



Santiago, August 23, 2005

Chile – Electric Utilities

ENERSIS**BUY****Santiago, BA, Rio: Bright Lights, Big Cities****Raimundo Valdés**(562) 336-3387
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cmoreno@sinvest.cl**(08/19/05)****CURRENT PRICE: US\$10.50/CH\$114.0****TARGET PRICE: US\$11.70/CH\$135.0****What's Changed**

Rating:	Unchanged at Buy
Price Target (US\$):	Introducing YE06 11.70 per ADR
Estimates (US\$ MM):	'05 From US\$2,007 to US\$1,940
EBITDA	'06 From US\$2,167 to US\$2,170
	'07 From US\$2,297 to US\$2,279

Company Statistics

Bloomberg	ENI
52-Week Range (US\$)	6.63-10.69
2005E P/E Rel to IPSA (x)	4.1
2005E P/E Rel to Elect. Utilities (x)	2.4
IPSA Index (US\$)	3.8
3-Yr CAGR (03-06E)	42.9%
Market Capitalization (US\$ Mn)	6,856.7
Float (%)	34.9%
3-Mth Avg Daily Vol (US\$000)	3,938
Shares Outst (ADR 1:1)	32,651
Net Debt/Equity (x)	0.9
Book Value per ADR (US\$)	4.4

Estimates and Valuation Ratios

	2004	2005E	2006E	2007E
Net Earn (Ch\$)	44,308	50,890	157,485	195,636
Current EPS	1.4	1.6	4.8	6.0
Net Earn (US\$)	79.5	89.3	269.2	331.1
Current EPADR	0.12	0.14	0.41	0.51
P/E (x)	69.5	76.8	25.5	20.7
P/Sales (x)	1.1	1.3	1.2	1.2
P/CE (x)	7.3	8.9	6.9	6.3
FV/EBITDA (x)	9.7	10.5	9.0	8.3
FV/Sales (x)	3.6	3.8	3.4	3.2
FCF Yield (%)	13.2%	9.5%	15.5%	12.0%
Div per ADR (US\$)	0.27	0.26	0.21	0.25
Div Yield (%)	3.2%	2.4%	2.0%	2.4%

Sources: Bloomberg, Company Reports, and Santander Investment estimates.

Investment Thesis: We expect Enersis's distribution operations to be the catalyst to unlock shareholder value. So far, the focus of our investment thesis has been on the positive expectations for Enersis's distribution business, mainly in Brazil. To that, we are now adding the potential impact of the recent agreement reached between Enersis and the Argentine authorities that should increase Edesur's average tariff by 9.4% starting in November 2005. Meanwhile, we expect Enersis's generation arm, Endesa Chile, to show positive earnings visibility going forward, although we believe this is largely priced in, as discussed our August 18 Endesa Chile report "*Rainy in Chile, but Cloudy in Argentina*".

Reasons for Change to Estimates:

- **We are reducing our 2005 earning estimates for Enersis looking at year-end 2005, but our 2006 estimates remain unchanged.** For 2005, we are reducing our estimates on the back of a weaker-than-expected performance in 2Q05, coming mainly from the generation operations (Endesa Chile), coupled with a weak performance of Edesur in Argentina. For 2006, we are maintaining our EBITDA expectations, taking into consideration the expected increase in Edesur's average tariff.

Valuation and Risks to Investment Thesis:

- Based on our new assumptions, we valued Enersis's operations using a sum-of-the-parts methodology, to adequately price in the various country risks under which the company operates. Our new year-end 2006 target price of Ch\$135 per share or US\$11.70 per ADR (we will no longer refer to our YE05 target of US\$10.80 per ADR) is based on this analysis and implies a total expected return of 20.4%, 10.3% above the expected return for the Chilean market in peso terms. **Thus, we are maintaining our Buy rating.** The main risks to our investment thesis would be: a weaker-than-expected performance of the Brazilian distribution operations, a lower-than-expected tariff increase for Edesur, and the risks associated with Endesa's operations.

Important disclosures/certifications are in the "Important Disclosures" section of this report.

U.S. investors' inquiries should be directed to Santander Investment Securities Inc. at (212) 407-7809.

Enersis is an integrated electric group involved in generation, transmission, and distribution in Latin America. Originally a distribution company in Chile, Enersis gradually expanded to Argentina, Brazil, Chile, Colombia, and Peru, becoming an active player in the privatization processes of Latin American electricity assets in the 1990s. With control of 12,334 MW of generation capacity through Endesa Chile and electricity distribution sales totaling 52,314 GWh in 2004, it is the largest publicly traded electricity group in the region.

INVESTMENT THESIS

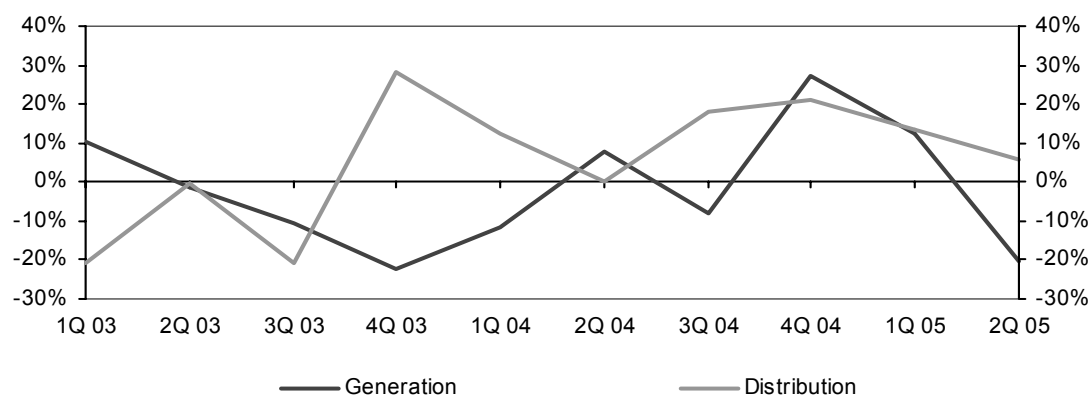
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So far, the focus of our investment thesis has been on the positive expectations for Enersis's distribution business, mainly in Brazil. To that, we are now adding the potential impact of the recent agreement reached between Enersis and the Argentine authorities that should increase Edesur's average tariff by 9.4% from November 2005 onwards. Meanwhile, we expect Enersis's generation arm, Endesa Chile, to show positive earning visibility going forward, although we believe this is mostly priced in, as discussed in our August 18 Endesa Chile report "*Rainy in Chile, but Cloudy in Argentina*".

DISTRIBUTION TO CONTINUE TO SHOW GROWTH

Enersis's distribution operations have shown a positive performance over the last few quarters. The company's distribution operations have posted attractive EBITDA growth in the last year on the back of the positive economic environment prevailing in the Latin American countries in which Enersis operates. Between the 3Q04 and 2Q05, Enersis's distribution operations, including the holding company's other businesses, have shown year-on-year EBITDA increases of 17.9%, 21.3%, 13.2% and 5.6%, respectively. This evolution implies an outperformance relative to Enersis's generation arm, Endesa Chile, in every quarter except 4Q04, where both generation and distribution, showed impressive year-over-year hikes in the 20% range.

Figure 1. Enersis – EBITDA Growth Generation vs. Distribution (1Q03 – 2Q05)



Sources: Company reports and Santander Investment.



We expect Enersis's distribution operations to continue to post a positive performance in the coming quarters. Looking at 2H05, we expect Enersis's distribution operations in Brazil to continue to post a positive performance driven mainly by the operations of Coelce, which is still benefiting from the 23.6% increase in its tariff adjustment made in April 2005. Looking at 2006, we expect the distribution operations of Enersis to show an EBITDA expansion of 9.2%, supported by Edesur, which we expect to be the highest-growth operation considering the expected increase of its tariff after the agreement reached between Enersis and the Argentine government.

UPCOMING TARIFF INCREASE AT EDESUR

Enersis has finally reached an agreement with the Argentine authorities.

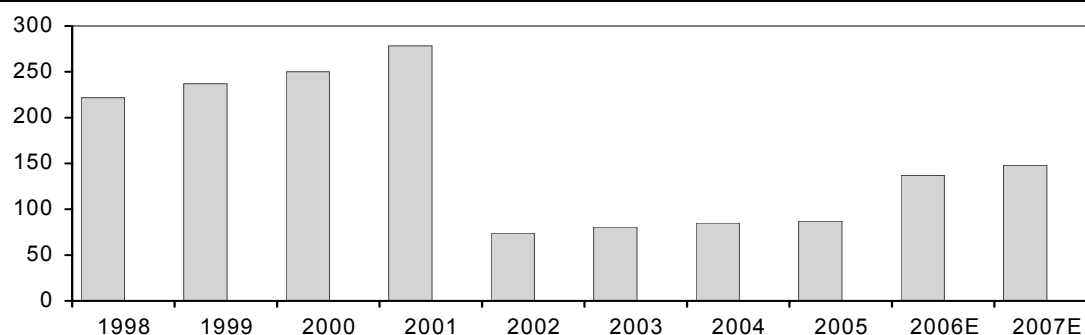
Enersis's distribution operation in Argentina, Edesur, reached an agreement with the Argentine government on June 15, 2005. Under this agreement, Edesur will be able to increase the average tariff for its non-residential clients by 15% starting in November 2005. Tariffs will be then be revised again in November 2006 in the first formal tariff review process since the devaluation and subsequent tariff freeze in December 2001. Edesur will also be forced to meet certain requirements by the government, including minimum capex levels and quality of service obligations, which according to Enersis management, do not imply anything different from what they are already doing. On the back of this agreement, Enersis has suspended the legal process initiated against the Government of Argentina under the jurisdiction of CIADI (*Centro Internacional de Arreglo de Diferencias Relativas a Inversiones*). Provided everything goes smoothly from now until the expected November 2006 tariff increase, Enersis will drop the case in its entirety.

The announced tariff increase should boost Edesur's EBITDA generation in 2006. Considering that the upcoming tariff increase only applies to 63% of Edesur's clients (non-residential users), we expect Edesur's average tariff to post a 9.4% year-over-year increase in 2006. This should lead to a 57% increase in Edesur's EBITDA generation to US\$137.1 million. While this is a significant step forward, Edesur's EBITDA generation is still significantly below its historical contribution to Enersis's consolidates figures. For instance, Edesur's EBITDA generation in 2000, prior to the Argentine crisis, reached US\$249.2 million, or 81% above our expectations for 2006.

We are not including any tariff increase for 2006 in our estimates.

Our earnings estimates for Edesur do not include any impact from the expected tariff revision to take place in November 2006. Based on a conservative approach, and taking into consideration the fact that we have been disappointed by signs of a tariff revision in the past, we are maintaining the prevailing conditions expected after the November 2005 revision in our long term forecast for Edesur's EBITDA generation. Taking this into account, we are looking for an EBITDA generation of US\$147.8 million at Edesur in 2007, which would imply a 5.7% year-over-year increase.

Figure 2. – Edesur's EBITDA generation 1998 – 2006E (in US\$ in million)



Sources: Company reports and Santander Investment.

ENDESA CHILE: RAINY IN CHILE, BUT CLOUDY IN ARGENTINA

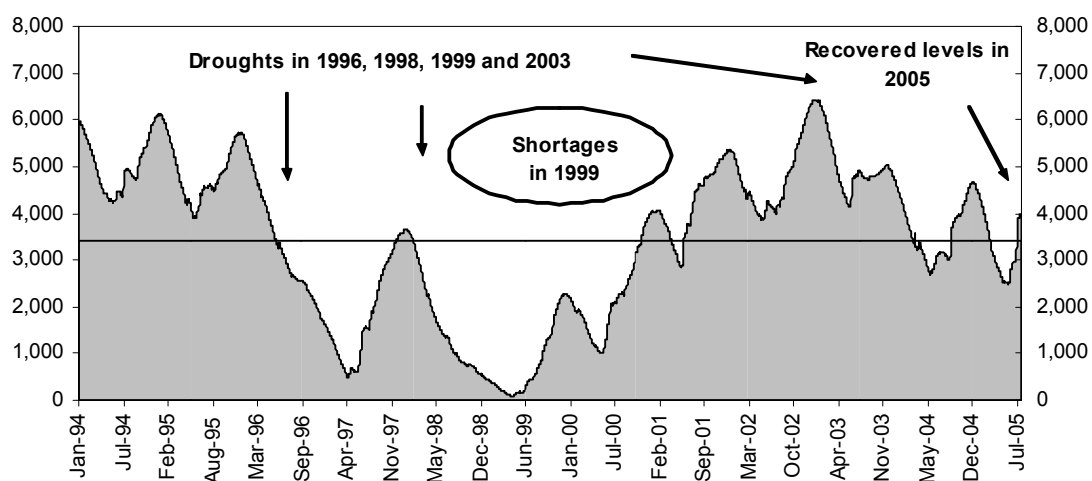
Endesa's EBITDA generation should recover after a lower-than-expected 2Q05.

Better hydro conditions and higher regulated prices should boost Endesa's Chilean operations.

On August 18, we published our "*Rainy in Chile, but Cloudy in Argentina*" report on Endesa Chile in which we maintained our Hold rating on the stock and set a year-end 2006 target price of Ch\$535 per share (US\$27.50 per ADR). In that report, and on the back of Endesa Chile's lower-than-expected 2Q05 results, we lowered our earnings estimates for the company. Our downward revision to our estimates reflects a lower-than-expected performance of the company's operations in Chile as well as in Argentina. We believe that earnings visibility will be more positive in the upcoming quarters. This expectation is based on the positive outlook for Endesa's operations in Chile, due to the recently passed electricity law, which increased regulated prices, and the current reservoirs levels, after the heavy rainfall in June.

Endesa Chile's operations in the Chilean electricity market should be the main driver for EBITDA expansion in the second half of 2005 and in 2006. After a rather flat 1H05, the benefits from the electricity law passed recently and the current reservoir levels should provide all the elements for a positive performance of Endesa Chile's operations in that country looking forward.

Figure 3. Enersis –Stored Hydro Energy in the SIC, Jan 94 – Jul 05 (in GWh)



Sources: CNE and Santander Investment.

Costanera stopped receiving capacity payments for its contract regarding the first CIEN line.

The main concern: Central Costanera's operations. Since April 27, 2005, due to the crisis in the Argentine electric market, Central Costanera, has not been able to fulfill its contracts (to sell energy) with the parties related to the first of the two CIEN interconnection lines between Argentina and Brazil. The implications of this situation are significant for Costanera, as the company receives some US\$48 million per year for capacity payments for the aforementioned contract, which account for roughly 60% of its EBITDA generation.



VALUATION

We are setting a year-end 2006 target price of Ch\$135.0 per share, or US\$11.70 per ADR.

We are setting a year-end 2006 target price of Ch\$135.0 per share for Enersis, equivalent to US\$11.70 per ADR (we will no longer refer to our year-end 2005 target price of US\$10.80 per ADR), which implies 20.4% potential total return from current levels in peso terms, including a 2.0% dividend yield. This potential return is above our forecast of a 10.3% return in Chilean peso terms for the IPSA over the same period. **Thus, we are maintaining our Buy rating on the stock.**

Our year-end 2006 target price is based on a sum-of-the-parts analysis. We divided Enersis's businesses into three areas: the generation business (Endesa Chile), the distribution business, and the other businesses of the Enersis group. Using a DCF analysis, we discounted Enersis's subsidiaries free cash flow from 2007 (year one) until 2016, using a weighted average cost of capital (WACC) depending on which country the operation is located. We estimated each operation's debt and cash and equivalents, while we valued Enersis's equity income (in addition to the equity income already included in Endesa's valuation) using our estimates for 2006 and a 10.4 times estimated 2006 P/E multiple of our Latam sample. Our perpetuity value figure assumes a 2.5% terminal growth rate.

- 1. Generation business.** Our valuation of Enersis's generation business, Endesa Chile, is also based on a sum-of-the-part analysis. In our valuation, we are including 59.98% of our estimated value for Endesa Chile's operations, which was recently published in our "*Rainy in Chile, but Cloudy in Argentina*" report of August 18, 2005. In that report, we set a year-end 2006 target price for Endesa of Ch\$535 per share or US\$27.50 per ADR, for a total equity value of US\$7,517 million. We value Enersis's stake in Endesa at US\$4,508.5 million.
- 2. Distribution business.** We divided Enersis's distribution business into six units – Chilectra in Chile, Edesur in Argentina, Ampla and Coelce in Brazil, Codensa in Colombia, and Edelnor in Peru. We value Enersis's distribution business at US\$3,455.5 million.
- 3. Other businesses.** We grouped the other activities of the Enersis group under other businesses. They are CAM, Manso de Velasco, Synapsis, and the Enersis holding company. We value Enersis's other businesses at US\$59.0 million.
- 4. Equity income.** We included Enersis's equity income in vehicles besides the ones already included in our valuation of Endesa Chile, which is essentially Central Fortaleza in Brazil. We value Enersis's equity income at US\$155.3 million.

Figure 4. Enersis – Sum of the Parts Analysis (U.S. Dollars in Millions)

Operation	NAV	ENI Stake	Total Debt	Cash & Equiv.	Fin. Debt	Equity Value	ENI Stake
Chilectra	2,398.2	98.2%	843.0	4.0	839.0	1,559.2	1,531.1
Edesur	799.7	65.1%	135.1	35.0	100.1	699.5	455.4
Edelnor	672.1	33.4%	185.1	50.0	135.1	537.0	179.4
Ampla	1,304.3	80.4%	662.3	60.0	602.3	702.1	564.6
Coelce	996.6	31.2%	340.9	26.0	314.9	681.7	212.7
Codensa	2,174.1	21.6%	231.9	430.0	-198.1	2,372.1	512.4
Distribution Business							3,455.5
Generation Business: Endesa Chile		60.0%					4,508.5
Other Business							59.0
Equity Income							155.3
Total EV from Subsidiaries							8,178.3
Holding Company Net Financial Debt							(1,310.2)
Inter-company Debt							751.0
Year-End Fair Market Value							7,619.1
Market Cap							6,856.7
Premium (Discount)							-10.0%
ADR Target Price							11.70
Share Target Price							135.0
Current Share Price							114.0
Upside Potential							18.4%
Div Yield							2.0%
Total Return							20.4%

Target price and actual ADR price in U.S. dollars.

Sources: Company reports and Santander Investment estimates.

To calculate the company's WACC, we took into account the cost of capital associated with the risk of every country in which the company operates, while the after-tax cost of debt incorporates the corporate tax rate prevailing in each country. The cost of equity for each operation was calculated based on a yield to maturity of 4.07% for the 10-year U.S. Treasury bond and the spread of each country's sovereign bond. In our valuation, we have assumed a long-term capitalization structure of 30%, a beta for Enersis of 1.16, and an equity premium of 5.5%.

Figure 5. Enersis – WACC Calculation and Terminal Growth Rate by Country

	Argentina	Brazil	Chile	Colombia	Peru
Risk-Free Rate	4.1%	4.1%	4.1%	4.1%	4.1%
Beta	1.16	1.16	1.16	1.16	1.16
Equity Risk Premium	5.5%	5.5%	5.5%	5.5%	5.5%
Country Risk	8.5%	4.2%	0.6%	3.1%	1.6%
Cost of Equity	19.0%	14.6%	11.1%	13.5%	12.0%
Equity/(Debt + Equity)	30.0%	30.0%	30.0%	30.0%	30.0%
Cost of Debt	9.4%	9.4%	9.4%	9.4%	9.4%
Tax Rate	33%	34%	17%	36%	30%
After Tax Cost of Debt	6.3%	6.2%	7.8%	6.0%	6.6%
Debt/(Debt + Equity)	70%	70%	70%	70%	70%
WACC	10.1%	8.7%	8.8%	8.3%	8.2%
Perpetuity Growth Rate	2.5%	2.5%	2.5%	2.5%	2.5%

Sources: Company reports and Santander Investment estimates.

**Figure 6. Argentina – Select Economic Projections, 2003-2006F**

	2003	2004	2005F	2006F
Real GDP (%)	8.8	9.0	6.5	4.5
CPI Inflation (%)	3.7	6.1	11.0	8.0
US\$ Exchange Rate (Year-End)	3.0	3.0	3.0	3.0
US\$ Exchange Rate (Average)	2.9	3.0	3.0	3.0
Interest Rate (Year-End)	2.8	4.1	10.0	8.0
Interest Rate (Average)	9.7	3.1	4.9	8.8
Fiscal Balance (% of GDP)	0.5	2.7	1.9	2.6
Current Account Balance (% of GDP)	10.1	4.2	4.3	1.5
International Reserves (US\$ Bn)	14.1	19.6	21.7	23.7
Total External Debt (% of GDP)	109.8	108.5	45.5	35.7

Source: Santander Investment historicals and forecasts.

Figure 7. Brazil – Select Economic Projections, 2003-2006F

	2003	2004	2005F	2006F
Real GDP (%)	0.5	4.9	2.7	3.8
CPI Inflation (%)	9.3	7.6	5.9	5
US\$ Exchange Rate (Year-End)	2.95	2.65	2.55	2.75
US\$ Exchange Rate (Average)	3.08	2.93	2.51	2.66
Interest Rate (Year-End)	16.5	17.8	18	15
Interest Rate (Average)	23.3	16.2	19.1	16.5
Fiscal Balance (% of GDP)	-5.1	-2.6	-2.5	-2.3
Current Account Balance (% of GDP)	0.8	2	1.2	0.1
International Reserves (US\$ Bn)	49.3	52.9	59.1	53.7
Total External Debt (% of GDP)	42.4	32.3	27.2	27.1

Source: Santander Investment historicals and forecasts.

Figure 8. Chile – Select Economic Projections, 2003-2006F

	2003	2004	2005F	2006F
Real GDP (%)	3.7	6.1	5.8	5.2
CPI Inflation (%)	1.1	2.4	2.8	3.1
US\$ Exchange Rate (Year-End)	593.8	557.4	570.0	585.0
US\$ Exchange Rate (Average)	691.4	609.5	577.2	579.3
Interest Rate (Year-End)	2.3	2.3	4.3	5.3
Interest Rate (Average)	2.7	1.9	3.3	4.8
Fiscal Balance (% of GDP)	-0.8	2.2	2.3	1.8
Current Account Balance (% of GDP)	-1.5	1.6	0.7	-1.0
International Reserves (US\$ Bn)	15.9	16.0	16.0	16.0
Total External Debt (% of GDP)	60.2	49.9	43.6	40.4

Source: Santander Investment historicals and forecasts.

Figure 9. Colombia – Select Economic Projections, 2003-2006F

	2003	2004	2005F	2006F
Real GDP (%)	3.8	4.0	3.8	3.6
CPI Inflation (%)	6.5	5.5	5.1	4.7
US\$ Exchange Rate (Year-End)	2778.0	2390.0	2370.0	2550.0
US\$ Exchange Rate (Average)	2878.0	2626.0	2380.0	2580.0
Interest Rate (Year-End)	7.9	7.7	7.3	9.0
Interest Rate (Average)	7.8	7.8	7.3	8.5
Fiscal Balance (% of GDP)	-2.8	-1.2	-2.5	-2.0
Current Account Balance (% of GDP)	-1.5	-1.1	-1.9	-2.7
International Reserves (US\$ Bn)	10.8	13.4	15.0	15.9
Total External Debt (% of GDP)	48.1	36.7	33.8	31.6

Source: Santander Investment historicals and forecasts.

Figure 10. Peru – Select Economic Projections, 2003-2006F

	2003	2004	2005F	2006F
Real GDP (%)	4.0	4.8	4.7	4.0
CPI Inflation (%)	2.5	3.5	2.0	2.5
US\$ Exchange Rate (Year-End)	3.5	3.3	3.3	3.3
US\$ Exchange Rate (Average)	3.5	3.4	3.3	3.3
Interest Rate (Year-End)	9.3	9.2	10.2	10.9
Interest Rate (Average)	9.7	9.1	9.7	10.6
Fiscal Balance (% of GDP)	-1.7	-1.1	-1.1	-1.1
Current Account Balance (% of GDP)	-1.5	0.0	0.3	-0.6
International Reserves (US\$ Bn)	10.2	12.6	14.1	14.7
Total External Debt (% of GDP)	49.0	45.3	39.8	38.0

Source: Santander Investment historicals and forecasts.



EARNINGS REVISION

After a weaker-than-expected 2Q05 release we are reducing our EBITDA estimates in 2005...

We are reducing our 2005 earning estimates for Enersis. After a weaker-than-expected performance in 2Q05, stemming mainly from the generation operations at Endesa Chile coupled with a weak performance at Edesur, we are reducing our 2005 earnings estimates for Enersis. In the case of Endesa, the lower-than-expected results came from a lower hydrology in Chile and from the difficult situation affecting Central Costanera's contracts with the CIEN interconnection line. In the case of Edesur, a fine, which was not included in the recent agreement reached with the Argentine government, increase operating costs significantly. Taking all these factors into account, we are reducing our 2005 EBITDA estimates for Enersis from US\$2,007 million to US\$1,940 million. We are also reducing our net income estimate from US\$117.3 million to US\$89.3 million, taking into account a lower than expected equity income, which is partially offset by lower taxes and lower minority interest payments.

...but we are increasing our estimates for 2006.

For 2006, our EBITDA expectations remain almost unchanged, while we are increasing our bottom line estimate. At the operating level, taking into consideration the expected increase in the average tariff of Edesur in Argentina, we are maintaining our EBITDA estimate at US\$2,167 million. This is based on a 2.8% reduction of our EBITDA expectations for Endesa Chile, the generation arm of Enersis, to US\$1,184 million, and a 4.1% increase, to US\$972 million, of our EBITDA estimate for Enersis's distribution operations. At the bottom line level, we are increasing our net income expectations from US\$195.0 million to US\$269.2 million, taking into consideration lower taxes and minority interest payments, which are only partially offset by a higher non operating loss, which is mainly explained by lower income from related companies.

Figure 11. Enersis – Estimate Revisions, 2005E-2007E (U.S. Dollars in Millions^a)

	2005E			2006E			2007E		
	Previous	Current	Change	Previous	Current	Change	Previous	Current	Change
Revenue	5,353.1	5,381.6	0.5%	5,627.3	5,683.0	1.0%	5,793.5	5,933.5	2.4%
EBITDA	2,006.6	1,940.1	-3.3%	2,166.9	2,170.3	0.2%	2,297.1	2,278.5	-0.8%
Op. Profit	1,284.7	1,260.4	-1.9%	1,408.6	1,447.1	2.7%	1,522.6	1,527.3	0.3%
Op. Margin	24.0%	23.4%	NM	25.0%	25.5%	NM	26.3%	25.7%	NM
Net Income	117.3	89.3	-23.9%	195.0	269.2	38.1%	260.2	331.1	27.3%
EPADR	0.18	0.14	-23.9%	0.30	0.41	38.1%	0.40	0.51	27.3%

^aExcept per share data. Sources: Company reports and Santander Investment estimates.

RISKS TO INVESTMENT THESIS

DISTRIBUTION SIDE

- **Weaker-than-expected performance of the distribution operations in Brazil.** On the distribution side of the Enersis Group, we expect the Brazilian operations, Ampla and Cerj, to be the stars in 2005. If these operations end up posting weaker-than-expected results in the upcoming quarters, our investment thesis for Enersis would be affected.
- **Potential effect of the recent increase in the cost of energy on electricity demand in Chile.** While the price elasticity of the demand for electricity in Chile is not very significant, and despite the fact that electricity only represents a small amount of the consumption basket of an average family, the significant price increase of energy in Chile following the approval of the electricity law, could affect demand. This could then have a negative effect on our earning generation forecast for Chilectra and could impact our investment thesis for Enersis.
- **A different than expected outcome of the upcoming tariff revisions in Argentina.** In our forecasts for Enersis we are including a 15% increase in the average tariff for Edesur's non-residential clients from November 2005 onwards. Any delay, whether caused by political reasons or by pressure from consumer groups, could impact our EBITDA forecasts for the company and thus our investment thesis for Enersis.

GENERATION SIDE: ENDESA CHILE

- **Reservoir levels in Chile.** As we expect 47.7% and 52.1% of Endesa's consolidated EBITDA to come from Chile in 2005 and 2006, respectively, and considering that 72% of Endesa's installed capacity in Chile is hydro, the level of the firm's reservoirs in Chile could significantly affect our outlook for Endesa. While our assumptions include a typical rainfall scenario for the upcoming years, the operating performance of Endesa in Chile could differ from our estimates if weather and water-supply conditions turn out to be different than expected.
- **Final outcome of the natural gas situation in Argentina.** In our opinion, it is difficult to forecast the final outcome of the natural gas situation in Argentina and its implications for the Chilean and Argentine electric sectors. However, a solution to this important issue could affect our investment thesis for Endesa.
 - **In Chile.** A restoration of the typical energy flow from Argentina to Chile and the elimination of the measures that give more priority to the Argentine market could cause node prices (first actual, then theoretical) to fall. A potential reduction in node prices is likely to have a negative impact on Endesa's operating performance in this country.
 - **In Argentina.** Relieving the relative scarcity of natural gas in Argentina could imply a restoration of Costanera's ability to service CIEN's first line according to the terms of the existing contract. In that case, Costanera's EBITDA-producing capacity could be significantly different than the one included in our current estimates.
- **Potential investments in the extreme south of Chile.** The naming of Rafael Mateo as new CEO of Endesa Chile following the resignation of Hector Lopez, together with the increased value of hydro assets after the approval of the electricity law, increases the chances of Endesa undertaking huge projects in the extreme south of Chile, in our view. These projects (to be located on the Baker River and the Pascua River and consisting of hydro facilities of some 2,500MW) involve capital expenditures of roughly US\$2 billion-US\$3 billion, including transmission facilities. Although these initiatives are only in their primary/study stages, considering the amounts involved, if Endesa decides to go ahead with these initiatives, this could change our view on the company regarding debt levels, and cash flow generation, among others.



FINANCIAL STATEMENTS

Figure 12. Enersis – Income Statement, Balance Sheet, and CF Statement, 2004-2007E
(U.S. Dollars in Millions)

Income Statement	2004	%	2005E	%	2006E	%	2007E	%
Sales	4,859.9	100.0%	5,381.6	100.0%	5,683.0	100.0%	5,933.5	100.0%
Cost of Sales	(3,405.3)	-70.1%	(3,761.7)	-69.9%	(3,874.2)	-68.2%	(4,036.9)	-68.0%
Gross Profit	1,454.7	29.9%	1,619.8	30.1%	1,808.8	31.8%	1,896.6	32.0%
SG&A Expenses	(316.9)	-6.5%	(359.4)	-6.7%	(361.7)	-6.4%	(369.3)	-6.2%
Operating Profit	1,137.8	23.4%	1,260.4	23.4%	1,447.1	25.5%	1,527.3	25.7%
Depreciation	681.0	14.0%	679.8	12.6%	723.2	12.7%	751.2	12.7%
EBITDA	1,818.8	37.4%	1,940.1	36.1%	2,170.3	38.2%	2,278.5	38.4%
Financing Costs	(489.5)	-10.1%	(470.5)	-8.7%	(378.9)	-6.7%	(318.8)	-5.4%
Interest Paid	(646.1)	-13.3%	(644.6)	-12.0%	(573.7)	-10.1%	(520.9)	-8.8%
Interest Earned	132.1	2.7%	168.6	3.1%	198.5	3.5%	202.4	3.4%
Monetary Gain/Loss	(1.4)	0.0%	(1.0)	0.0%	1.7	0.0%	1.8	0.0%
FX Exposure	25.8	0.5%	6.5	0.1%	(5.4)	-0.1%	(2.1)	0.0%
Goodwill Amortization	(95.4)	-2.0%	(96.1)	-1.8%	(96.5)	-1.7%	(98.4)	-1.7%
Other Financial Operations	(132.3)	-2.7%	(189.3)	-3.5%	(190.0)	-3.3%	(204.2)	-3.4%
Profits Related Companies	55.9	1.1%	21.1	0.4%	21.9	0.4%	29.6	0.5%
Profit before Taxes	476.4	9.8%	514.0	9.6%	803.7	14.1%	935.6	15.8%
Tax Provision	246.2	5.1%	275.7	5.1%	361.7	6.4%	421.0	7.1%
Profit after Taxes	230.2	4.7%	238.4	4.4%	442.0	7.8%	514.6	8.7%
Minority Interest	181.4	3.7%	179.8	3.3%	203.3	3.6%	214.5	3.6%
Net Income	79.5	1.6%	89.3	1.7%	269.2	4.7%	331.1	5.6%
Balance Sheet	2004	%	2005E	%	2006E	%	2007E	%
Assets	18,851.0	100.0%	18,695.1	100.0%	18,222.0	100.0%	18,307.4	100.0%
Current Assets	2,725.3	14.5%	2,314.6	12.4%	2,408.1	13.2%	2,485.9	13.6%
Cash and Equivalents	932.1	4.9%	838.7	4.5%	842.0	4.6%	858.7	4.7%
Accounts Receivable	1,273.4	6.8%	1,045.7	5.6%	1,126.4	6.2%	1,176.1	6.4%
Inventories	91.5	0.5%	105.8	0.6%	114.0	0.6%	119.0	0.7%
Other Short-Term Assets	428.4	2.3%	324.3	1.7%	325.6	1.8%	332.1	1.8%
Long-Term Assets	16,125.7	85.5%	16,380.5	87.6%	15,814.0	86.8%	15,821.6	86.4%
Fixed Assets	13,786.9	73.1%	13,907.7	74.4%	13,806.7	75.8%	13,901.9	75.9%
Inv. in Related Companies	433.2	2.3%	424.9	2.3%	426.6	2.3%	435.1	2.4%
Other Assets	1,905.6	10.1%	2,047.9	11.0%	1,580.7	8.7%	1,484.7	8.1%
Liabilities	8,652.6	45.9%	8,461.9	45.3%	7,610.4	41.8%	7,105.6	38.8%
Current Liabilities	1,827.8	9.7%	2,225.4	11.9%	1,473.7	8.1%	2,068.4	11.3%
S.T. Financial Debt	728.3	3.9%	1,172.1	6.3%	367.8	2.0%	923.4	5.0%
Other Current Liabilities	1,099.5	5.8%	1,053.3	5.6%	1,105.9	6.1%	1,145.0	6.3%
L.T. Financial Debt	5,596.7	29.7%	4,994.5	26.7%	4,889.9	26.8%	3,765.6	20.6%
Other Liabilities	1,228.1	6.5%	1,241.9	6.6%	1,246.8	6.8%	1,271.5	6.9%
Equity	4,592.0	24.4%	4,667.8	25.0%	4,820.9	26.5%	5,081.9	27.8%
Minority Interest	5,606.4	29.7%	5,565.4	29.8%	5,790.7	31.8%	6,119.9	33.4%
Cash Flow	2004		2005E		2006E		2007E	
Net Income	79.5		89.3		269.2		331.1	
Depreciation	693.0		693.8		782.0		811.2	
Changes in Working Capital	(127.9)		61.6		(78.3)		(27.9)	
Non-Cash Items	559.6		275.5		619.8		281.8	
Cash Flow from Operations	1,204.2		1,120.2		1,592.7		1,396.2	
Capex	477.1		471.3		530.0		573.0	
Cash Flow	727.1		648.9		1,062.7		823.2	

Sources: Company reports and Santander Investment estimates.

Figure 13. Enersis – Income Statement, Balance Sheet, and CF Statement, 2004-2007E
(Chilean Pesos in Millions)

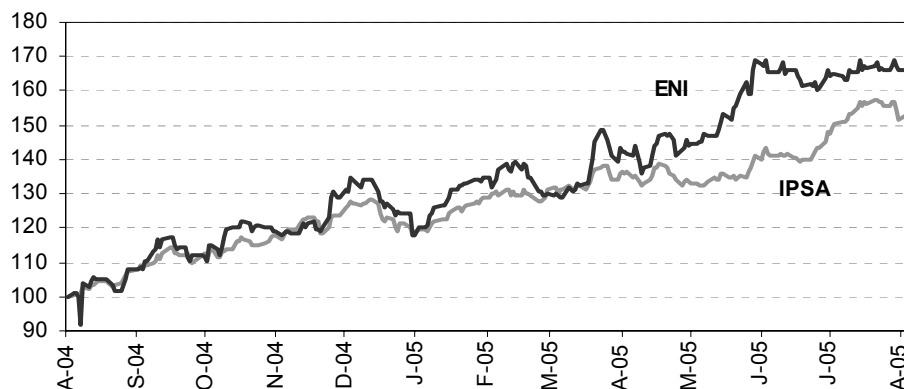
Income Statement	2004	%	2005E	%	2006E	%	2007E	%
Sales	2,708,925	100.0%	3,067,494	100.0%	3,324,569	100.0%	3,505,801	100.0%
Cost of Sales	(1,898,088)	-70.1%	(2,144,197)	-69.9%	(2,266,408)	-68.2%	(2,385,214)	-68.0%
Gross Profit	810,837	29.9%	923,297	30.1%	1,058,161	31.8%	1,120,587	32.0%
SG&A Expenses	(176,636)	-6.5%	(204,885)	-6.7%	(211,588)	-6.4%	(218,178)	-6.2%
Operating Profit	634,202	23.4%	718,412	23.4%	846,573	25.5%	902,409	25.7%
Depreciation	379,594	14.0%	387,473	12.6%	423,074	12.7%	443,863	12.7%
EBITDA	1,013,796	37.4%	1,105,884	36.1%	1,269,647	38.2%	1,346,272	38.4%
Financing Costs	(272,875)	-10.1%	(268,195)	-8.7%	(221,663)	-6.7%	(188,365)	-5.4%
Interest Paid	(360,140)	-13.3%	(367,409)	-12.0%	(335,617)	-10.1%	(307,772)	-8.8%
Interest Earned	73,636	2.7%	96,081	3.1%	116,121	3.5%	119,605	3.4%
Monetary Gain/Loss	(777)	0.0%	(550)	0.0%	1,018	0.0%	1,047	0.0%
FX Exposure	14,407	0.5%	3,682	0.1%	(3,185)	-0.1%	(1,244)	0.0%
Goodwill Amortization	(53,201)	-2.0%	(54,797)	-1.8%	(56,426)	-1.7%	(58,119)	-1.7%
Other Financial Operations	(73,723)	-2.7%	(107,886)	-3.5%	(111,164)	-3.3%	(120,639)	-3.4%
Profits Related Companies	31,146	1.1%	12,038	0.4%	12,825	0.4%	17,504	0.5%
Profit before Taxes	265,549	9.8%	292,991	9.6%	470,146	14.1%	552,791	15.8%
Tax Provision	137,241	5.1%	157,128	5.1%	211,566	6.4%	248,756	7.1%
Profit after Taxes	128,308	4.7%	135,863	4.4%	258,580	7.8%	304,035	8.7%
Minority Interest	101,107	3.7%	102,470	3.3%	118,905	3.6%	126,742	3.6%
Net Income	44,308	1.6%	50,890	1.7%	157,485	4.7%	195,636	5.6%
Balance Sheet	2004	%	2005E	%	2006E	%	2007E	%
Assets	10,507,525	100.0%	10,656,216	100.0%	10,659,892	100.0%	10,816,952	100.0%
Current Assets	1,519,081	14.5%	1,319,305	12.4%	1,408,717	13.2%	1,468,766	13.6%
Cash and Equivalents	519,560	4.9%	478,048	4.5%	492,572	4.6%	507,349	4.7%
Accounts Receivable	709,768	6.8%	596,068	5.6%	658,973	6.2%	694,896	6.4%
Inventories	50,981	0.5%	60,323	0.6%	66,689	0.6%	70,325	0.7%
Other Short-Term Assets	238,772	2.3%	184,866	1.7%	190,483	1.8%	196,197	1.8%
Long-Term Assets	8,988,444	85.5%	9,336,911	87.6%	9,251,175	86.8%	9,348,185	86.4%
Fixed Assets	7,684,822	73.1%	7,927,381	74.4%	8,076,901	75.8%	8,213,915	75.9%
Inv. in Related Companies	241,458	2.3%	242,214	2.3%	249,574	2.3%	257,061	2.4%
Other Assets	1,062,164	10.1%	1,167,316	11.0%	924,701	8.7%	877,210	8.1%
Liabilities	4,822,966	45.9%	4,823,272	45.3%	4,452,080	41.8%	4,198,345	38.8%
Current Liabilities	1,018,811	9.7%	1,268,501	11.9%	862,095	8.1%	1,222,137	11.3%
S.T. Financial Debt	405,948	3.9%	668,094	6.3%	215,165	2.0%	545,601	5.0%
Other Current Liabilities	612,863	5.8%	600,407	5.6%	646,929	6.1%	676,536	6.3%
L.T. Financial Debt	3,119,612	29.7%	2,846,878	26.7%	2,860,584	26.8%	2,224,925	20.6%
Other Liabilities	684,543	6.5%	707,893	6.6%	729,401	6.8%	751,283	6.9%
Equity	2,559,553	24.4%	2,660,663	25.0%	2,820,244	26.5%	3,002,669	27.8%
Minority Interest	3,125,006	29.7%	3,172,281	29.8%	3,387,568	31.8%	3,615,938	33.4%
Cash Flow	2004		2005E		2006E		2007E	
Net Income	44,308		50,890		157,485		195,636	
Depreciation	386,293		395,482		457,498		479,320	
Changes in Working Capital	(71,312)		35,091		(45,791)		(16,513)	
Non-Cash Items	311,919		157,054		362,561		166,518	
Cash Flow from Operations	671,207		638,517		931,754		824,961	
Capex	265,934		268,618		310,058		338,570	
Cash Flow	405,272		369,899		621,696		486,391	

Sources: Company reports and Santander Investment estimates.



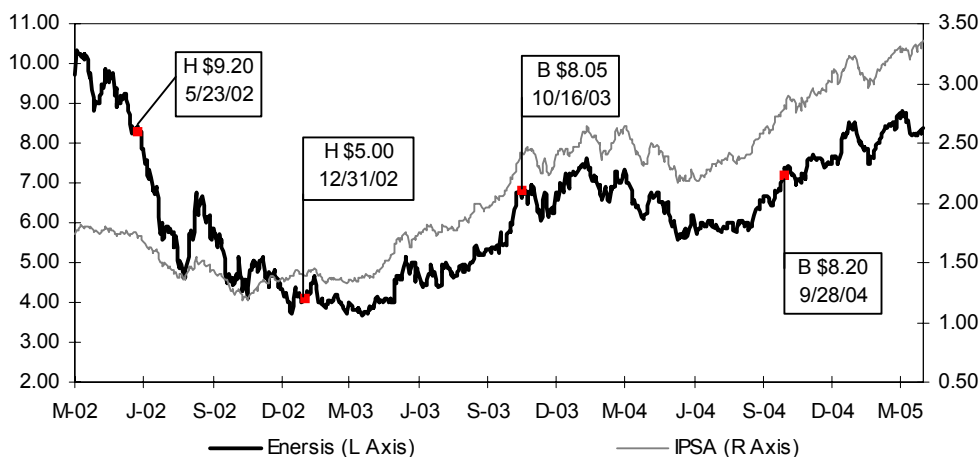
IMPORTANT DISCLOSURES

Enersis – 12-Month Relative Performance (U.S. Dollars)



Sources: Bloomberg and Santander Investment.

Enersis – Three-Year Stock Performance (U.S. Dollars)



Analyst Recommendations and Price Objectives

SB: Strong Buy
B: Buy
H: Hold
UP: Underperform
S: Sell
UR: Under Review

Source: Santander Investment.

IMPORTANT DISCLOSURES (CONTINUED)

Key to Investment Codes

Rating	Definition	% of Companies Covered with This Rating	% of Companies Provided Investment Banking Services in the Past 12 Months
Strong Buy	Expected to outperform the local market more than 15%.	54.45%	70.00%
Buy	Expected to outperform the local market 5%-15%.		
Hold	Expected to perform within a range of 5% above or below the local market.	30.00%	30.00%
Underperform	Expected to underperform the local market 5%-15%.	14.55%	--
Sell	Expected to underperform the local market more than 15%.		

The numbers above reflect our Latin American universe.

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The benchmark used for establishing Argentina recommendations is our forecast of the year-end Argentina IFCI index.

For the Andean countries, our benchmark is the simple average of the country risk of each country plus the 10 year U.S. T-Bond yield plus 5.5% of equity risk premium. For additional information about our rating methodology, please call (212) 350-3974.

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Within the past 12 months, Grupo Santander has managed or co-managed a public offering of securities of Enersis.

Within the past 12 months, Grupo Santander has received compensation for investment banking services from Enersis.

In the next three months, Grupo Santander expects to receive or intends to seek compensation for investment banking services from Enersis.

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