of Los Lagos.

Ampla supplied 8,668 GWh during 2006, representing a 6.0 % increase over 2005. Of the total energy sold, 38.2% was to residential customers, 10.6% to industrial customers, 18.5% to commercial customers and 32.7% to other.

Ampla's customers total 2,316,251 of which 2,076,577 are residential, 164,835 commercial, 6,075 industrial and 68,764 from other sectors.

Energy losses have been reduced from 22.4% in December 2005 to 21.9% in December 2006.

COELCE

Coelce is the electricity distribution company for the state of Ceará in north-east Brazil and covers a concession zone of 148,825 km². The company serves a population of more than seven million people.

Energy sales amounted to 6,769 GWh in 2006, 2.9% more than in 2005. Of the total sold, 32.1% was to residential customers, 18.5% to commercial, 17.2% to industrial and 32.3% to other customers.

Coelce's customers total 2,543,257 of which 79.4% are residential, 5.6% commercial, 0.3% industrial and 14.7% from other sectors.

Total energy losses (moving 12 month average) compared to the total energy acquired by the company declined significantly, from 14.0% in 2005 to 13.0% in 2006.



Fortaleza, Brazil.



OPERATIONS

IN CHILE

Endesa Chile and its Chilean subsidiaries have a generating park comprising twenty plants throughout the Central Electricity Grid (SIC) and two plants on the Northern Electricity Grid (SING).

GENERATING PLANTS OF ENDESA CHILE AND SUBSIDIARIES

Plant	Company	Technology	Installed Capacity (MW) (1)	
			2005	2006
Los Molles	Endesa Chile	Hydraulic	18.00	18.00
Rapel	Endesa Chile	Hydraulic	377.00	377.00
Sauzal	Endesa Chile	Hydraulic	76.80	76.80
Sauzalito	Endesa Chile	Hydraulic	12.00	12.00
Cipreses	Endesa Chile	Hydraulic	106.00	106.00
Isla	Endesa Chile	Hydraulic	68.00	68.00
Abanico	Endesa Chile	Hydraulic	136.00	136.00
El Toro	Endesa Chile	Hydraulic	450.00	450.00
Antuco	Endesa Chile	Hydraulic	320.00	320.00
Ralco	Endesa Chile	Hydraulic	690.00	690.00
Tal Tal	Endesa Chile	Fuel/Gas	244.90	244.90
Diego de Almagro	Endesa Chile	Fuel/Gas	46.80	46.80
Huasco GT	Endesa Chile	Fuel/Gas	64.23	64.23
Huasco steam	Endesa Chile	Coal	16.00	16.00
Bocamina	Endesa Chile	Coal	128.00	128.00
Pehuenche	Pehuenche	Hydraulic	566.00	566.00
Curillinke	Pehuenche	Hydraulic	89.00	89.00
Loma Alta	Pehuenche	Hydraulic	40.00	40.00
Pangue	Pangue	Hydraulic	467.00	467.00
Tarapacá GT	Celta	Fuel/Gas	24.00	24.00
Tarapacá coal	Celta	Coal	158.00	158.00
San Isidro	San Isidro	Fuel/Gas	379.00	379.00
TOTAL			4,476.73	4,476.73

(1) Capacities certified by Bureau Veritas in 2006. These figures represent the maximum capacities determined by the operating regulation of Endesa Chile, No.38 "Regulation for Defining the Maximum Capacity of Hydroelectric and Thermal Plants of Endesa Chile". They relate to the maximum design capacity of the generating units, mostly corroborated by contractual guarantee satisfaction tests made by the supplier of the equipment. In some cases, the maximum capacity certified may differ from the capacity declared to the regulatory authorities and customers in each country.

The generating capacity of Endesa Chile and its Chilean subsidiaries represents 50% of the total installed capacity on the SIC and 5% on the SING (installed capacity on the SING rises to 27% if the related GasAtacama Generación S.A. is included).

CONTRACTS AND CUSTOMERS

Endesa Chile is the leading company in the electricity supply market for regulated and non-regulated customers on the SIC and has an important position in the electricity market on the SING.

In order to maintain its market position in the medium and long term, Endesa Chile in 2006 signed new supply contracts with non-regulated customers like Emelat (Agrosuper project), with expiry in 2015; CGE Distribución (customers in the Río Maipo zone), with expiry in 2009; Compañía Minera del Pacífico (Iron-Atacama project), to expire in 2009; Indura, to expire in 2014; Masisa, with expiry in 2015, and signed a commercial agreement with Minera Los Pelambres to supply it with electricity until 2012.

With respect to the tenders for long-term supplies that took place during 2006, Endesa Chile successfully obtained commitments with each of the distributors bid for: Chilectra, Emel, CGE Distribución, Chilquinta and Saesa. The total amount awarded to Endesa Chile was 6,395 GWh per year, which represents 100% of its energy supply in this process and 54% of that tendered. The average monomic price of the energy awarded was US\$ 65.2 per MWh, referring to the Alto Jahuel 220 kV node.

With respect to contracts with subsidiaries, Endesa Chile continued to buy energy from its subsidiaries Compañía Eléctrica San Isidro (2,125 GWh p.a.), Empresa Eléctrica Pangué (1,200 GWh p.a.) and Empresa Eléctrica Pehuenche S.A. (1,945 GWh p.a.) under supply contracts whose amounts are adjusted to their respective commercial policies.

Endesa Chile also continued in 2006 with its policy of continuous improvement of commercial relations with customers, carrying out a series of activities with them. Within the integral customer service framework, the 2nd Seminar with Customers was held, the second customer service survey was carried out, and a visit was made to the Ralco plant.

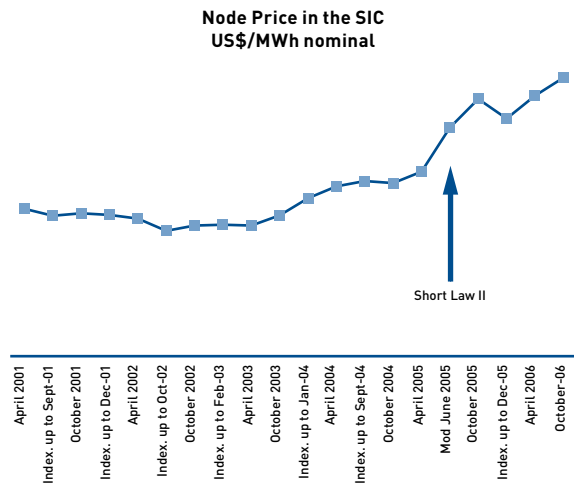
POSITIVE CHANGE IN NODE PRICES

The Argentine natural gas supply crisis and the rise in the prices of the principal fuels used to generate electricity has translated into a rise in electricity production costs, with respect to the current and future years.

The recent amendments to the regulations incorporated through the so-called Short Law II have allowed these higher production costs to be reflected realistically in the node prices.

These effects can be seen in the following graph which shows the changes in the node prices on the SIC, noting large increases in recent years. For example, the average monomic node price for 2006 was 14% higher than in 2005 and 33% more than in 2004.

The present node prices have implied an important increase in Endesa Chile's operating income as it has a highly-competitive production base, with a strong hydroelectric component, that has benefited from the abundant rainfalls in 2006.

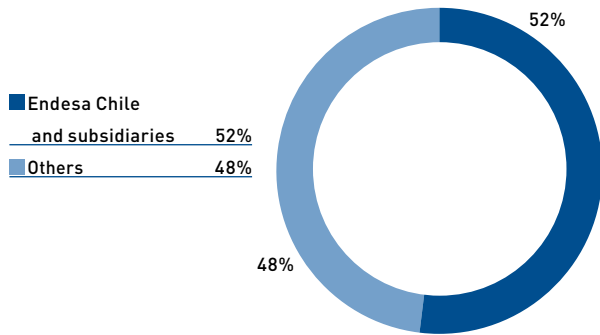


Source: CNE monomic nominal node price (Energy in Alto Jahuel + Power in Maitencillo with load factor 74.4%)

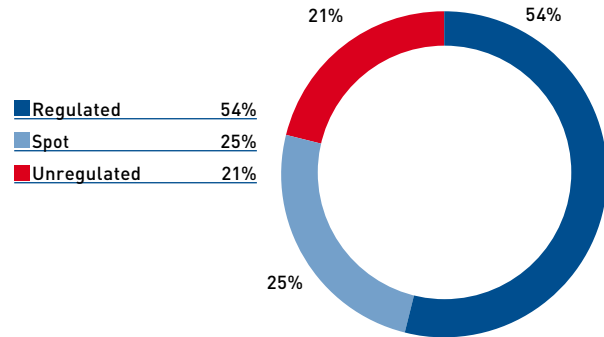
MARKET SHARE

Sales of electricity by Endesa Chile and its subsidiaries to customers on the SIC reached 19,856 GWh in 2006. This represents 52% of total SIC sales, including sales to customers and sales on the spot market. Sales to regulated customers represented 54.2% and to non-regulated customers 20.7%, while 25.1% was sold on the spot market.

MARKET SHARE OF ENDESA CHILE AND SUBSIDIARIES IN THE SIC

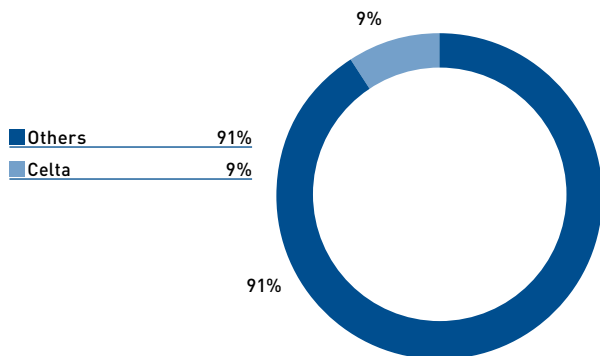


SALES MIX OF ENDESA CHILE AND SUBSIDIARIES IN THE SIC

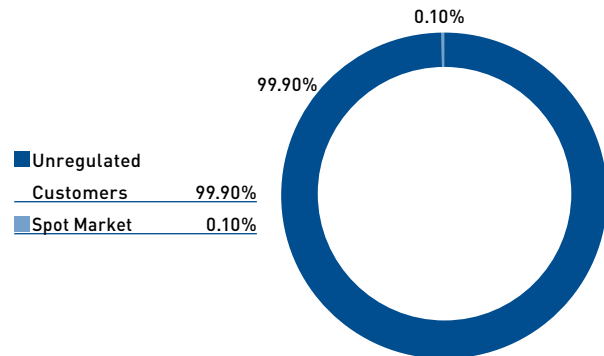


Electricity sales of the subsidiary Celta to its customers on the SING amounted to 1,067 GWh in 2006, representing a 9% share of total sales on the SING.

MARKET SHARE OF CELTA IN THE SING



SALES MIX OF CELTA



INSTALLED CAPACITY, ENERGY GENERATION AND SALES OF ENDESA CHILE AND CHILEAN SUBSIDIARIES

INSTALLED CAPACITY (MW) (1)	2005	2006
Endesa Chile	2,753.7	2,753.7
Pehuenche S.A.	695.0	695.0
Pangue S.A.	467.0	467.0
San Isidro S.A.	379.0	379.0
Celta S.A.	182.0	182.0
TOTAL	4,476.7	4,476.7
ELECTRICITY GENERATION (GWh)	2005	2006
Endesa Chile	10,903	11,642
Pehuenche S.A.	4,060	4,346
Pangue S.A.	2,241	2,432
San Isidro S.A.	1,177	802
Celta S.A.	383	751
TOTAL	18,764	19,973
ELECTRICITY SALES (GWh)	2005	2006
SALES TO END CUSTOMERS:		
Endesa Chile	13,385	13,831
Pehuenche S.A.	230	293
Pangue S.A.	1	4
San Isidro S.A.	814	738
Celta S.A.	943	1,066
Sales of Endesa Chile and subsidiaries to the CDEC	5,358	4,991
TOTAL CONSOLIDATED SALES OF ENDESA CHILE	20,731	20,923

(1) Capacities certified by Bureau Veritas in 2006. These figures represent the maximum design capacities of the generating units, mostly corroborated by contractual guarantee satisfaction tests made by the supplier of the equipment.

NATURAL GAS RESTRICTIONS IN 2006 AND THEIR IMPACT ON THE SPOT MARKET

The restrictions on gas from Argentina were maintained in 2006 and no improvement is expected in the near future.

Endesa Chile has a strong position in terms of the operating risks that this situation could imply as it has a low-cost electricity production matrix with an important hydroelectric component, to which is added the implementation of a commercial policy that constantly evaluates, and has permitted, having and selling electricity surpluses on the spot market in 2006, with the consequent effect reflected in the increased value of its assets.

ACTIVITIES AND ELECTRICAL PROJECTS

The principal activities and projects carried out during 2006 are as follows:

EXPANSION OF SAN ISIDRO PLANT

This combined-cycle project of 377 MW, which has its environmental permits approved and whose engineering, procurement and construction (EPC) contract was signed in July 2005 with Mitsubishi Corporation, is located alongside the present San Isidro plant, in the Venecia district of Quillota in Chile's 5th Region.

As a new capacity alternative on the SIC of Endesa Chile and in order to improve the security of supply committed for the next 3 years as a result of the natural gas supply crisis affecting the country, this thermal plant will be able

to operate initially with diesel fuel, first in open cycle and a year later in combined cycle, to then operate with liquefied natural gas (LNG) as soon as the country has this fuel, which is expected to be in 2009.

The injection of energy into the SIC will be made at the San Luis, Quillota, substation, through the installations of the company Transquillota.

In September 2006, the principal equipment of the gas turbine (generator, turbine, principal transformer, rotor and frame) arrived at the port of Valparaiso, so the assembly was carried out in October and November 2006. The tasks related to the steam turbine are also being carried out, like the construction of the refrigeration tower and the foundations for the turbine, generator and steam turbine transformer.



San Isidro expansion, Second Unit, Chile.



Palmucho, Chile.

PALMUCHO HYDROELECTRIC PLANT

The Palmucho project contemplates the construction of a pass-through hydroelectric plant at the foot of the Ralco plant dam, in a machine cavern adjacent to the outfall area at the bottom of the Ralco reservoir.

The Palmucho generating unit will have a capacity of 32 MW and use Ralco's ecological flow (27.1 m³/s).

The energy produced will be taken by the present works feeder line and the existing Ralco-Charrúa link.

In November 2006, the assembly was successfully completed of the generating unit coil, thus satisfactorily meeting one of the first stages of the construction.

The start-up of this project is planned for September 2007.

OJOS DE AGUA MINI HYDROELECTRIC PLANT

The Ojos de Agua mini hydroelectric plant, the first project under construction by Endesa Eco, will be located in the basin of the river Cipreses in the Maule basin in Chile's 7th region. It will use the filtrations from the La Invernada lake and the difference in altitude between the area where the waters appear and the machine room of Endesa Chile's Cipreses plant, to inject 9 MW into the SIC.

The project, which has its environmental impact declaration approved, consists of three intakes to harness the waters of the river Cipreses, the Ojos de Agua stream and the Laguna Verde stream, taking the water through a common channel to a load chamber, crossing the river by a siphon and entering a pressure tunnel to reach the machine room. The installations of the Cipreses plant will be used, with the necessary adaptations, to inject the energy into the SIC.

The permit was approved in December 2006 by the general water authority for the construction of the hydraulic works. The planned start-up date for the plant is April 2008.



Ojos de Agua, Chile.

CANELA WIND-GENERATORS PARK

The Canela project, which has its environmental impact declaration approved, contemplates the construction of the first wind-turbine generating park connected to the SIC, to be located in the village of Canela, Choapa province in Chile's 4th Region of Coquimbo, to the north of Los Vilos. It will be beside of the Route 5 North highway, between the coast and the highway, 295 kilometers north of Santiago.

In a first stage, the project will have 6 wind turbines of 1.65 MW each, installed at an altitude of 70 meters, thus producing a total installed capacity of 9.9 MW which will provide an average annual generation of approximately 26 GWh.

In a second stage, the project contemplates the addition of 5 more wind turbines of the same characteristics as the first stage, with an additional capacity of 8.25 MW which will provide an average annual generation of around 21 GWh. During December 2006, the documents were prepared for submitting the environmental impact declaration for the increase in capacity of the generating park by these 8.25 MW.

Endesa Eco signed a supply contract in October 2006 with the Danish company Vestas for the supply of the wind turbines to make up this plant.

The estimated start-up date for the first stage is late August 2007 and, for the second stage, late October 2007, to complete the 18.15 MW planned.



In Canela, Chile, a wind generation project is developed.

PROJECTS UNDER STUDY

Endesa Chile is constantly analyzing the growth alternatives that can be developed in the countries in which it operates. Given the accelerated growth in demand, and its political and regulatory stability, Chile offers a suitable scenario for the Company to expand its installed capacity.

Endesa Chile is therefore progressing with the preliminary project and study phase of different hydroelectric projects in the country, like Neltume (400 MW), Choshuenco (134 MW) and Los Cóndores (140 MW). Endesa Chile, through its subsidiary Endesa Eco, is also analyzing the construction of the Piruquina mini-hydroelectric plant (6.1 MW).

Endesa Chile has begun, with the support of Ingendesa, the carrying out of preliminary technical studies and the environmental base line in order to know the feasibility of these projects by early 2007.

BOCAMINA PLANT EXPANSION, SECOND UNIT

At the same time, Endesa Chile is evaluating the expansion of its Bocamina plant through the installation and start-up of a second generating unit, on land adjoining the present one.

The project will be in the district of Coronel, province of Concepción, in Chile's 8th Region of Bío Bío. The second unit would be equipped with technology to burn pulverized coal and have an installed capacity of around 350 MW.

The project also includes a filter on the first unit of the Bocamina plant which would capture a large part of the particle matter emissions present in the combustion gases.

The environmental impact assessment was presented to the regional environmental authority in July 2006, and is currently awaiting approval.

Endesa Chile has invited five of the principal international companies to participate in the tender for the engineering, procurement and construction (EPC) contract. It is expected that this process will be completed during the first half of 2007.

The estimated start-up date for the project is mid 2010.

AYSÉN HYDROELECTRIC PROJECT (2,400 MW)

Endesa Chile constituted the company called Centrales Hidroeléctricas de Aysén S.A., HidroAysén. Endesa Chile has a 51% shareholding and Colbún S.A. the remaining 49%. A shareholder agreement has been signed. The company will be responsible for carrying out the studies, as well as the development, financing, construction and exploitation of the Aysén hydroelectric project once it has the pertinent permits and authorizations.

Studies continued during 2006 relating to the development of the project's pre-feasibility study, with the objective of having, by mid 2007, the technical, environmental and social information needed to evaluate and dimension the possible use of the water resources of the rivers Baker and Pascua in the 11th Region of Aysén.

Notable are the high technical and environmental standards and respect for and involvement of the community in which these studies have been carried out. For example, the topographical studies using aircraft-carried laser equipment, top-level technology and no impact on the environment, and the possibility of providing jobs to more than a hundred inhabitants of Cochrane and its surroundings during the making of the studies, which covered a broad variety of matters and a broad level of depth, using the best professionals and experts in the matters analyzed.

From the engineering point of view, matters like topography, exploration soundings, geology, geophysics and bathymetry are being carried out by leading Chilean companies and their results are being compiled and supervised by Ingendesa, the company responsible for the project's engineering.

From the environmental and social point of view, more than a dozen studies are being made to characterize the area of influence of the project, defined as 300 thousand hectares. Entities like the Pontificia Universidad Católica de Chile, Universidad de Chile, Universidad Austral, Universidad de Concepción, Universidad Central, and the Center of Applied Ecology are carrying out various studies for determining, for example, the land and aquatic flora and fauna of the zone, the water quality of the rivers, evaluate the landscape in the area of influence, characterize the national monuments, study the historic, archaeological, religious and the paleontological heritage, etc.

These studies will form part of the environmental impact assessment that is being prepared by the SWECO-POCH-EPS consortium which has a Chilean and international team of a high scientific level, with relevant experiences in the development of environmental studies of hydroelectric projects very similar to those of Aysén.

OTHER ACTIVITIES

OPERATION OF SAN ISIDRO PLANT WITH OIL

Tests were concluded at the San Isidro plant of the modifications made to ensure the operation of the gas turbine using diesel oil as an alternative fuel. These modifications consisted of the incorporation of separation and filtering stages through an oil treatment plant, an increase in the capacity of the oil tanks, modification of the nozzles and incorporation of water injection in the combustion stage to control emissions and the temperature in the combustion chambers. With these modifications, the plant can more reliably carry out future operations with liquid fuel in the absence of natural gas from Argentina and until the arrival of LNG.



11th Region of Aysén, Chile.

NATIONAL PRODUCTION CENTER- CEN

Consent was given in September to the project called National Operating Center which seeks to create a latest-generation control center in Santiago, Chile, to carry out the remote control of all the Company's hydroelectric plants.

MONITORING AND DIAGNOSTIC CENTER - CMD

During 2006, the on-line information system of the Monitoring and Diagnostic Center continued to be implemented and prepared, achieving the connection to the system of the San Isidro, Gas Atacama and Fortaleza plants, and information coming from the Generation Control Centers of Chile, Peru, Argentina, Colombia and Brazil. The objective of this project, which incorporates the latest-generation technology, is to increase the reliability of the generating equipment, improving the efficiency of plant operating and maintenance management, under the levels of innovation and technological development promoted by the Company.

QUALITY STANDARDS

At December 31, 2006, the Company's operational management systems are certified as follows:

- ISO 14001 Standard, Environmental Management System: Installed capacity certified of 4,476.7 MW, equivalent to 100% of the park.
- OHSAS 18001 Standard, Safety and Occupational Health Management System: Installed capacity certified of 4,476.73 MW, equivalent to 100% of the park.
- ISO 9001 Standard, Quality Management System: Installed capacity certified of 379 MW, equivalent to 8.5% of the park.

OPERATIONS OF THE RELATED COMPANY GASATACAMA

GasAtacama is mainly dedicated to the transport of natural gas by pipeline between north-west Argentina and the north of Chile, and the generation and sale of electricity to regulated and non-regulated customers on the SING, for which it has a combined-cycle plant with an installed capacity of 781 MW.

The restrictions on deliveries of Argentine natural gas imposed since 2004, and the imposition of duties on gas exports have led to an increase in the costs of the electricity supply of its subsidiary GasAtacama Generación S.A., which caused the company to renegotiate its contracts with its principal customers to pass on the higher costs. To date, GasAtacama has renegotiated around 80% of its contracts with non-regulated customers. However, in the case of contracts with electricity distributors in the north, Emelari, Eliqsa and Electa, the higher costs could not be passed on as the sale price is regulated by the authority. The company has therefore sought a solution through arbitration under the clauses for the resolution of disputes contained in those contracts.

Sales of energy to regulated and non-regulated customers amounted to 3,232 GWh in 2006, compared to 3,132 GWh in 2005. The combined-cycle plant of GasAtacama generated 1,696 GWh in 2006, compared to 2,482 GWh in 2005.

LIQUEFIED NATURAL GAS PROJECT

On February 15, 2006, Endesa Chile, ENAP and Metrogas signed with British Gas (BG) a letter of agreement for the development of a liquefied natural gas (LNG) re-gasification plant in the bay of Quintero, in Chile's 5th Region, with its corresponding supply of fuel by BG. The agreement defined the basic commercial aspects for the project's development and the LNG supply.

In 2006, Chicago Bridge & Iron completed the project's engineering studies which foresee a re-gasification capacity of 9.5 MMm³ per day, the construction of 1,500 m quay and two LNG storage tanks of 160,000 m³ each, with full containment technology that is globally recognized as of low risk. The engineering studies also contain recommendations regarding alternatives for bringing forward the project (fast-track), which would permit it to operate in late 2009.

On September 29, 2006, the project development agreement (PDA) was closed with BG. This agreement goes deeper into and modifies certain agreements in the commercial documents and replaces the letter of agreement signed on February 15, 2006.

At the closing of this report, details were being negotiated of the whole contractual structure involved in the project and it is expected to award the EPC (engineering, procurement and construction) contract during the first half of 2007.

AMENDMENT OF THE NATURAL GAS SUPPLY CONTRACT OF COMPAÑÍA ELÉCTRICA SAN ISIDRO S.A. WITH YPF

In April 2006, the amendment signed in 2005 between the subsidiary Compañía Eléctrica San Isidro S.A. and its supplier YPF came into effect: This regulates the payment of compensation for the non-delivery of the natural gas required for generation. The application of this amendment implied that the subsidiary is charging YPF with US\$ 19.6 million.

In addition, a second amendment to the natural gas contract was agreed with YPF to reflect the new withholdings required by Resolution 534 of the Ministry of the Economy and Production, Argentina.

CONCÓN – QUILLOTA OIL PIPELINE PROJECT

Through Electrogas, Endesa Chile and its subsidiary Compañía Eléctrica San Isidro are participating in a project for constructing an oil pipeline between Concón and Lo Venecia, from the plant of the supplier of diesel oil to the storage tanks

for carrying the fuel to be used in the generating units. This will improve the security of oil supplies and avoid the road-environmental impact of land transportation. This project will be in service in early May 2007.

COAL DELIVERY CONTRACT WITH NYK

During the third quarter of 2006, a delivery contract was agreed with the Japanese shipowner NYK for a period of one year, covering coal shipments from the Asia-Pacific region. The contract contemplates a commitment to make eight firm shipments, plus four optional ones at the discretion of Endesa Chile. Very attractive freight rates were obtained due to the present state of the shipping market. Four shipments had already been ordered by the end of the year.

BOCAMINA PLANT FILTER

On April 11, 2006, the order to proceed was given to a consortium led by the company Alstom, for the supply, installation and start-up of a filter to capture 99.5% of the ash produced during the coal combustion process at the Bocamina plant. The installation began in August and start-up is planned for the first quarter of 2007. This investment, of a voluntary nature, shows Endesa Chile's commitment with the surroundings and respect for the environment.



Bocamina plant, Chile.



OPERATIONS

IN COLOMBIA

INSTALLED CAPACITY AND ENERGY GENERATION AND SALES

INSTALLED CAPACITY (MW) (1)	2005	2006
EMGESA		
Guavio (Hydroelectric)	1,164.00	1,163.00
Cadena Pagua (Hydroelectric System)	601.20	601.20
Cartagena (Thermal) (2)	-	142.00
Termostiza (Thermal)	235.50	235.50
Minor Plants (Hydroelectric) (3)	115.60	96.10
TOTAL	2,116.30	2,237.80
BETANIA		
BETANIA (HYDROELECTRIC)	540.90	540.90
TOTAL COLOMBIA	2,657.20	2,778.70
ELECTRICITY GENERATION (GWh)	2005	2006
EMGESA	9,763	10,360
BETANIA	2,101	2,204
TOTAL GENERATION IN COLOMBIA	11,864	12,564
ELECTRICITY SALES (GWh)	2005	2006
EMGESA	12,340	12,273
BETANIA	2,737	3,054
TOTAL SALES IN COLOMBIA	15,077	15,327

(1) Capacities certified by Bureau Veritas in 2006. These figures represent the maximum capacities determined by the operating regulation of Endesa Chile, No.38 "Regulation for Defining the Maximum Capacity of Hydroelectric and Thermal Plants of Endesa Chile". They relate to the maximum design capacity of the generating units, mostly corroborated by contractual guarantee satisfaction tests made by the supplier of the equipment. In some cases, the maximum capacity certified may differ from the capacity declared to the regulatory authorities and customers in each country.

(2) In March 2006, Emgesa began to manage the recently-acquired Cartagena plant. At December 2006, the plant had two units operating, one of 68 MW and the other 74 MW. The third unit of 64 MW was being repaired and it is expected to reincorporate this into the grid in the second half of 2007.

(3) The San Antonio plant left the grid in 2006.

ACTIVITIES AND PROJECTS

EMGESA S.A. E.S.P.

The company made a third placement of bonds for 40,000 million Colombian pesos (US\$ 18 million). These were placed for a 9-year term and the placement rate was inflation (CPI) plus 2.40%, a rate below that of government securities of the same term.

Emgesa also registered a bond issuance program for US\$ 305 million with which it can access the capital market at any time. This program will replace short-term debt with long term debt and finance part of the company's expansion program. This is just the second company in the productive sector with an issuance program approved by the Financial Superintendency.

In 2006, Emgesa's generation contributed 19.8% of the grid's total. The average exchange price during the year was \$ 75.85 per kWh. The operating margin for 2006 was 662,337 million Colombian pesos, 2.8% more than the previous year. Because of the good hydrology during the year, the exchange price was 1.5% higher than in 2005.

The company took an active part in the development of the load remuneration mechanism for reliability. This new mechanism distributes proportionately the firm energy commitments for the period (December 2006-November 2009). Energy auctions will then be made in which each generator can offer its firm energy for up to twenty years, thus encouraging investment in generation to reliably meet the demand.

The new scheme represents for Emgesa an increased remuneration of around US\$ 42 million.

Consistent with its commercial policies of good service, transparency and seriousness in complying with its commitments, the company saw constant growth in the number of customers in the non-regulated market, a segment with 849 customers in 2006 which represents a volume share in the non-regulated market of 19.3%.

Emgesa, seeking to become a technological partner to its customers, provided technical and value-added services to more than 290 electrical projects with a value of the equivalent of 1.8 million dollars.

In line with its long-term contracting policy, more than 100 % of the commitments defined for the period 2007-2008 were met in 2006. Energy sales contracts for 2009 were also begun.

Emgesa in 2006 presented its second sustainability report for the year 2005 which was audited by the firm BVQI. Its first progress report was also sent to the United Nations in compliance with the Global Compact principles.

Follow-up audits were made of the environmental management system certification by the firm BVQI Colombia, finding full conformity with the ISO 14001:2004 standard.

As part of the publishing of its corporate sustainability development strategy, it took part in different environmental and sustainability events like the Andesco Corporate Sustainable Development Competition and organized the 1st annual meeting on the environment.

The integrated management system (ISO 14001 and OHSAS 18001) was introduced and certified at the Cartagena plant in order to bring it up to the environmental and safety standards of the Colombian generating plants.

SURATEP, the Professional Risks Administrator of Colombia, the largest in the country with around 15 thousand businesses and a million workers affiliated, awarded Emgesa first place in the SURATEP prizes for excellence, in recognition of its work and commitment to the prevention of professional risks.

CENTRAL HIDROELÉCTRICA DE BETANIA S.A. E.S.P.

The company completed the replacement of its dollar debt with pesos for which it placed a second tranche of the first bond issue for 100,000 million Colombian pesos (US\$ 53 million) at a rate of inflation (CPI) plus 1.80% and for a 5-year term. It also carried out a unique club deal in the market for the equivalent of US\$ 123 million, which closed at DTF plus 2.8% for a 6-year term.

In 2006, the generation of Betania reached 4.2% of the grid total. The operating margin amounted to 104,970 million Colombian pesos, 13.5% below 2005 due to the fall in the spot price which affected the sale price of long-term contracts and the good hydrology in the first half of the year.

Betania made a detailed follow-up of the sector regulations and provided the respective authorities with its comments on all the regulatory change projects.

The assignment for Betania for the period December 2006-November 2007 corresponds to 15.5 million dollars for the year, thus strengthening its participation as one of Colombia's principal generating companies.

During 2006, Betania sold a total of 1,517 GWh in contracts, obtaining a 3% share of the total energy traded in long-term operations between generators and distributors on the National Electricity Grid. It also achieved 90% of its target in sales contracts, in line with its commercial policy for 2007 and 2008.

It concluded the second phase of the institutional strengthening program in the municipalities of Campoalegre and Gigante and the third phase of the same program in the municipality of Hobo. The pilot experiences of the conformation and reactivation of the social control committees with the communities benefits and supports the public efforts in the areas of influence.

EMGESA S.A. E.S.P. AND CENTRAL HIDROELÉCTRICA DE BETANIA S.A. E.S.P.

The Endesa group and EEB, shareholders in Emgesa and Betania agreed to merge the companies. This will enable the partners to preserve their present percentage shareholdings, produce assets of over US\$ 2,500 million, and create a sole, solid and optimized platform for converting Emgesa into the market leader. With this, it is sought to take advantage the fiscal credits and make the financial management of Betania more flexible, advance dividends to the shareholders through the retained earnings of Betania and maintain the financial cost at the optimum levels achieved. Regarding the synergies of the operation, there will be a reduction in the business risk because of the complementary nature of the hydrological basins, a corporate simplification and limited administrative efficiencies. In 2007, the merger proposition will be submitted for the approval of the shareholders meetings and the competent authorities.



Betania, Colombia.



OPERATIONS

IN PERU

INSTALLED CAPACITY AND ENERGY GENERATION AND SALES

INSTALLED CAPACITY (MW) (1)	2005	2006
EDEGEL		
Huinco (Hydroelectric)	247.35	247.34
Matucana (Hydroelectric)	128.58	128.58
Callahuanca (Hydroelectric)	75.06	75.08
Moyopampa (Hydroelectric)	64.71	64.71
Huampani (Hydroelectric)	30.17	30.17
Yanango (Hydroelectric)	42.61	42.61
Chimay (Hydroelectric)	150.9	150.9
Santa Rosa (Thermal) (2)	227.14	229.11
Ventanilla (Combined Cycle) (2)	-	457.00
TOTAL	966.52	1,425.50
ELECTRICITY GENERATION (GWh)	2005	2006
EDEGEL	4,516	6,662
TOTAL GENERATION IN PERU	4,516	6,662
ELECTRICITY SALES (GWh)	2005	2006
EDEGEL	4,600	6,766
TOTAL SALES IN PERU	4,600	6,766

(1) Capacities certified by Bureau Veritas in 2006. These figures represent the maximum capacities determined by the operating regulation of Endesa Chile, No.38 "Regulation for Defining the Maximum Capacity of Hydroelectric and Thermal Plants of Endesa Chile". They relate to the maximum design capacity of the generating units, mostly corroborated by contractual guarantee satisfaction tests made by the supplier of the equipment. In some cases, the maximum capacity certified may differ from the capacity declared to the regulatory authorities and customers in each country.

(2) On June 1, 2006, following the merger of Etevensa with Edegel, the installed capacity of the Ventanilla plant was added, first operating in single cycle and then in combined cycle from November.

ACTIVITIES AND PROJECTS

EDEGEL S.A.A.

Dividends for a total of 183 million soles (US\$ 57 million) were paid in 2006. These payments were funded by the company's own cash generation, so there was no increase in its debt level.

On June 1, 2006, the merger occurred with Empresa de Generación Termoeléctrica de Ventanilla (Etevensa), which implied completing the construction of the combined cycles of the Ventanilla plant and two major maintenance works on the plant.

Three local-currency bond issues were made in 2006 for a total of 80 million soles (US\$ 25 million), at terms of 4 and 7 years and fixed interest rates of between 6.09% and 6.47%. All the proceeds of these issues were used to refinance existing debt.

CALLAHUANCA PLANT REHABILITATION PROJECT

The Callahuanca plant rehabilitation project consists of modernizing this pass-through hydroelectric plant located 50 km north-east of Lima, which discharges its waters into the river Santa Eulalia. The project covered the modernization of the existing facilities, which date from 1940, optimizing the use of the water resources and improving the reliability of the plant and its operation through the design, supply, rehabilitation, assembly and start-up of the groups 1, 2, 3 and 4.

Units 1, 2 and 3 began operating commercially during 2005 with an incremental capacity of around 3 MW each. Finally, in February 2006, the fourth unit started commercial operations which meant the successful conclusion of the project.

PROJECT FOR THE COMBINED CYCLE CLOSURE, VENTANILLA PLANT – EDEGEL S.A.A.

The Ventanilla plant is located 22 km. to the north-west of Lima, in the district of Ventanilla, province of Callao, Peru. The plant initially had two dual gas turbines in open cycle, installed in 1997 and originally owned by Etevensa.

The project for combined-cycle closure covered the introduction of two heat-recovery boilers, a steam turbine and all the equipment necessary for the operation of the plant in combined cycle, with a configuration of two gas turbines, two heat-recovery boilers and a steam turbine.

During 2006, the works were carried out for completing the project, including the start of its commercial operations in combined cycle (just one boiler) in July. Three months later, the complete combined cycle began its commercial

operation, successfully completing the project and achieving a capacity of 457 MW.

The official inauguration of the plant was in November 2006 with the presence of the top authorities of the country and senior executives of the Endesa group.

CONVERSION TO GAS OF SANTA ROSA

On July 19, 2006, the second phase of the conversion to natural gas was completed of the Santa Rosa thermal plant, employing natural gas from Camisea. This phase consisted of the conversion of the UTI No.5 and No.6 units with an investment of around US\$ 4.5 million. The Santa Rosa plant thus complemented the works begun in 2005 with the conversion of its Westinghouse No.7 unit, permitting the use of Camisea natural gas as fuel.



Santa Rosa, Peru.



OTHER BUSINESSES

INGENDESA

The sales of Ingendesa in 2006 were Ch\$ 19,028 million, of which Ch\$ 9,110 million (48%) was to group companies and Ch\$ 9,918 million (52%) to third parties.

During 2006, Ingendesa participated in important investment projects in Latin America.

Contracted by Endesa Chile, Ingendesa carried out, among other things, the following: the initial study of the plants on the rivers Baker and Pascua; the feasibility study and basic design of the Los Cóndores and Piruquina hydroelectric projects; engineering, contract management and technical inspection of the San Isidro II project works; Ralco plant environmental management; integral engineering,

management and technical inspection of supplies, assembly and start-up of the Palmucho and Ojos de Agua plants and the Canela wind-turbine park; plant modernization project for Endesa; and the preparation of reservoir emergencies action plans.

For Chilectra, Ingendesa carried out the conceptual engineering for the underground Los Leones substation, the project for replacing protections systems and control of the Chena substation and the study to determine the annual value of the sub-transmission system.

Among the more important services provided to third parties were the expert administration of tunnel building contracts, the EPCM contract of the El Mauro tailings dam and EPC expansion of the principal 220 kV substation (Minera Los Pelambres); design for expansion of 500 kV



Santiago subway, Chile.

Polpaico substation; detailed design of the energy supply for sulfur leaching and the installation of a condenser bank Monturaqui – Negrillar system (Minera Escondida); design and technical inspection for the Recoleta extension of Line 2 of the Metro and the basic design for the line to Maipú for Metro de Santiago; various advisory and support services for Transelec; basic and detailed design of the Chiburgo, Quilleco and Hornitos plants, for Colbún; technical inspection of Itahue-San Fernando transmission line reinforcement works and expansion of San Luis and Quillota substations, for Abengoa-Chile; revision of the design of the dam (HCR) Convento Viejo reservoir (Constructora Nilahue); environmental impact assessment for Rucatayo hydroelectric plant (Empresa Eléctrica Pilmaiquén), advice for the fiscal inspection of the construction of the Santiago law courts center (MOP); advice in contract negotiations and specialized services in the development of strategic projects and project management for Codelco.

Finally, Ingendesa has also carried out various projects in the international field. These include support for the management, inspection and supervision of the conversion to combined cycle and study of the COES-SIC system of the Ventanilla plant (Etevensa, Peru); counterparty engineering, inspection of manufacture and assembly of equipment for rehabilitating the Callahuanca plant (Edegel, Peru); study of the Malacas plant gas pipeline (EEPSA, Peru); revision of the protection system of the Malacas thermal plant (Etevensa, Peru); and design of the Chivor and Batatas tunnels harnessing works (Emgesa, Colombia).

SOCIEDAD CONCESIONARIA TÚNEL EL MELÓN S.A.

During 2006, a total of 1,619,487 vehicles used the tunnel of which 65% were light vehicles, 10% buses and 25% light and heavy trucks. Over the same period, the traffic using

the tunnel-hill-road system numbered 2,721,059 vehicles, implying that 60% of these preferred the toll-based tunnel. Compared with the year before, the vehicle flow using the system and the tunnel increased by 11.2% and 3.8% respectively. The concession began in July 1993 and it was opened in September 1995. The concession expires in June 2016.

An event of great importance for the company was the favorable result of the demand made by the company against the Ministry of Public Works (MOP) for damages as a result of the sustained economic imbalance of the concession contract. In 2006, the company approached the conciliation commission contemplated in the concession contract to make this claim. Once the commission was constituted in an arbitration tribunal, the claim was favorably resolved for Sociedad Concesionaria Túnel El Melón S.A. The final sentence ordered the MOP to pay the concession-holder 630 thousand Unidades de Fomento, around US\$ 22 million, plus interest, for the damages caused through substantially improving the Melón hill road and raising the standard of the Nogales-Puchuncaví road.

The company revised its commercial policy in 2006 and obtained nominal revenues from tolls of Ch\$ 4,098 million which represents a nominal increase of 13.5% over 2005. After deducting the cost of sales and administrative expenses, and before the payment of the annual charge to the MOP, it produced an operating income, adjusted for these factors, of Ch\$ 3,570 million. This shows an increase of 17.5% over the year before, mainly explained by a substantial improvement in toll revenues and a strict control over operating costs.

The favorable sentence in the arbitration case against the MOP therefore permitted, despite the heavy financial charge and annual payment to the Treasury, the non-operating result to be positive for the first time, reaching ThCh\$ 1,766,256.



INVESTMENTS AND FINANCIAL ACTIVITIES

INVESTMENTS

During 2006, Endesa Chile and its Chilean and foreign subsidiaries invested a total equivalent to US\$ 419.9 million, as follows:

Company	Investment (millions of dollars) (1)
ARGENTINA	
Endesa Costanera S.A.	27.12
Hidroeléctrica El Chocón S.A.	1.21
Total Investment in Argentina	28.33
CHILE	
Endesa Chile	216.96
Pehuenche S.A.	3.57
Pangue S.A.	0.34
San Isidro S.A.	7.89
Celta S.A.	2.48
Ingendesa (2)	0.58
Endesa Eco	9.54
Total Investment in Chile	241.36
COLOMBIA	
Emgesa S.A.	35.64
Central Hidroeléctrica de Betania S.A. E.S.P.	0.94
Total Investment in Colombia	36.58
PERU	
Edegel S.A.A.	94.45
Total Investment in Peru	94.45
Total Material Investment in Companies	400.72
Total Financial investments	19.16
TOTAL INVESTMENT ENDESA CHILE AND SUBSIDIARIES	419.88

(1) The exchange rate of Ch\$ 532.39 per dollar at the end of the year was used.

FINANCIAL ACTIVITIES

ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS 2006

The net income of Endesa Chile for 2006 was Ch\$ 189,541 million, an improvement of Ch\$ 76,595 million (67.8%) over the Ch\$ 112,946 million produced in 2005. This reflects the increased operating income resulting from the investments made, plus improved non-operating results.

The operating income for 2006 amounted to Ch\$ 504,475 million, a 25.1% improvement over the Ch\$ 403,154 million generated in 2005. The increase in production is the result of good hydrology and the higher water levels in the reservoirs which strengthened the operating figures in Chile. It should be pointed out that the consolidated figures for 2006 do not include the operating income of Cachoeira Dourada in Brazil, which was de-consolidated early in the last quarter of 2005.

Consolidated EBITDA, or operating income plus depreciation and amortization, reached Ch\$ 680,889 million in 2006, an increase of 17.7% over 2005. The distribution of EBITDA by country, adjusted for the percentage shareholdings in each subsidiary, shows that Chile contributes 76.2%, Colombia 10.1%, Argentina 7.9%, and Peru 5.9%.

The most relevant events of 2006 were:

- In July 2006, the Company broke its record for monthly generation in Chile. The good rainfalls in July and the full availability of the generating facilities contributed to this result.
- Consolidation of Endesa Chile as an investment grade company in 2006 by the three international agencies that rate it: Standard & Poor's, Fitch Credit Rating and the recent increase in the international rating by Moody's.
- Regarding the Aysén hydroelectric project, the board of Endesa Chile on August 31 agreed to the constitution of the company Centrales Hidroeléctricas de Aysén S.A. On December 6, the board of the company was constituted, and a shareholders agreement

was signed on October 10 that defined the capital contribution of Endesa Chile at 51%. The preparation of the environmental impact study was awarded to an international consortium formed by SWECO, POCH Ambiental and EPS. Centrales Hidroeléctricas de Aysén S.A. received the prize for the best business initiative 2006 by the Diario Financiero newspaper.

- On September 29, Endesa Chile, ENAP, Metrogas and GNL Chile signed an agreement defining the structure of the liquefied natural gas (LNG) project in which Endesa Chile participates with 20% and which forms part of the strategy to face the lack of gas from Argentina.
- Outstanding participation in the tendering process of Chilean distributors for the period 2010-2024, with Endesa Chile being awarded 6,400 GWh per year, which corresponds to 100% of its offers and 59% of the total offers made, at a price of around US\$ 65 per MWh, with which Endesa Chile will reduce its dependence on the regulated price from 2010, thus ensuring the stability of its future flows.

The consolidated sales in 2006 were Ch\$ 1,337,121 million, 16.6% more than the year before when the total was Ch\$ 1,146,623 million. Energy production amounted to 52,949.4 GWh, an increase of 5.6% over 2005 as a result of the good hydrology, increased demand and higher average sales prices in all the markets and countries where Endesa Chile operates.

The cost of sales in 2006 was Ch\$ 793,260 million, representing an increase of Ch\$ 89,179 million compared to 2005. The increase in fuel costs in 2006 of Ch\$ 77,541 millions (49.5%) is mainly the result of the merger of Etevensa with Edegel in June 2006, which increased thermal generation in Peru. The Company's higher total energy production allowed it to reduce the costs of purchases of energy and power by 6.0%, which implied a saving of Ch\$ 7,724 million

The following is an analysis of the business by country:

Due to the favorable hydrology in Chile, particularly during the period June-September 2006, and the good rate of thaw of the accumulated snow, operating income increased due

to the increase in hydroelectric generation by 8.8% and an improved price scenario during 2006. An increase in demand of over 6% and the constant cuts in natural gas supplies from Argentina have pressured the electricity system, which has been very tight in its installed capacity.

In analyzing the operating situation of each country, the depreciation of the Chilean pesos against the dollar should be borne in mind. This amounted to 3.9% compared to the year before, i.e. Ch\$ 532.39 per dollar at end December 2006 compared to Ch\$ 512.50 per dollar at the end of 2005. The Chilean peso/dollar exchange rate should be taken into account when comparing figures from year to year in Chilean pesos, in accordance with the accounting treatment of the foreign currency results required by the accounting Technical Bulletin No.64.

In Argentina, Endesa Costanera produced operating income of Ch\$ 5,217 million, compared to a loss of Ch\$ 1,982 million in 2005, basically due the increase in energy prices by recognizing the system's higher costs. The El Chocón hydroelectric plant produced an increased operating income of Ch\$ 16,171 million as a result of better hydrology and the increase in market prices.

In Colombia, operating income declined by 1.4% in 2006, basically due to a reduction of Ch\$ 4,893 million in that of Betania as a result of the lower average sale price for the company, despite the 11.6% increase in the volume sold. The operating income of Emgesa partly compensated Betania with a increase of Ch\$ 3,143 million.

Edegel, in Peru, produced operating income of Ch\$ 55.536 million in 2006, which compares favorably with the Ch\$ 54,954 million reported for 2005, and translates into an increase of Ch\$ 582 million. The increased sales, which also include the operation of the Ventanilla thermal plant, were less than offset by the increased cost of sales, which enabled Edegel's operating income to rise by 1.1%.

Endesa Chile's consolidated non-operating result was a loss of Ch\$ 124,204 million, compared to a loss of Ch\$ 158,385 million in 2005, favorably affecting the company's net income compared to the previous year. The principal changes in the non-operating result are the following:

Financial expenses decreased by Ch\$10,630 million (5.8%) from Ch\$ 182,549 million in 2005 to Ch\$ 171,919 million, mainly deriving from a lower debt level, average appreciation of the Chilean against the dollar and the capitalization of financial expenses related to investment projects. Financial income decreased by Ch\$ 1,060 million from Ch\$ 15,878 million in 2005 to Ch\$ 14,818 million, basically explained by the de-consolidation of the financial income of Cachoeira Dourada for Ch\$ 3,992 million, partially offset by an increase in average cash balances.

The net result of investments in related companies increased by Ch\$ 28,490 million in 2006, mainly due to Ch \$ 24,180 million of improved results in Endesa Brasil S.A. and the accrued loss of Ch\$ 7,874 million in 2005 by the former related company CIEN, partly compensated by Ch\$ 3,505 million of lower income from the related GasAtacama.

Other non-operating income and expenses show an improvement of Ch\$ 7,133 million, explained by Ch\$15,726 million of lower provisions for contingencies and litigation, Ch\$ 6,190 million in indemnities and compensations, basically from the MOP to Túnel El Melón S.A., compensated by Ch\$ 13,099 million of a reduced gain from the conversion adjustment in accordance with Technical Bulletin No.64 of our foreign subsidiaries, especially of Betania and Edegel, of Ch\$ 6,117 million, the effect of the de-consolidation of Cachoeira Dourada and Ch\$ 1,676 million of lower recoveries of costs and portfolio from customers.

Price-level restatements and exchange differences showed a net negative change of Ch\$ 11,464 million in 2006 compared to the year before, mainly due to the effects of the 1.8% real depreciation of the Chilean peso against the dollar, compared a real appreciation of 11.7% in 2005.

Income tax and deferred taxes increased by Ch\$ 36,971 million compared to 2005. Accumulated income tax amounted to Ch\$ 130,857 million, comprising a charge of Ch\$ 99,414 million for income tax which shows an increase of Ch\$ 38,011 million over 2005, associated with improved taxable results, mainly of Endesa Chile and its Chilean subsidiaries, and Ch\$ 31,442 million of deferred taxes, which represent a fall of Ch\$ 961 million compared to 2005.

CREDIT RATING

Endesa Chile's current external debt credit rating is Baa3 with stable outlook, according to Moody's, BBB with stable outlook by Fitch, and BBB- with positive outlook by Standard & Poor's. The domestic bonds of Endesa Chile are rated at A+ by Fitch Chile and A+ with positive outlook by Feller Rate.

As a result of Endesa Chile's successful financial strategy, its greater financial flexibility and the macroeconomic and operational improvements in the countries where the Company operates, Moody's raised its credit rating for the external debt of Endesa Chile in December 2006 from Ba1 to Baa3, the Company thereby recovering its investment grade status. In December 2006, Standard & Poor's also raised its rating from BBB- with positive outlook to BBB- with positive prospects and a revision toward a possible rating improvement. In May 2006, Fitch raised its rating from BBB- with positive Outlook to BBB with stable outlook.

INSURANCE

Operational

In June 2006, Endesa Chile and subsidiaries renewed the terms of their All Risks and Civil Liability regional insurance program through a private tender made together with its parent to which the world's principal insurance brokers were invited to participate. This insurance was renewed until June 30, 2007, with an automatic renewal option for Endesa Chile and subsidiaries for 3 years, subject to the claims experience.

The characteristics of the current insurance cover for the subsidiaries of Endesa Chile in Argentina, Chile, Colombia and Peru, and for the related companies in Brazil, are the following:

- All-Risks Physical Assets and Interruption of Business limited to US\$ 200 million for protecting the generating plants and principal transformer substations against the risks of earthquake, avalanche, fire, explosion and flooding.
- Machinery breakdowns loss of earnings up to US\$ 200 million to protect the principal plant production equipment and substations against the risks of operating faults, short circuits, breakage of pieces, material fatigue and mechanical failures in general.

- Extracontractual Civil Liability up to US\$ 150 million covering the Company against physical damages that its business caused to third parties by its activities and for which it is obliged to pay an indemnity.

Insurer market restrictions relating to damage from terrorist acts have prevented the group from contracting this cover for the whole region.

The Group companies also have maritime, air and land transport insurance for the movement of machinery, equipment and supplies, life cover for personnel traveling and for those risks that the law requires to be covered

Works Insurance

Endesa Chile has current insurance cover for construction and start-up delays for all its works (currently Palmucho and San Isidro II). This cover was contracted following a private tender process to which three of world's principal insurance brokers were invited to participate.

The insurance cover established for both projects contemplates All Risks Construction and Assembly, Transport, Civil Liability and Start-Up Delays with limits and deductions in accordance with the Company's risks policy.

In November 2006, a claim was paid for US\$ 3,690,000 for delays in the start-up of the Ralco plant. This claim was paid against the All Risks Construction policy taken for this project.

REFINANCINGS DURING 2006

Regarding the financing of the Chilean subsidiaries, the Company in 2006 had to meet the maturity in April of a Yankee bond for US\$ 150 million issued by Endesa Chile Internacional and the maturity in August of a domestic bond for US\$ 200 million. These were financed by the signing on January 26 (through Endesa Chile Agency) of a revolving credit facility for US\$ 200 million at a term of five and a half years and with an interest rate of Libor plus a spread of 30 basis points, and with operating flows of the Company and its foreign subsidiaries.

On December 7, to increase its sources of funds, Endesa Chile (through its Agency in the Cayman Islands) signed a new revolving credit for US\$ 200 million, with a 3-year term and interest at Libor plus a spread of 25 basis points.

At the end of 2006, out of a total of US\$ 650 million of committed revolving credits, US\$ 100 million was drawn and US\$ 350 million remained available.

Regarding the financial activities of the consolidated foreign subsidiaries, a series of operations were carried out in 2006 to refinance short-term loans and increase the average life of the debt. These include:

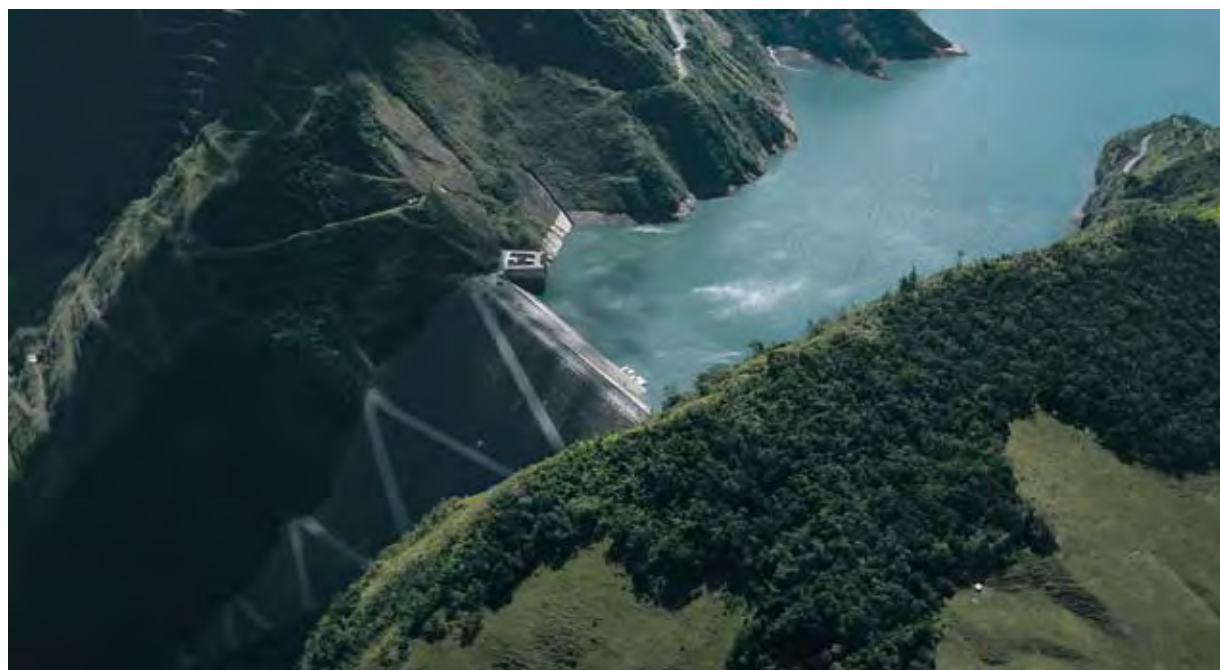
In Peru, Edegel signed in July a bank loan from West LB for US\$ 20 million for a 3-year term and interest at Libor plus a 2.0% margin. In October, Edegel placed two domestic bond issues in the local market for 25 million soles each (close to US\$ 16 million) with a 7-year term and a fixed rate of 6.47% and 6.10% respectively, to repay a domestic bond of 50 million soles. Also in October, it refinanced a promissory note with Scotiabank for 50 million soles, a term of two years and an interest rate of 6.55%. In December, Edegel signed a bank loan with Citibank for US\$ 24 million to repay short-term notes; this has a 3-year term and an interest rate of Libor plus a margin of 1.875%.

In Argentina, Hidroeléctrica El Chocón signed a bank loan for US\$ 100 million with Standard Bank and Deutsche Bank, repayable over 5 years and with an interest rate of Libor plus a 3.5% margin. The proceeds were used to prepay negotiable obligations maturing in 2007.

In Colombia, in order to prepay debt, Betania issued in February a domestic bond on the local market for 100,000 million Colombian pesos (close to US\$ 44 million) for a 7-year term with an interest rate of inflation (CPI) plus a margin of 6.29%. Also, in June, Betania signed a structured loan for around 305,009 million Colombian pesos (close to US\$ 123 million) at an interest rate of DTF plus a margin of 2.8% and with a maturity in April 2012.

Also in Colombia, Emgesa S.A. in February placed a domestic bond for 40,000 million Colombian pesos (approximately US\$ 17.5 million) for a 10-year term and with interest at inflation plus a margin of 2.4%. This issue was to finance the acquisition of Termocartagena.

Emgesa signed a series of short-term loans with local banks, which included a loan from Banco Bogotá for 80,000 million Colombian pesos (approximately US\$ 33 million) at a rate of DTF plus a margin of 1.8%, another from Bancolombia for 50,000 million Colombian pesos (approximately US\$ 21 million) at a rate of DTF plus a margin of 1.75% and another from Citibank for 20,000 million Colombian pesos (approximately US\$ 8 million) at a fixed rate of 8.1%. All these loans were for a term of 180 days and the proceeds were used to meet the maturity of domestic bonds during July for a total of 150,000 million Colombian pesos (approximately US\$ 60 million).



El Guavio dam, Colombia.

DIVIDENDS

DIVIDEND POLICY 2007

The board intends to propose to the shareholders' meeting the distribution of a final dividend of an amount equivalent to 60% of the net income for the year 2007.

The board intends to distribute an interim dividend against the net income for 2007 of up to 15% of the net income to September 30, 2007, according to the financial statements at that date, payable in December 2007.

The final dividend will be that approved by the ordinary shareholders' meeting to be held during the first four months of 2008.

Fulfilling the above program will depend on the earnings actually produced and on the results indicated in the projections made periodically by the Company and the existence of any covenants.

PROCEDURE FOR DIVIDEND PAYMENTS

In order to avoid their improper collection, the Company offers four methods for the payment of dividends:

1. Deposit in a bank checking account whose holder is the shareholder;
2. Deposit in a bank savings account whose holder is the shareholder;
3. Sending of a nominative check or bankers draft by registered mail to the address of the shareholder appearing in the shareholders register; and
4. Withdrawal of check or bankers draft from the offices of DCV Registros S.A., as Endesa Chile's registrar, or from the bank appointed for this purpose.

The bank checking or savings accounts can be in any location in Chile.

It should be pointed out that the payment method chosen by each shareholder will be used by Endesa Chile for all

dividend payments unless the shareholder indicates in writing his intention of changing it and registering another option.

Payments will be made according to option No. 4 to those shareholders not registering a payment method. In cases where the checks or bankers drafts are returned by the post to DCV Registros S.A., these will remain in custody until withdrawn or requested by the shareholder.

In the case of deposits in bank checking accounts, the Company may request, for security reasons, their verification by the respective bank. If the account stated by the shareholder is rejected, whether in a prior checking process or for any other reason, the dividend will be paid in accordance with the stated method No. 4.

The Company has adopted and will continue to adopt all the security measures necessary for the payment of dividends in order to safeguard the interests of both shareholders and Endesa Chile.

DIVIDENDS DISTRIBUTED IN RECENT YEARS

YEAR	Dividend per share (pesos of each year)	Amount restated at December 31, 2006
2000	0.96000	1.10878
2001	0.94000	1.07702
2002	-	-
2003	2.30000	2.49630
2004	4.13000	4.37697
2005	5.82000	5.96550

In December 22, 2006, an interim dividend of Ch\$ 2.57 per share was paid, corresponding to 15% of the net income at October 31, 2006. On February 28, 2007, the board of Endesa Chile agreed to amend in advance the dividend policy for 2006, increasing from 50% to 60% the percentage distribution of the net income for the year and to propose the payment of a final dividend of Ch\$ 10.84 per share, payable in May 2007, following its approval by the shareholders meeting on April 24, 2007.

DISTRIBUTABLE EARNINGS 2006

Distributable earnings in relation to the net income for 2006 are shown below:

Net income for the year	189,541,318	Thousands
(Less) amortization of negative goodwill	6,037,460	Thousands
Net income	183,503,858	Thousands
(Less) accumulated deficit development period subsidiaries	329,545	Thousands
Income for the dividend calculation	183,174,313	Thousands
60% of earnings for dividend calculation	109,904,588	Thousands
Number of shares	8,201,754,580	Shares
Earnings per share corresponding to 2006	13.41	Pesos



Operator of Paraiso, Colombia.



INFORMATION

ON SUBSIDIARY AND RELATED COMPANIES

MAIN SUBSIDIARIES

ENDESA COSTANERA S.A.

Costanera is incorporated in Argentina. Costanera is an electricity generation company publicly traded in Argentina with 2,304 MW total installed capacity including a 1,453 MW capacity oil and gas-fired generation facility and a 851 MW capacity natural gas combined-cycle facility in Buenos Aires, that came into service in December 1998. The facility was acquired from the Argentine government following the privatization of Servicios Eléctricos del Gran Buenos Aires S.A. in 1992 when Endesa-Chile acquired a 24% interest. Endesa-Chile subsequently increased its interest reaching a total ownership share to date, through its subsidiary Endesa Argentina, of 64.26%. The shareholders' meetings of Costanera and Central Termoeléctrica Buenos Aires S.A. ("CBA") approved the merger of CBA into Costanera, effective as of December 1, 2001. The company Central Costanera S.A. changed its name to Endesa Costanera S.A. in September 2005.

HIDROELÉCTRICA EL CHOCÓN S.A.

El Chocón is an electricity generation company, incorporated in Argentina, located between the Neuquén and Río Negro provinces in southern Argentina (the Comahue Zone). It has two hydroelectric power stations with an aggregate installed capacity of 1,320 MW. El Chocón is currently the second largest hydroelectric facility in Argentina. This 30-year concession was granted by the Argentine government to our subsidiary, Hidroinvest S.A., which bought 59.00% of the shares in July 1993 during the privatization process. Endesa-Chile operates El Chocón for a fee pursuant to an operating agreement with a term equal to the duration of the concession.

EMPRESA ELÉCTRICA PEHUENCHE S.A. (PEHUENCHE S.A.)

Pehuenche S.A. is incorporated in Chile. Pehuenche S.A., a generation company connected to the SIC, owns three hydroelectric facilities south of Santiago in the high-rainfall hydrological basin of the Maule river with a total of 695 MW of installed capacity. Its 566 MW Pehuenche plant started operating in 1991, its 89 MW Curillínque plant started up in late 1993, and its 40 MW Loma Alta plant started operating in August 1997.

EMPRESA ELÉCTRICA PANGUE S.A. (PANGUE S.A.)

Pangue S.A. was incorporated in Chile to build and operate the 467 MW installed capacity hydroelectric power station on the Bío-Bío river. The first unit commenced operations on October 31, 1996, while the second unit commenced operations on February 3, 1997.

COMPAÑÍA ELÉCTRICA TARAPACÁ S.A. (CELTA S.A.)

Celta S.A. was incorporated in Chile in November 1995 to build and operate the 182 MW coal-fired thermal plant in the SING.

COMPAÑÍA ELÉCTRICA SAN ISIDRO S.A. (SAN ISIDRO S.A.)

San Isidro S.A. was incorporated in Chile in February 1996 to build and operate a 379 MW combined-cycle thermal plant in Quillota in the Fifth Region. The plant began commercial operations in October 1998. A 220 kV transmission line of 9 kilometers was built to connect this thermal plant to the SIC.

EMPRESA DE INGENIERÍA INGENDESA S.A. (INGENDESA)

Ingenpresa is incorporated in Chile. Ingenpresa is a multi-disciplinary engineering company founded in late 1990. Its purpose is to provide engineering services, project management and related services in Chile and internationally.

It therefore offers all the necessary specializations: civil, mechanical and electrical engineering, metallurgy, architectural and environmental services.

SOCIEDAD CONCESIONARIA TÚNEL EL MELÓN S.A.

This company is incorporated in Chile. Sociedad Concesionaria Túnel El Melón S.A. was formed in July 1993 to construct and manage the public road tunnel called Túnel El Melón, under a 23-year concession. It includes 3.3 km of access roads and a tunnel approximately 2.5 km long. It is located 130 km north of Santiago and was the first infrastructure concession granted by the Chilean state. Commercial operation of the tunnel began in September 1995.

ENDESA ECO S.A.

Endesa Eco S.A. was incorporated in Chile in 2005. Its objectives are to promote and develop renewable energy projects such as mini-hydro, wind, geo-thermal, solar, biomass and other generation means, and to act as depositary and trader of emission reduction certificates obtained from such projects.

EMGESA S.A. E.S.P. (EMGESA)

Emgesa was incorporated in Colombia. On September 15, 1997, Central Hidroeléctrica de Betania, through its subsidiary Inversiones Betania S.A. and in association with Endesa Desarrollo S.A. of Spain, was awarded control of the generation company Emgesa, with 48.48% of the shares. As of December, 2003, Emgesa has a total installed generating capacity of 2,116.3 MW.

CENTRAL HIDROELÉCTRICA DE BETANIA S.A. E.S.P.

Betania is incorporated in Colombia. Betania is a hydroelectric generation facility and is located at the intersection of the Magdalena and Yaguará rivers, in the southwest of Colombia. In December 1996, a consortium comprised of Endesa-Chile, with a 75% interest and the Colombian

company Corfivalle, with the remaining 25% interest, was awarded 99.9% of the share capital of Betania. In 1997, following a program of operating improvements, the capacity of the plant was increased from 510 to 541 MW.

EDEGEL S.A.A. (EDEGEL)

Edegel is incorporated in Peru. Edegel is an electricity generation company, acquired by Endesa-Chile in 1995. In 2000, Edegel completed the construction of two hydroelectric plants, Yanango (43 MW) and Chimay (151 MW), and a 220 kV transmission line linking both plants to the Peruvian system. It currently owns seven hydroelectric plants (Huinco, Matucana, Callahuanca, Moyopampa, Huampani, Yanango and Chimay) and one thermal plant (Santa Rosa), with a combined installed capacity of 968.5 MW.

MAIN RELATED COMPANIES

COMERCIALIZADORA DE ENERGÍA DEL MERCOSUR S.A. (CEMSA)

CEMSA is incorporated in Argentina. CEMSA is responsible for trading electricity, including imports and exports of energy.

COMPAÑÍA DE TRANSMISIÓN DEL MERCOSUR S.A. (CTM)

This company was incorporated in Argentina in July 1997. CTM is an electricity transmission company that owns the Argentine portion of an interconnection line joining the Brazilian and Argentina electricity markets.

TRANSPORTADORA DE ENERGÍA DEL MERCOSUR S.A. (TESA)

This company was incorporated in Argentina in January 2001. TESA is an electricity transmission company that owns the Argentine portion of an interconnection line joining the Brazilian and Argentine electricity markets.

TERMOELÉCTRICA MANUEL BELGRANO S.A.

This company was incorporated in Argentina in December 2005 to carry out the construction of the plant related to FONINVEMEM.

TERMOELÉCTRICA JOSÉ DE SAN MARTÍN S.A.

This company was incorporated in Argentina in December 2005 to carry out the construction of the plant related to FONINVEMEM.

ENDESA BRASIL S.A.

On May 24, 2005, the board of Endesa Chile approved the constitution of the holding company in Brazil with the name of Endesa Brasil S.A., which received the contribution of existing assets in that country owned by Endesa Internacional, Endesa Chile, Enersis and Chilectra.

ELECTROGAS S.A.

Electrogas was incorporated in Chile in late 1996. The objective of this company is to offer natural gas transportation services to the Fifth Region of Chile, especially to the San Isidro and Nehuenco combined-cycle plants at Quillota.

GASATACAMA S.A. (GASATACAMA)

This company is incorporated in Chile. The purpose of this company is the administration of its subsidiaries, including Gasoducto Atacama Chile S.A., Gasoducto Atacama Argentina S.A. and GasAtacama Generación, which are involved in electricity generation and natural gas transportation.

GASODUCTO ATACAMA CHILE S.A. (GASODUCTO ATACAMA CHILE)

Gasoducto Atacama was formed under the laws of Chile, with the purpose of transporting natural gas both within Chile and abroad, including the construction and placement of pipelines and any other related activities. The company owns the

Chilean side of a natural gas pipeline that can transport up to 8.5 million cubic meters of gas daily from northern Argentina to Mejillones in Chile which commenced supplying gas to the SING in July 1999 and also owns an extension of this pipeline from Mejillones to Tal Tal in Chile, which was added in 2000, allowing Endesa-Chile's 240 MW Tal Tal thermal power plant to be put into service the same year, supplying electricity to the SIC.

The company Gasoducto Atacama Compañía Limitada changed its name to Gasoducto Atacama Chile Limitada in October 2002, and changed again in December 2003 to Gasoducto Atacama Chile S.A.

GASATACAMA GENERACIÓN S.A. (GASATACAMA GENERACIÓN)

The purpose of this company, incorporated in Chile, is to generate, transmit, purchase, distribute and sell electric energy in the SING. It owns and operates two combined cycle power plants, that together have 780 MW of installed generation capacity. The company Nor Oeste Pacifico Generación de Energía Limitada ("Nopel Ltda.") changed its name to GasAtacama Generación Limitada in October 2002, and changed again in December 2003 to Gasatacama Generación S.A.

CENTRALES HIDROELÉCTRICAS DE AYSÉN S.A.

On August 31, 2006, the board of Endesa Chile agreed to the constitution of the company Centrales Hidroeléctricas de Aysén S.A. Endesa Chile has a 51% shareholding and Colbún S.A. the remaining 49%. A shareholder agreement has been signed. The company will be responsible for carrying out the studies, as well as the development, financing, construction and exploitation of the Aysén hydroelectric project once it has the pertinent permits and authorizations.