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OFFERING MEMORANDUM

AES GENER S.A.

US$400,000,000
7.50% Senior Notes due 2014

We will pay interest on the notes on March 25 and September 25 of each year, beginning September 25, 2004. The notes will mature on March 25, 2014. The notes will not be redeemable prior to maturity except as provided herein. The notes will rank equally in right of payment with our other senior indebtedness.

We will use all the proceeds of this offering plus certain other amounts to repurchase or repay a portion of our indebtedness, including our outstanding U.S. convertible notes and Chilean convertible notes that we expect to repurchase in concurrent cash tender offers or otherwise redeem, to pay the costs of treasury lock agreements entered into in connection with this offering and for working capital purposes.

We have agreed to make an offer to exchange the notes for registered, publicly tradable notes that have terms substantially identical to the notes.

Investing in the notes involves risk. See "Risk Factors" beginning on page 17.

We have not registered the notes under the Securities Act or under any state securities laws. Therefore, we may not offer or sell the notes within the United States or to, or for the account or benefit of, any U.S. person unless the offer or sale would qualify for a registration exemption from the Securities Act and applicable state securities laws. Accordingly, we are only offering the notes: (1) to qualified institutional buyers (as defined in Rule 144A under the Securities Act) and (2) outside the United States in compliance with Regulation S under the Securities Act. See "Transfer Restrictions" for additional information about eligible offerees and transfer restrictions.

None of the Securities and Exchange Commission, any state securities commission or other regulatory agency has approved or disapproved the notes or determined if this offering memorandum is truthful or complete. Any representation to the contrary is unlawful.

An application has been made to list the notes on the Luxembourg Stock Exchange. Notes that are sold to qualified institutional buyers are expected to be eligible for trading in the PORTAL market.

Price: 99.853% plus accrued interest, if any, from the issue date.

We expect that delivery of the notes will be made in New York, New York on or about March 22, 2004.

Deutsche Bank Securities

The date of this offering memorandum is November 24, 2004.

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This offering memorandum does not constitute an offer to sell, or a solicitation of an offer to buy, any notes offered by this offering memorandum by any person in any jurisdiction in which it is unlawful for that person to make an offer or solicitation. Neither the delivery of this offering memorandum nor any sale made under this offering memorandum will under any circumstances imply that there has been no change in our affairs or that the information set forth in this offering memorandum is correct as of any date subsequent to the date of this offering memorandum.

We have attached hereto our annual report on Form 20-F/A for the year ended December 31, 2003. Our annual report includes risk factors relating to our business and operations, our annual audited consolidated financial statements and disclosure concerning our business and financial condition and results of operations, as well as other matters. We recommend that you carefully review the entire offering memorandum, including our annual report on Form 20-F/A, before making an investment decision.

Any statement contained in our Form 20-F/A for the year ended December 31, 2003 shall be deemed to be modified or superseded for the purposes of this offering memorandum to the extent that a statement contained herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this offering memorandum.

This offering memorandum does not constitute an offer to any other person or the public in general to subscribe for or otherwise acquire the notes.

In Luxembourg, this offering memorandum will be distributed free of charge to anyone upon request.

We have prepared this offering memorandum solely for use in connection with the offer of the notes and take responsibility for its contents. No other person is responsible for its contents. We and other sources we believe to be reliable have furnished the information contained in this offering memorandum. Nothing contained in this offering memorandum is or shall be relied upon as a promise or representation, whether as to the past or the future; and the opinions and intentions expressed in this offering memorandum with regard to us are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions, and all reasonable inquiries have been made by us to ascertain such facts and to verify the accuracy of all such information and statements. We accept responsibility accordingly.

The initial purchaser is not making any representation or warranty as to the accuracy or completeness of the information contained in this offering memorandum. The initial purchaser assumes no responsibility for the accuracy or completeness of the information contained in this offering memorandum.

You must comply with all laws and regulations in force in any jurisdiction in connection with the possession or distribution of this offering memorandum and the purchase, offer or sale of the notes, and you must obtain any required consent, approval or permission for the purchase, offer or sale by you of the notes under the laws and regulations applicable to you in force in any jurisdiction to which you are subject or in which you make purchases, offers or sales, and neither we nor the initial purchaser have any responsibility for those transactions. See ''Transfer Restrictions''.

You acknowledge that (1) you have been afforded an opportunity to request from us, and to review, all additional information considered by you to be necessary to verify the accuracy of, or to supplement, the information contained in this offering memorandum, (2) you have not relied on us, the initial purchaser or any person affiliated with us or the initial purchaser in connection with your investigation of the accuracy of the information or your investment decision, and

(3) no person has been authorized to give any information or to make any representation concerning us or the notes other than as contained in this offering memorandum. If given or made, that other information or representation should not be relied upon as having been authorized by us or the initial purchaser.

In making an investment decision, you must rely on your own examination of our business and the terms of the offering, including the merits and risks involved. These notes have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, these authorities have not confirmed the accuracy or determined the adequacy of this offering memorandum. Any representation to the contrary is unlawful.

The notes may not be transferred or resold except as permitted under the Securities Act of 1933, as amended, and applicable state securities laws. You should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time.

See ''Risk Factors'', immediately following the ''Summary'', for a description of specified factors relating to an investment in the notes. Neither we, the initial purchaser, nor any of our or its respective representatives is making any representation to you regarding the legality of an investment by you under appropriate legal investment or similar laws. You should consult with your own advisors as to legal, tax, business, financial and related aspects of a purchase of the notes.

NOTICE TO NEW HAMPSHIRE INVESTORS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER CHAPTER 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED KINGDOM

This offering memorandum is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) to investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (the ''Order'') or (iii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2) of the Order (all such persons together being referred to as ''relevant persons''). The notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

ENFORCEMENT OF CIVIL LIABILITIES

We are a *sociedad anónima abierta*, or an open stock corporation, organized under the laws of the Republic of Chile, or Chile. Only three of our seven directors reside in the United States. All of our executive officers and certain of the experts named herein reside in Chile. In addition, all or a substantial portion of the assets of these persons and of AES Gener S.A. are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon such persons, or to enforce against them or us in U.S. courts judgments predicated upon the civil liability provisions of the federal securities laws of the United States or otherwise obtained in U.S. courts.

We have been advised by Claro y Cía., our special Chilean counsel, that no treaty exists between the United States and Chile for the reciprocal enforcement of foreign judgments. Chilean courts, however, have enforced judgments rendered in the United States by virtue of the legal principles of reciprocity and comity, subject to the review in Chile of the U.S. judgment in order to ascertain whether certain basic principles of due process and public policy have been respected without reviewing the merits of the subject matter of the case. If a U.S. court grants a final judgment, enforceability of this judgment in Chile will be subject to the obtaining of the relevant *exequatur* (i.e., recognition and enforcement of the foreign judgment) according to Chilean civil procedure law in force at that time, and consequently, subject to the satisfaction of certain factors. Currently, the most important of these factors are the existence of reciprocity; the absence of a conflicting judgment by a Chilean court relating to the same parties and arising from the same facts and circumstances; the Chilean court's determination that the U.S. courts had jurisdiction, that process was appropriately serviced on the defendant and that the defendant was afforded a real opportunity to appear before the court and defend its case; and that enforcement would not violate Chilean public policy. Nevertheless, we have been advised by Claro y Cía. that there is doubt as to the enforceability, in original actions in Chilean courts, of liabilities predicated solely on the U.S. federal securities laws and as to the enforceability in Chilean courts of judgments of U.S. courts obtained in actions predicated upon the civil liability provisions of the U.S. federal securities laws.

We have appointed CT Corporation System as our authorized agent upon which process may be served in any action which may be instituted in any United States federal or state court having subject matter jurisdiction in the Borough of Manhattan, The City of New York, New York, arising out of or based upon the indenture governing the notes, the notes or the registration rights agreement governing the exchange offer exchanging the notes for notes registered under the U.S. federal securities laws. See ''Description of the Notes''.

WHERE YOU CAN FIND MORE INFORMATION

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and in accordance therewith, AES Gener S.A. files reports and other information with the SEC. Such reports and other documents and information may be inspected and copied at the public reference room maintained by the SEC at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549. The public may obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330. Copies of such material can be obtained from the Public Reference Section of the SEC at prescribed rates and from the SEC's website located at http://www.sec.gov.

As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements and will not be required to file proxy statements with the SEC, and our officers, directors and principal shareholders will be exempt from the reporting and ''short-swing'' profit recovery provisions contained in Section 16 of the Exchange Act.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

We ''incorporate by reference'' into this offering memorandum certain information we file with the SEC, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is an important part of this offering memorandum and information that we subsequently file with the SEC will automatically update and supersede information in this offering memorandum and in our other filings with the SEC. We incorporate by reference any of our future reports on Form 6-K filed with or furnished to the SEC after the date of this offering memorandum and prior to the termination of the offering of the notes by this offering memorandum that are identified in the filing as being incorporated into this offering memorandum.

We will promptly provide, without charge to you, upon written or oral request, a copy of any or all of the documents incorporated by reference in this offering memorandum, other than exhibits to those documents, unless the exhibits are specifically incorporated by reference in those documents. Requests should be directed to:

Vanessa Thiers
AES Gener S.A.
Mariano Sánchez Fontecilla 310, 3rd Floor
Las Condes, Santiago, Chile
Telephone: (56-2) 686-8900

The Luxembourg paying agent will furnish, without charge to you, upon written or oral request, a copy in their entirety of any or all of the documents incorporated by reference in this offering memorandum. You should contact the Luxembourg paying agent at Deutsche Bank Luxembourg S.A., 2 Boulevard Konrad Adenauer, Luxembourg, Postal Code 1115.

SECURITIES AND EXCHANGE COMMISSION REVIEW

In the course of the review by the SEC of the registration statement that we have agreed to file in connection with an exchange offer for the notes offered hereby, we may be required to make changes to the description of our business, financial information or other information included in this offering memorandum. In particular, we understand that the SEC continually evaluates the application of certain accounting principles generally accepted in the United States, as well as the method of presentation of non-GAAP financial measures, such as Adjusted Operating Income, which is included in this offering memorandum. We believe that the financial information included in this offering memorandum has been prepared in a manner that complies with the published rules and regulations. However, the SEC's comments on our financial data may require modifications or reformulation of such presentation and any such modification or reformulation may be significant.

FORWARD-LOOKING STATEMENTS

Except for the historical information contained in this offering memorandum, including in our Form 20-F/A, certain matters discussed herein, including without limitation under ''Information on the Company'' and ''Operating and Financial Review and Prospects'', contain forward-looking statements, within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Although we believe that in making any such statements our expectations are based on reasonable assumptions, any such statement may be influenced by factors that could cause actual outcomes and results to be materially different from those projected. When used in this offering memorandum, including our Form 20-F/A, the words ''anticipates'', ''believes'', ''expects'', ''intends'' and similar expressions, as they relate to us or our management, are intended to identify such forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties. There are important factors that could cause actual results to differ materially from those in forward-looking statements, certain of which are beyond our control. These factors, risks and uncertainties include the following:

- our and our equity-method investees' ability to implement capital investment programs, including the ability to arrange financing where required, and to complete contemplated refinancings;
- trends affecting our and our equity-method investees' financial condition or results of operations;
- the nature and extent of future competition in our and our equity-method investees' principal markets;
- political, economic, regulatory and demographic developments in Chile, Colombia, Argentina, the Dominican Republic and other countries where we and our equity-method investees currently do business or may do business in the future; and
- our dividend policy.

Accordingly, we cannot assure you that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do, what impact they will have on our results of operations or financial condition. We do not intend, and undertake no obligation, to publicly revise any forward-looking statements that have been made to reflect the occurrence of events after the date hereof.

PRESENTATION OF INFORMATION

In this offering memorandum, unless the context requires otherwise, the terms ''AES Gener'', ''we'', ''us'' and ''our'' refer to AES Gener S.A. and its subsidiaries on a consolidated basis.

Our audited consolidated financial statements and, unless otherwise indicated, the other financial information presented in this offering memorandum, are presented in Chilean pesos in conformity with generally accepted accounting principles in Chile, or Chilean GAAP, and the rules of the *Superintendencia de Valores y Seguros*, the Chilean Superintendency of Securities and Insurance, or SVS. Chilean GAAP differs in certain important respects from generally accepted accounting principles in the United States, or U.S. GAAP. See note 37 to our audited consolidated financial statements for the years ended December 31, 2002 and 2003 included in this offering memorandum for a description of the principal differences between Chilean GAAP and U.S. GAAP as they relate to us. Note 37 to our audited consolidated financial statements for the years ended December 31, 2001, 2002 and 2003 also contains a reconciliation to U.S. GAAP of our net income for the years ended December 31, 2001, 2002 and 2003 and our total shareholders' equity at December 31, 2002 and 2003. Under U.S. GAAP, a definition of the functional currency is required, which may differ from the reporting currency of a company. Management has determined the U.S. dollar to be AES Gener's functional currency in accordance with the Statement of Financial Accounting Standards, or SFAS, No. 52. Therefore, by applying the procedures specified in SFAS No. 52, we have remeasured the audited consolidated financial statements as of December 31, 2001 and 2002 into U.S. dollars, in accordance with U.S. GAAP. Subsequent to the filing of our December 31, 2002 and 2001 financial statements, we determined that an error had been made in accounting for the provision for current tax expenses for the years 2001 and 2002, which resulted in a higher tax loss carryforward for those years. This increase in the tax loss carryforward resulted in the recognition of a higher deferred tax asset of Ch$3,139 million and Ch$2,835 million for the years 2001 and 2002, respectively. The financial data relating to the years ended December 31, 2001, 2002 and 2003 is presented in constant Chilean pesos of December 31, 2003 purchasing power.

Subsequent to the filing of our December 31, 2003 Chilean GAAP financial statements, we determined that an error had been made in disclosure related to the reduction in value of the treasury lock agreements as derivative instruments and the reduction in their value for the period from January 1, 2004 to March 12, 2004.

In addition, AES Gener S.A. determined that the effect of a mark-to-market adjustment for the treasury lock agreements under U.S. GAAP was omitted from the Chilean GAAP to U.S. GAAP net income and shareholders' equity reconciliations and the calculation of earnings per share. The disclosure related to the subsequent reduction in value of the treasury lock agreements from January 1, 2004 to March 12, 2004 was also omitted.

The functional currency and deferred tax adjustments were reflected as restatements in the audited consolidated financial statements included herein, as well as all adjustments discussed above.

Unless otherwise specified, references herein to ''U.S. dollars'', ''dollars'', ''$'' or ''US$'' are to United States dollars, references to ''peso'' or ''Ch$'' are to Chilean pesos, the legal currency of Chile, references to ''Col$'' are to Colombian pesos, the legal currency of Colombia, references to ''Arg$'' are to Argentine pesos, the legal currency of Argentina, references to ''RD$'' are to Dominican Republic pesos, the legal currency of the Dominican Republic, and references to ''UF'' are to *Unidad de Fomento*. The *Unidad de Fomento* is an inflation-indexed, Chilean peso-denominated monetary unit that is linked to, and set daily in advance to reflect changes in, the previous month's Chilean consumer price index. As of December 31, 2003, one UF was equivalent to Ch$16,920.

For your convenience, we have translated certain peso amounts into U.S. dollars. Unless otherwise indicated, information regarding the U.S. dollar equivalents of amounts in pesos is based on the daily observed exchange rate reported by the Chilean Central Bank for December 31, 2003 (the rate we used for December 31, 2003 financial reporting purposes), which was Ch$593.8 = US$1.00. The Federal Reserve Bank of New York does not report a noon buying rate for Chilean pesos. The exchange rate between the Colombian peso and the U.S. dollar used by us for December 31, 2003 financial reporting purposes was Col$2,778.21 = US$1.00. The exchange rate between the Argentine peso and the U.S. dollar used by us for December 31, 2003 financial reporting purposes was Arg$2.935 = US$1.00. The exchange rate between the Dominican Republic peso and the U.S. dollar used by us for December 31, 2003 financial reporting purposes was RD$35.0 = US$1.00. No representation is made that the peso, U.S. dollar or other currency amounts shown in this offering memorandum, or in our annual report on Form 20-F/A, could have been or could be converted into U.S. dollars or pesos at such rate or at any other rate.

For the purposes of Chilean GAAP, we consolidate the results of operations of a company defined as a filial, or subsidiary, in accordance with *Ley Sobre Sociedades Anónimas, Ley* No. 18,046, or the Chilean Corporations Law. In order to consolidate the results of operations of a company, we must satisfy, in general, one of two criteria. We must either:

- control, directly or indirectly, more than a 50.0% voting interest in such company; or
- nominate or have the power to nominate a majority of the board of directors of such company if we control 50.0% or less of the voting interest in such company.

Our most significant consolidated subsidiaries include:

- Norgener S.A., or Norgener, which is 100.0% owned by us and operates a 277 MW coal-fired plant in northern Chile;
- Energía Verde S.A., or Energía Verde, which is 100.0% owned by us and operates two cogeneration plants and a gas peaking turbine with a total nominal capacity of 42.4 MW, as well as two steam generation plants in south-central Chile;
- Sociedad Eléctrica Santiago S.A., or Eléctrica Santiago, which is 90.0% owned by us and operates a 379 MW combined-cycle plant in Santiago, Chile;
- TermoAndes S.A., or TermoAndes, which is 100.0% owned by us and operates a 642.8 MW combined-cycle plant in Salta, Argentina;
- InterAndes S.A., or InterAndes, which is 100.0% owned by us and operates a 345 kV transmission line from the TermoAndes plant in Argentina to the Chilean border; and
- Chivor S.A. E.S.P., or Chivor, which is 99.9% owned by us and operates a 1,000 MW hydroelectric plant in Colombia.

In accordance with the segment definitions found in note 37 to our audited consolidated financial statements included in this offering memorandum, the term ''our Chilean Operations'' refers to the operations of AES Gener, Norgener, Energía Verde and Eléctrica Santiago and ''our Argentinean Operations'' refers to TermoAndes and InterAndes. In this offering memorandum ''our Colombian Operations'' refers solely to Chivor.

As used in this offering memorandum and in our annual report on Form 20-F/A, the term ''equity-method investee'' refers to an entity in which we have an ownership interest between 10% and 50%, in accordance with Chilean GAAP, and, accordingly, whose results of operations are not consolidated in our results of operations. Our most significant equity-method investees are:

- Empresa Eléctrica Guacolda S.A., or Guacolda, which is 50.0% owned by us and operates a 304 MW generation facility in Chile;

- Empresa Generadora de Electricidad Itabo S.A., or Itabo, which is 25.0% owned by us and operates a 586.5 MW generation facility in the Dominican Republic;
- Gasoducto GasAndes Argentina S.A., or GasAndes Argentina, an Argentine company that is 13.0% owned by us and transports natural gas through a pipeline from the Province of Mendoza in Argentina to the Chilean border; and
- Gasoducto GasAndes S.A., or GasAndes Chile, a Chilean company that is 13.0% owned by us and transports natural gas through a pipeline from the Argentine border to the Santiago Metropolitan Region.

Unless otherwise indicated, information with respect to our electrical capacity includes the total capacity of AES Gener S.A., together with the total capacity of each of our consolidated subsidiaries.

CALCULATION OF ECONOMIC INTEREST

Except in our audited consolidated financial statements, and unless otherwise specified, references to our percentage interest in a subsidiary or equity-method investee refer to our level of economic interest in that subsidiary or equity-method investee. Our economic interest in a subsidiary or equity-method investee is calculated by multiplying our percentage ownership interest in a directly held subsidiary or equity-method investee by the percentage ownership interest of any entity in the chain of ownership of such ultimate subsidiary or equity-method investee. For example, if we own 60% of a directly held subsidiary that owns 40% of an equity-method investee, our economic ownership interest in that equity-method investee would be 24%.

TECHNICAL TERMS

In this offering memorandum, references to ''GW'' and ''GWh'' are to gigawatts and gigawatt hours, respectively, references to ''MW'' and ''MWh'' are to megawatts and megawatt hours, respectively, references to ''kW'' and ''kWh'' are to kilowatts and kilowatt-hours, respectively, and references to ''kV'' are to kilovolts. Unless otherwise indicated, statistics provided throughout this offering memorandum with respect to electricity generation facilities are expressed in MW, in the case of the nominal capacity of such facilities, and in GWh, in the case of the aggregate electricity production of such facilities. One GW=1,000 MW, and one MW = 1,000 kW. Statistics relating to aggregate annual electricity production are expressed in GWh and are based on a year of 8,760 hours. ''Nominal capacity'' means the total amount of nominal capacity in any company or system.

STATISTICAL INFORMATION

Statistical information contained in this offering memorandum, including information contained in our Form 20-F/A, regarding the economies of, and electricity industries in, Chile, Colombia, Argentina and the Dominican Republic, and regarding the competitors of AES Gener S.A. and its subsidiaries and equity-method investees in those industries, is based on material obtained from public sources, including publications and materials from participants in those industries and from government entities, such as CDEC-SIC, CDEC-SING, the Chilean Central Bank and CAMMESA, among others. We believe such information is accurate, but we have not independently verified it.

NOTICES

All notices to holders will, so long the notes are listed on the Luxembourg Stock Exchange and the rules of such exchange so require, be published in a daily newspaper with general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*).

SUMMARY

This summary highlights information contained elsewhere in this offering memorandum. It does not contain all the information that you may consider important in making your investment decision. Therefore, you should read the entire offering memorandum carefully, including in particular the "Risk Factors" section and the consolidated financial statements and the related notes appearing elsewhere in this offering memorandum.

THE COMPANY

General

We are the largest thermal generator and the second largest electricity generation company in Chile based on our operating revenue and generating capacity. As of December 31, 2003, we and our 50% owned equity-method investee, Guacolda, accounted for approximately 22.4% of the total generating capacity in the *Sistema Interconectado Central*, or SIC, which serves central Chile from Rada Paposo in the north (Second Region) to Isla Grande de Chiloé in the south (Tenth Region). More than 90% of the country's population lives in this region, which includes the densely populated Santiago Metropolitan Region. As of December 31, 2003, through our subsidiaries Norgener and TermoAndes, we accounted for approximately 25.3% of the total generating capacity in the *Sistema Interconectado del Norte Grande*, or SING. The SING is the interconnected system that serves the northern part of Chile from Tarapacá (First Region) to Antofagasta (Second Region). Mining industry consumption prevails over residential consumption in the SING, and thermoelectric facilities accounted for 99.6% of the region's nominal generation capacity in 2003. During 2003, we are also engaged, directly or through subsidiaries and equity-method investees, in (1) electricity generation in Colombia, Argentina and the Dominican Republic, (2) coal mining in Colombia and (3) natural gas transportation in Chile and Argentina.

We have hydroelectric, combined-cycle, coal, peaking diesel and biomass facilities, and accordingly our plants in the SIC are well distributed across the dispatch curve. This distribution allows us to operate our facilities competitively in a variety of hydrological and pricing conditions, and to effectively manage our contractual obligations.

As of December 31, 2003, our consolidated total assets were Ch$1,657,046 million (approximately US$2,791 million). In 2003, we reported consolidated operating income of Ch$109,953 million (approximately US$185.2 million) and consolidated net income of Ch$53,678 million (approximately US$90.4 million).

Business Overview

Generation

Chile. As of December 31, 2003, we and our equity-method investee, Guacolda, had 1,804 MW of nominal capacity in Chile, which consisted of:

- 1,533 MW of primarily thermoelectric capacity, comprised of 974 MW of coal-fired capacity, 379 MW of combined-cycle capacity, 36 MW of forestry waste cogeneration capacity (18.8 MW of which produces steam and not electricity) and 144 MW of gas/oil turbine-fired capacity; and
- 271 MW of run-of-the-river hydroelectric capacity.

Demand for electrical energy in Chile's two major power grids, based on gross generation, grew in 2003 by 5.4% in the SIC and 9.8% in the SING. Sales of electrical energy grew in 2003 by 5.8% in the SIC and 10.5% in the SING. In comparison, Chile's gross domestic product increased by an estimated 3.2% in real terms in 2003. Our management believes that energy demand in Chile will continue to grow for the foreseeable future at an annual rate that exceeds the annual rate of growth in Chile's gross domestic product, which is also in accordance with the Chilean National Energy Commission forecast.

Colombia. We began operations in Colombia in December 1996 when we purchased the Chivor hydroelectric power plant from the Colombian government as part of its privatization process. The Chivor plant consists of eight units with a total nominal capacity of 1,000 MW. Chivor is one of the largest dam-based hydroelectric plants in Colombia, representing approximately 7.5% of the country's total generating capacity in 2003. The Chivor plant, which is located on the Batá River, 160 km northeast of Bogotá, has been operating continuously since 1977.

Argentina. Our electricity investments in Argentina consist of the TermoAndes generation plant in the province of Salta, which is a combined-cycle, natural gas-fired plant with 642.8 MW of nominal capacity, and the 345 kV InterAndes transmission line, which delivers electricity produced by TermoAndes to the SING. Although physically located in Argentina, TermoAndes sells 100% of its energy and capacity to the SING in Chile. The Argentine portion of the transmission line is currently owned by InterAndes. The Chilean portion of the line is directly owned by AES Gener S.A. We have been authorized by the Argentine energy regulatory agency to connect 203 MW of TermoAndes capacity to the Argentine grid and have invested US$15 million for that purpose; however, connection to the Argentine grid is not projected in the short term because of economic instability in Argentina.

The Dominican Republic. In the Dominican Republic, we own a 25% interest in and, subject to certain exceptions, have the right to manage Itabo. As of December 31, 2003, Itabo had approximately 586.5 MW of nominal capacity, but of the facility's 13 units, only seven, with approximately 432.5 MW of nominal capacity, were in commercial operation. The other units have been decommissioned based on their low levels of efficiency. During 2003, we held discussions with interested parties regarding the sale of Itabo; however, no agreements were reached. Since then no further discussions were held.

Other Businesses

We also have ownership interests in other non-electricity businesses, principally related to fuels. We are the largest distributor of coal in Chile, based on volume, and own one coal deposit in Colombia. We have entered into an agreement to sell the coal deposit and expect such sale to be completed in the second quarter of 2004. We also participate in the Chilean natural gas industry through our 13% ownership interest in each of GasAndes Argentina and GasAndes Chile, which transport natural gas through a pipeline from the Province of Mendoza in Argentina to the Santiago Metropolitan Region in Chile. We have held discussions with interested parties regarding the sale of GasAndes Argentina and GasAndes Chile, which are non-core businesses; however, no agreements have been reached.

Strategy and Financial Recapitalization

Our historic business strategy has been to focus on the development of efficient electricity generation in Chile. In the 1990's we expanded this strategy to take advantage of electricity generation opportunities presented by privatization activities in other Latin American countries, as well as opportunities in other non-electricity businesses, such as fuels and infrastructure. In December 2000, The AES Corporation acquired a controlling interest in our company. As a result of The AES Corporation's involvement we returned our focus to our core business activity, principally electricity generation in Chile, as demonstrated by the divestitures that we have made since 2001 and future divestitures that we are pursuing. Consistent with our focus, we are continuing to implement the following strategy of:

- divesting non-core assets;
- expanding our electricity generating capacity in the SIC; and
- restructuring our balance sheet.

Completed Divestitures

Since 2001, we have divested the following non-core operations and business lines for a total consideration of approximately US$414 million, including the following assets not related to our core business:

Argentinean Operations. Until 2001, we held interests in the Argentine electricity sector through Central Puerto S.A. and Hidroeléctrica Piedra del Aguila S.A. These entities own a thermal generation plant and a hydroelectric plant, respectively, with a combined nominal capacity of 3,565 MW. In 2001, we sold our 63.9% direct and indirect interests in Central Puerto for US$255 million and our participation in Hidroneuquén S.A., the owner of Hidroeléctrica Piedra del Aguila, for US$72.5 million.

Shipping and Port Businesses. In several separate transactions in June, July and August of 2001, we sold all of our shipping and port businesses in Chile by selling our interests in Compañía Chilena de Navegación Interoceánica S.A., Agencias Universales S.A., Portuaria Cabo Froward S.A. and Puerto Ventanas S.A. for an aggregate consideration of approximately US$81 million.

Other Businesses. In June 2001, we sold our 50% interest in Merchant Energy Group of the Americas, Inc., a power trading business. In January 2002, we sold our 40% interest in Servicios Integrales de Generación de Energía Eléctrica S.A., a company that provides operation and maintenance services to Eléctrica Santiago. In November 2002, we sold all of our oil exploration businesses and water treatment businesses. Our oil exploration businesses consisted of a 100% interest in OilGener Argentina Ltd.; and the assets of OilGener Inc. (USA) and the Fell Block oil and natural gas concession we held in the Fell Block area in southern Chile. Our water treatment businesses consisted of a 51% interest in Explotaciones Sanitarias S.A., a water treatment production and distribution business in an industrial sector of Santiago, and Ecogener S.A., an industrial liquid waste treatment company. We realized a total of approximately US$6 million from the disposition of all of these assets.

Potential Divestitures

We expect to continue to divest non-core operations and business lines. Potential sale candidates at this time include:

- *Itabo.* As part of our efforts to focus on our core business in Chile, discussions were held with interested parties for the sale of this asset during 2003; however, no agreements were reached.
- *GasAndes Argentina and GasAndes Chile.* In 2003, we initiated discussions to sell our interest in these assets. To date, no agreement has been reached.

We do not believe that these potential divestitures will have a material effect on our long-term results of operations or financial condition.

Expansion of Our Electricity Generating Capacity in the SIC

Prior to 1997, the year that the GasAndes pipeline, which transports natural gas from Argentina to Chile, was completed, natural gas was not an alternative fuel source for electricity generation in Chile. As a result, in the SIC, Chile had historically depended on hydrological conditions and hydroelectric power for its electricity. As discussed, we believe that energy demand in Chile will continue to grow at a rate exceeding the growth rate of Chile's gross domestic product. Our expansion strategy in the SIC is based on this expected demand growth, as well as an expected increase in the proportion of energy generated by thermoelectric sources to reduce Chile's dependence on hydrological conditions and the risk of an electricity shortage during dry years. We plan to take advantage of the expertise we have acquired in Chile as the largest thermoelectric energy producer by developing new combined-cycle projects in the future.

Consistent with this strategy, in July 2002, we completed our most recent project in Chile, the installation of a 25 MW gas turbine generator by our subsidiary, Energía Verde. This turbine was connected to the SIC and is used to provide energy and capacity to meet existing contractual requirements.

We are currently pursuing several development projects in the SIC. In addition, we intend to construct a transmission line connecting the southern portion of the SIC with the Argentine interconnected system, the *Sistema Argentino de Interconección*, or SADI, which we estimate will have an interchange capacity of approximately 250 MW, giving us the option to sell electricity in both Chile and Argentina and to take advantage of favorable local demand conditions in Chile. We expect this transmission line to begin operations in 2006, as long as environmental permits are obtained and demand in the SIC continues to grow as expected. We also intend to convert our existing Renca power plant in Santiago, which city accounts for most of the electricity consumption in the SIC, from a steam turbine that burns fuel oil or diesel, into a cleaner combined-cycle plant that burns natural gas. This conversion is expected to increase Renca's nominal capacity from 100 MW to approximately 240 MW. We expect that the conversion of our Renca plant, for which we already have the environmental approval, will begin in the second half of 2005 and expect construction to be completed in 18 months. We estimate that our total investment in both projects will be approximately US$150 million over the next three years.

In the future, we plan to construct additional combined-cycle plants to meet growing demand in the SIC. We have already requested environmental approval for the construction of two 370 MW combined-cycle power plants in the Sixth Region of Chile, south of Santiago. We are also considering the Laguna Verde 394 MW combined-cycle project in the Fifth Region of Chile, near Santiago, and as of January 2004, the *Estudio de Impacto Ambiental*, or Environmental Impact Study, was submitted to the *Comisión Regional del Medioambiente*, or Fifth Region Environmental Commission. We expect to complete the approval process by the end of 2004.

Balance Sheet Restructuring

We continue to pursue opportunities to restructure debt and strengthen our balance sheet, including our recapitalization plan discussed below. At the corporate level, AES Gener S.A. has restructured a portion of its outstanding debt in the past few years.

During 2002, AES Gener S.A. paid off two short-term revolver facilities, a US$30 million loan from Citibank and a US$10 million loan from the Royal Bank of Canada. Additionally, AES Gener S.A. renegotiated a put option held by Bank of America related to the TermoAndes and InterAndes project. The construction of this project was financed in part through the issuance of an aggregate principal amount of US$257 million of notes. Bank of America's put option permitted it to require AES Gener S.A. to purchase its share of the notes representing a principal amount of US$82 million under certain defined circumstances. We successfully restructured this put option in 2002 and agreed with Bank of America to defer AES Gener S.A.'s repurchase obligations and agreed to purchase a portion of those notes each quarter. As of December 31, 2003, Bank of America held approximately US$23 million of the notes and will be repaid in full no later than September 2004.

On February 27, 2004, we reached an agreement to restructure the outstanding TermoAndes and InterAndes debt. Pursuant to the restructuring, the holders of TermoAndes and InterAndes notes will receive an upfront payment to be funded with a combination of cash currently held in TermoAndes' and InterAndes' trust accounts, along with a cash contribution made by us through Gener Argentina S.A. In exchange for this paydown, the holders of the TermoAndes and InterAndes notes have agreed to extend a loan to AES Gener S.A. to enable it to repurchase the notes. This loan will be amortized over a period from 2004 to 2010. The closing of the agreement is subject to several conditions, which include, among others, the amendment and restatement of certain guaranties and pledge agreements, the successful restructuring of AES Gener's other indebtedness and the condition that the proceeds from the TermoAndes and InterAndes' trust accounts established under the former debt agreement, are available for paydown of the existing debt by the new debtor, AES Gener, at the close. Additionally, the interest rate swap on the TermoAndes and InterAndes debt will be terminated at the close. The termination fee will be equal to the mark-to-market adjustment for the interest rate swap hedge.

Our subsidiaries have also recently completed restructuring transactions. ABN Amro exercised a put option in June 2002 in connection with a loan granted to our subsidiary, Energy Trade, in the amount of US$40 million. In July 2002, Energy Trade negotiated an agreement with ABN Amro pursuant to which the put option was eliminated and a new payment schedule was established. Upon execution of the amendment, Energy Trade made a payment of US$16 million, and it was agreed that the balance would be payable in six quarterly installments of US$4 million each. The outstanding principal of this loan as of December 31, 2003 was US$4 million. The loan was fully repaid on January 31, 2004.

On May 31, 2002, Chivor entered into a refinancing agreement with a bank syndicate, led by Bank of America, to restructure its defaulted debt of US$335.5 million through a ''prepackaged'' Chapter 11 bankruptcy proceeding in the United States, which became effective in August 2002. Pursuant to the terms of the prepackaged plan, Chivor must reduce its indebtedness to US$225 million by March 31, 2005. If Chivor is not successful in reducing its indebtedness to that level by that date, Energy Trade is obligated to pay on that date the difference between Chivor's outstanding indebtedness and the amortization target for that date, up to an aggregate of US$50 million. If Energy Trade is unable to meet its obligations, then AES Gener S.A. will be obligated to make certain principal payments to Chivor's creditors. Any such principal payments will be limited to US$50 million in the aggregate. As of December 31, 2003, Chivor had an outstanding debt balance totaling US$283.6 million. We continue to pursue alternatives to refinance and/or extend the maturities of Chivor's debt.

THE RECAPITALIZATION PLAN

Prior to our acquisition by The AES Corporation, we incurred substantial indebtedness to pursue development projects outside of our core business and outside of Chile. As of December 31, 2003, our total outstanding consolidated indebtedness was approximately US$1.3 billion and included US$676.6 million of indebtedness in the form of:

- US$200 million of our 6½% notes due 2006, which we refer to as the Yankee notes; and
- US$476.6 million of our convertible notes comprised of: (1) US$73.9 million of our 6% senior convertible notes due 2005 (excluding the non-conversion premium due at maturity), which we refer to as the U.S. convertible notes; and (2) US$402.7 million of our 6% Chilean convertible notes due 2005 (excluding the non-conversion premium due at maturity), which we refer to as the Chilean convertible notes.

In line with our strategic plan of focusing on our core business since The AES Corporation's acquisition of AES Gener, we have divested a significant portion of the non-core assets we acquired during our expansion in the 1990s, and thereby eliminated approximately US$352 million of subsidiary debt attributable to Central Puerto S.A. and Puerto Ventanas S.A. as well as material earnings deterioration that would have been associated with divested Argentine businesses had they been retained. However, in that process we did not repay all of the debt we incurred in connection with the expansion: US$676.6 million of our remaining indebtedness will become due and payable in March 2005 and January 2006. As a result of these upcoming maturities, as well as a broadbased decline in economic conditions in Latin America, we have been unable to access the capital markets on favorable terms, thereby exposing us to significant refinancing risk for this debt. To improve our financial condition, we are pursuing a recapitalization plan designed to:

- reduce the amount of our outstanding indebtedness and strengthen our balance sheet;

- extend the maturity dates of our long-term indebtedness;
- provide increased operating and financial flexibility; and
- broaden our shareholder base.

We believe that the implementation of our recapitalization plan will enhance our financial flexibility and our ability to generate cash flow in upcoming years.

Our recapitalization plan consists of the following transactions:

- the repayment by our immediate parent company, Inversiones Cachagua Limitada, or Cachagua, of approximately US$298 million, representing all amounts due to us under an intercompany account receivable, known as the mercantile account, which occurred on February 27, 2004;
- three separate cash tender offers for any and all of the Yankee notes, the Chilean convertible notes and the U.S. convertible notes. Our tender offers for the Yankee notes and U.S. convertible notes were each commenced on November 24, 2003 and subsequently amended by press releases dated December 18, 2003, January 28, 2004 and February 23, 2004. Our tender offer for the Yankee notes expired on February 27, 2004, and we accepted for payment US$145.2 million aggregate principal amount of such notes. Our tender offer for the U.S. convertible notes is currently scheduled to expire on April 1, 2004, unless further extended or earlier terminated pursuant to the terms of such offer. As of 5:00 p.m., New York City time, on March 18, 2004, we had received tenders and related consents from holders of approximately US$55.1 million principal amount of U.S. convertible notes, representing 74.63% aggregate principal amount of U.S. convertible notes outstanding as of such time. Pursuant to the terms of the tender offer for the U.S. convertible notes, tenders of such notes and related consents may not be withdrawn or revoked. Our tender offer for the Chilean convertible notes was commenced on November 25, 2003 and subsequently amended on December 18, 2003, January 28, 2004, February 20, 2004, February 24, 2004 and March 18, 2004, will expire on March 23, 2004, unless further extended or earlier terminated pursuant to the terms of such offer;
- the redemption of any Chilean convertible notes and U.S. convertible notes that remain outstanding following the consummation of the cash tender offers for such notes;
- this offering of senior notes;
- the sale of up to 1,213,000,000 shares of our common stock by Cachagua in a separate secondary offering in Chile and in a private placement in the international equity markets;
- a primary offering of shares of our common stock to our shareholders of record (including Cachagua) in connection with a capital increase of US$125 million which was approved at an extraordinary meeting of our shareholders held on March 10, 2004;
- the application by Cachagua of all or a portion of the proceeds from its secondary offerings to purchase all or a portion of its pro rata share (up to US$97.79 million) of the shares of our common stock pursuant to our capital increase;
- the application of a portion of the proceeds from the repayment of the mercantile account to repurchase the Yankee notes and a portion of each of the Chilean convertible notes and U.S. convertible notes in the cash tender offers for such notes;
- our distribution of a dividend of Ch$56.7 billion (approximately US$95.5 million as of February 27, 2004) to our common shareholders, which occurred on February 27, 2004; Cachagua's pro rata share of the dividend plus the proceeds of a foreign exchange rate hedge (which totaled approximately US$97.79 million) will be deposited into trust prior to the closing of this offering to be used by Cachagua, if necessary, to purchase all or a portion of its pro rata share of our capital increase (up to US$97.79 million); the balance of the funds placed in trust and not used by Cachagua for that purpose would be released to Cachagua or otherwise be made available to us in accordance with the terms of the agreement governing such trust;

- the application of a substantial portion of the proceeds from this offering and all of the proceeds from our capital increase to repurchase the Chilean convertible notes and U.S. convertible notes in the cash tender offers for those notes, redeem any such notes that remain outstanding following the consummation of such tender offers and pay a portion of the transaction expenses incurred in connection with our recapitalization plan; and
- the restructuring of the outstanding indebtedness of our Argentine subsidiaries, TermoAndes and InterAndes. Under the terms of the restructuring the holders of outstanding TermoAndes and InterAndes notes will receive an upfront payment to be funded with a combination of cash currently held in TermoAndes' and InterAndes' trust accounts, along with a cash contribution made by us through Gener Argentina S.A. In exchange for this payment, the holders of the TermoAndes and InterAndes notes have agreed to extend a loan to us to enable us to repurchase the TermoAndes and InterAndes notes. This loan will be amortized over a period from 2004 to 2010.

SOURCES AND USES

The following table describes the sources and uses in connection with our recapitalization plan.

Sources (US$ million)		Uses (US$ million)	
Cash on hand	$ 23.1	Dividend (2)	$100.0
Repayment of mercantile account	298.0	Tender Offer: Yankee notes (3)	146.3
Capital increase purchase (1)	125.0	TA/IA up-front payment	29.4
Proceeds of this offering	400.0	Tender Offer: U.S. convertible notes (4)	78.0
		Tender Offer: Chilean convertible notes (4)	425.3
		Working capital	30.0
		Fees and expenses (5)	37.1
Total sources	**$846.1**	**Total uses**	**$846.1**

(1) Assumes that both Cachagua and the minority shareholders purchase in full the capital increase.

(2) Includes a dividend paid to shareholders and the payment of costs incurred in connection with a related foreign exchange rate hedge in the aggregate amount of approximately US$100 million.

(3) Amount tendered and accepted for payment plus consent payment and accrued interest.

(4) Assumes the repurchase or redemption of 100% of the U.S. convertible notes and Chilean convertible notes, in either case at an assumed price of 105.0785%. Includes approximately one month of accrued and unpaid interest.

(5) Includes a US$22.1 million payment related to treasury lock agreements to be made on March 22, 2004.

The following table sets forth the projected maturities of our long-term consolidated indebtedness (other than Chivor) in U.S. dollars for the years indicated on an actual basis as of December 31, 2003, and on an as adjusted basis to give effect to the recapitalization plan as if it had occurred on December 31, 2003, assuming: (1) completion of the TermoAndes and InterAndes restructuring, (2) our issuance of senior notes in this offering with an aggregate principal amount of US$400 million, (3) 72.62% of Yankee notes, or approximately US$145.2 million aggregate principal amount of such notes, are tendered and accepted for payment, and (4) 100% of each of the U.S. convertible notes and Chilean convertible notes, or US$476.6 million aggregate principal amount of such notes (excluding the non-conversion premium due at maturity on the U.S. convertible notes and the Chilean convertible notes), are tendered and accepted for payment in the cash tender offers or otherwise redeemed by us.

The projected amounts below represent only a possible outcome of the recapitalization plan, based on the assumptions specified above and in the footnotes below, and actual amounts will differ, perhaps significantly, if the assumptions differ from the actual outcome of the recapitalization plan.

	2004(1)	2005(1)	2006(1)	2007	2008	2009	2010	2011 and on
	(in millions of US$)							
Actual maturities of long-term indebtedness (2)	69.8	586.9	265.8	52.2	11.8	11.9	0.4	29.5
Pro forma maturities of long-term indebtedness (2)	33.9	86.8	105.3	34.0	31.1	31.5	9.4	429.5

(1) Data for 2005 includes US$50 million representing AES Gener S.A.'s maximum potential liability on US$283.6 million of outstanding indebtedness as of December 31, 2003 of our subsidiary, Chivor. Chivor's amortization on its US$283.6 million of outstanding indebtedness as of December 31, 2003 has been excluded from the table as follows: US$19.0 million, US$13.0 million and US$251.6 million for 2004, 2005 and 2006, respectively. Chivor's indebtedness is non-recourse to AES Gener S.A. and its other subsidiaries, except for the US$50 million included in the table for 2005.

(2) Includes a US$34 million loan given to Norgener by its supplier Mitsubishi Heavy Industry to finance the construction of the Tocopilla thermoelectric plant.

Following the closing of the secondary offerings by Cachagua and our capital increase, we expect that The AES Corporation, through Cachagua, will continue to own a majority of our outstanding shares of capital stock, and that a significant percentage of our shares of capital stock will then be held by minority investors. Assuming Cachagua sells an aggregate of 1,092,000,000 shares of our common stock in its secondary offerings, Cachagua will continue to own approximately 79.4% of our issued and outstanding common stock, without giving effect to our expected capital increase. For every 12.5% of our outstanding voting shares that minority investors hold, they may collectively appoint one director to our board of directors. At the extraordinary shareholders' meeting held on March 10, 2004, our by-laws were amended to provide enhanced protections for minority investors, which amendments are in the process of being legalized. These amendments included:

- the prohibition of loans from us to our controlling shareholder or its related entities (other than any of our subsidiaries);
- the requirement of the affirmative vote of one of our directors who is independent from our controlling shareholder (i.e., a director who would have been elected regardless of the votes of such shareholder) in order to approve transactions between (i) us, on the one hand, and one or more of our directors (whether the directors are acting for their account or as representatives of another entity), on the other hand; and (ii) us, whether directly or through one of the entities of our business group, on the one hand, and one or more of our related entities (other than any of our subsidiaries), on the other hand; and

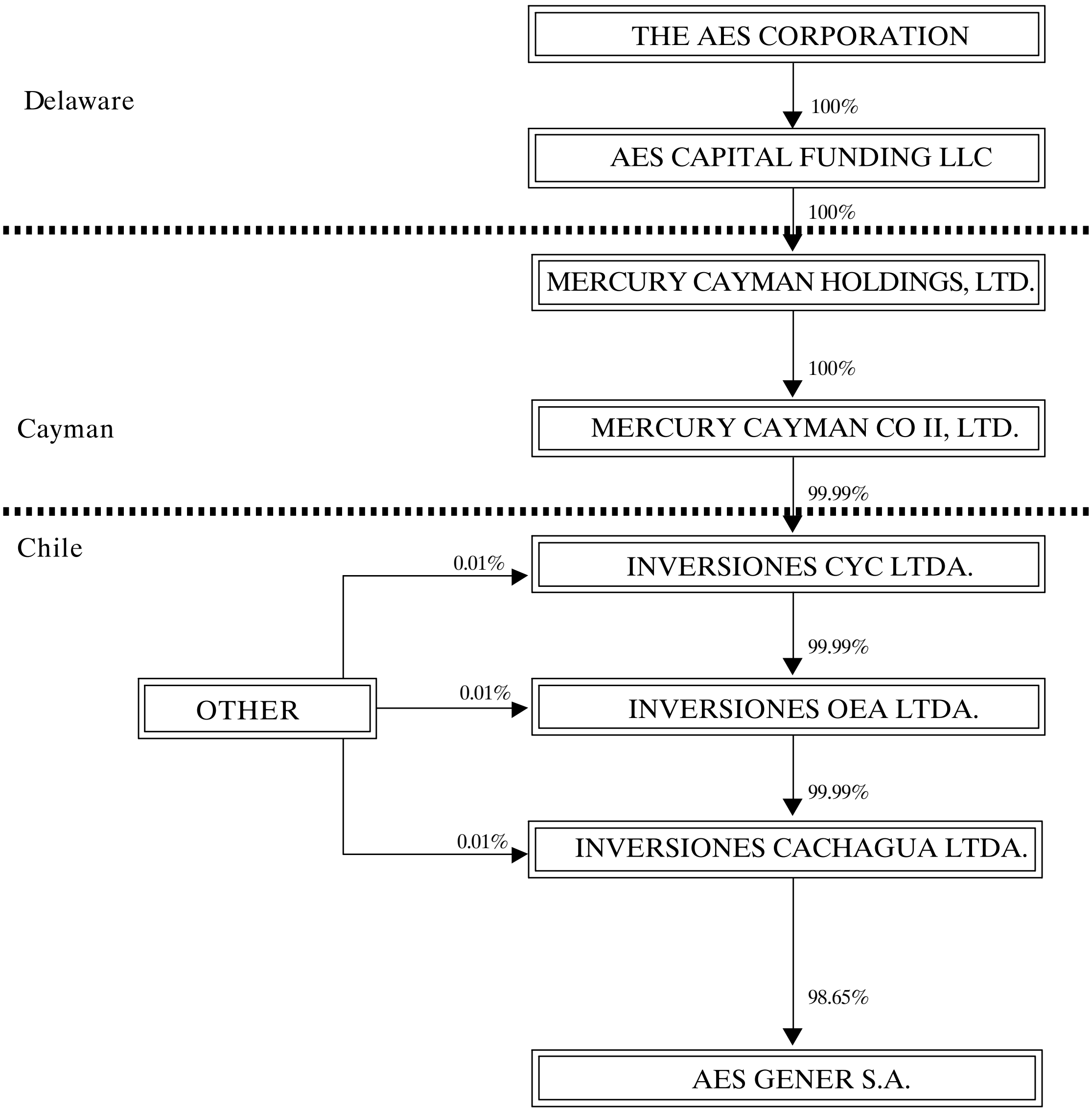
- the requirement of the affirmative vote of 85% of our issued and outstanding shares having the right to vote in order to approve one or more of the following actions:
  - proposed contributions in kind and the related valuation of the assets so contributed;
  - a modification of the powers exercisable through shareholders' meetings or limitations on the powers of the board of directors;
  - proposed increases or decreases in the number of our directors; and
  - proposed modifications or amendments to one or more of the provisions amended pursuant to the referred shareholders' meeting.

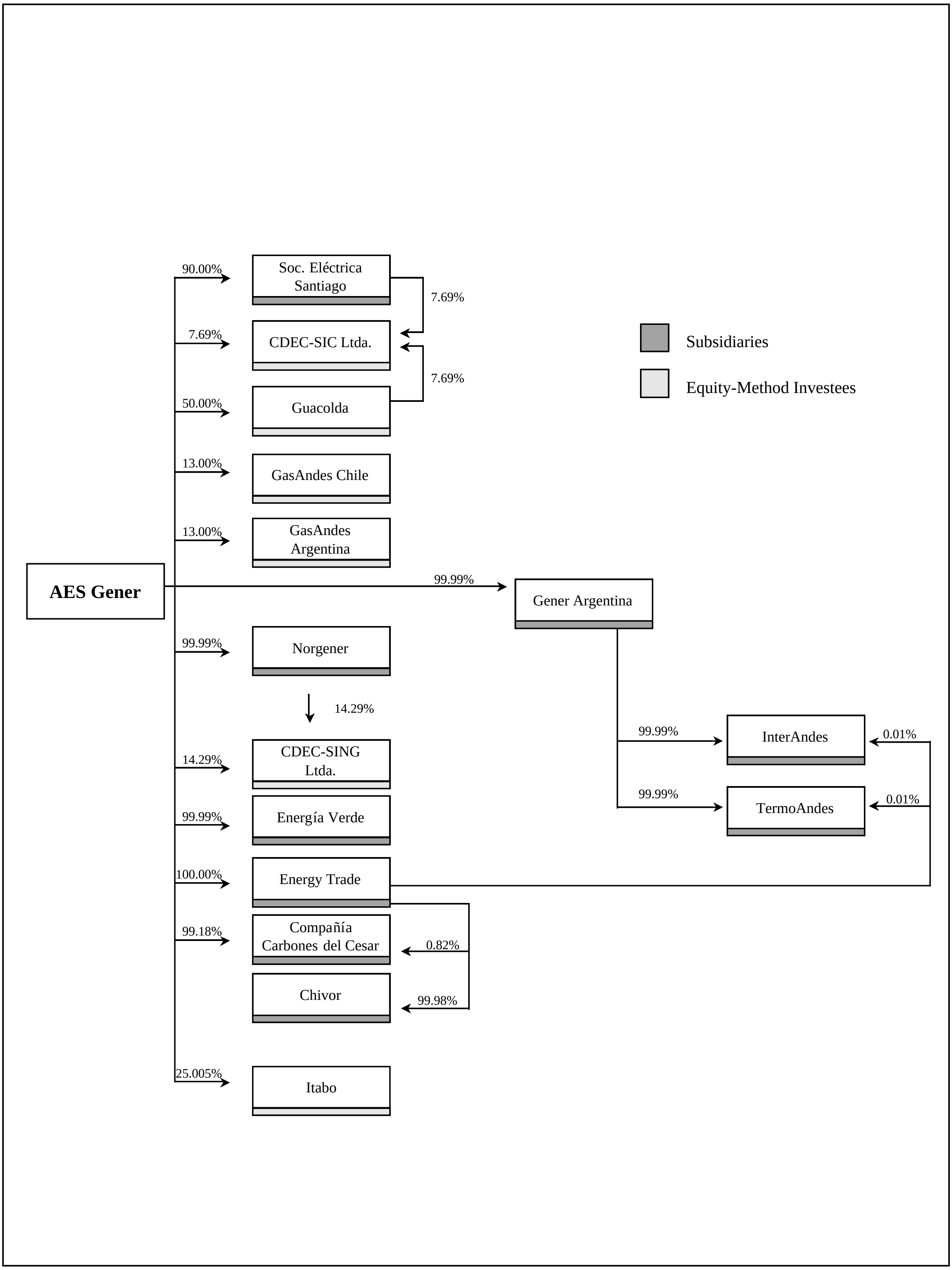
The above-referenced shareholders' meeting also amended our by-laws to restrict our ability to pay dividends, whether in cash or in kind, in excess of the statutory minimum under Chilean law, unless:

- prior to making any such dividend payment, the credit ratings of the indebtedness of AES Gener S.A. are affirmed at the investment grade level by two of Standard & Poor's Ratings Services, Moody's Investors Service, Inc. and Fitch Ratings Ltd., or their successors, or
- our interest coverage ratio is equal to or higher than 2.4:1 during the immediately preceding four fiscal quarters, provided that any dividends actually paid upon satisfaction of such test cannot exceed the equivalent of US$40 million per quarter.

CORPORATE STRUCTURE

We are an operating and holding company and conduct some of our business through subsidiaries. The following charts present as of December 31, 2003, (1) our relationship with The AES Corporation, and (2) our corporate structure and the approximate percentage equity ownership interest that we hold in our subsidiaries and equity-method investees.




AES Gener
90.00%
Soc. Eléctrica Santiago
7.69%
CDEC-SIC Ltda.
7.69%
50.00%
Guacolda
7.69%
13.00%
GasAndes Chile
13.00%
GasAndes Argentina
99.99%
Gener Argentina
99.99%
Norgener
14.29%
14.29%
CDEC-SING Ltda.
99.99%
Energía Verde
100.00%
Energy Trade
99.18%
Compañía Carbones del Cesar
0.82%
Chivor
99.98%
25.005%
Itabo
99.99%
InterAndes
0.01%
99.99%
TermoAndes
0.01%
Subsidiaries
Equity-Method Investees

THE OFFERING

For a more complete description of the terms of the notes, see "Description of the Notes".

Issuer	AES Gener S.A.
Securities Offered	US$400,000,000 aggregate principal amount of 7.50% Senior Notes due 2014.
Issue Price	99.853% of the aggregate principal amount.
Maturity	March 25, 2014.
Interest Rate	The notes will bear interest at a rate of 7.50% per annum from March 22, 2004 based upon a 360-day year consisting of twelve 30-day months.
Interest Payment Dates	Interest on the notes will be payable semi-annually on March 25 and September 25 of each year, commencing on September 25, 2004.
Redemption	The notes will not be redeemable prior to maturity except as described under "Description of the Notes—Optional Redemption" and "—Optional Tax Redemption".
Payment of Additional Amounts	All payments in respect of the notes will be made without withholding or deduction for or on account of any Chilean Taxes, unless such Chilean Taxes are required by law or the interpretation or administration thereof, in which case, with certain customary exceptions, we will pay such additional amounts as may be necessary so that the net amount received by the holders of the notes after such withholding or deduction will not be less than the amount that would have been received in the absence of such withholding or deduction. See "Description of the Notes—Additional Amounts".
Optional Tax Redemption	The notes are redeemable at our option in whole, but not in part, at any time at their stated principal amount plus accrued and unpaid interest and any additional amounts due on the notes, if, as a result of any amendment to or change in certain laws, regulations or rulings related to Chilean Taxes or the application or official interpretation thereof, we become obligated to pay Additional Amounts on the notes at a rate of withholding or deduction in excess of 4.16%. See "Description of the Notes—Optional Tax Redemption" and "Taxation—Chilean Tax Considerations".
Ratings	We anticipate that Moody's, S&P and Fitch will rate the notes at least Ba3, BB+ and BB, respectively.
Ranking	The notes will be our senior obligations, will be equal in right of payment to all of our existing and future senior indebtedness and will rank senior in right of payment to all of our existing and future subordinated indebtedness.
Restrictive Covenants	The indenture governing the notes will contain restrictive covenants, including, but not limited to the following: • Limitation on Indebtedness,

	• Limitation on Restricted Payments, • Limitation on Sale of Assets, • Limitation on Liens, • Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries, and • Limitation on Sale and Lease-Back Transactions. The first four covenants listed above will be suspended so long as the rating assigned to the notes by two of Moody's, S&P and Fitch is investment grade. See "Description of the Notes—Restrictive Covenants".
Use of Proceeds	We will use all of the proceeds of this offering plus certain other amounts to finance our offer to repurchase the U.S. convertible notes and Chilean covertible notes pursuant to concurrent tender offer or otherwise redeem those notes, to pay the costs of treasury lock agreements entered into in connection with this offering and for working capital purposes. We expect the cash tender offer for the U.S. convertible notes to expire on April 1, 2004 and the cash tender offer for the Chilean convertible notes to expire on March 23, 2004. For additional information, see "Use of Proceeds".
Registration Rights	We are required to: • file a registration statement with the SEC with respect to an offer to exchange the notes for publicly registered notes with identical terms; and • cause that registration statement to be declared effective within 270 days after the closing date. If applicable interpretations of the staff of the SEC do not permit us to effect this exchange offer, we will use our best efforts to file a registration statement for the resale of the notes. If one of the above-referenced registration statements is not filed or declared effective within specified periods of time, then the notes will be subject to an increase in their interest rate of 0.50% per annum.
Form and Denomination	Notes sold in the United States in reliance on Rule 144A will be evidenced by a note in global form called a Restricted Global Note, which will be deposited with a custodian for, and registered in the name of a nominee of, the Depository Trust Company, or DTC. Notes sold outside of the United States in reliance on Regulation S will be evidenced by a separate note in global form called a Regulation S Global Note, which also will be deposited with a custodian for, and registered in the name of a nominee of, DTC. Transfers of beneficial interests between the Restricted Global Note and the Regulation S Global Note are subject to certification requirements. The notes will be issued in fully registered form, without coupons and in denominations of US$1,000 and integral multiples of US$1,000 in excess thereof.

Listing	An application has been made to list the notes on the Luxembourg Stock Exchange, subject to the following provision. The European Union Transparency Obligations Directive may be implemented in Luxembourg and elsewhere in the European Union in a manner that is unduly burdensome for us. For example, we may be required in the future to publish financial statements in the European Union in accordance with, or reconciled to, international financial reporting standards (or equivalent standards). Pursuant to the indenture, in such circumstances we will be entitled, and may decide, to seek an alternative listing for the notes on a stock exchange of international standing outside the European Union, which we may select after consultation with the Trustee.
PORTAL	Notes that are sold to qualified institutional buyers are expected to be eligible for trading in the Portal Market.
Transfer Restrictions	We have not registered the notes under the Securities Act or any state or other securities laws and the notes are subject to restrictions on transfer. See "Transfer Restrictions".
Trustee	Law Debenture Trust Company of New York
Principal Paying Agent and Transfer Agent	Deutsche Bank Trust Company Americas
Listing Agent, Transfer Agent and Paying Agent	Deutsche Bank Luxembourg S.A.
Governing Law	New York

See "Risk Factors" immediately following this summary for a discussion of risks relating to us, our business and an investment in the notes.

SUMMARY CONSOLIDATED FINANCIAL AND OPERATING DATA

The following table presents selected consolidated financial and statistical information for each of the periods indicated. You should read the information below together with our audited consolidated financial statements included elsewhere in this offering memorandum, as well as the sections entitled ''Presentation of Information'' and ''Operating and Financial Review and Prospects'' in this offering memorandum. Information included below for the 2002 and 2003 balance sheet data and 2001, 2002 and 2003 income statement data appears in our audited consolidated financial statements included in this offering memorandum. Information included below for the 1999, 2000 and 2001 balance sheet data and 1999 and 2000 income statement data is not included separately in this offering memorandum.

	For the year ended December 31,					
	1999	2000	2001	2002	2003	2003
	(millions of constant Ch$ of December 31, 2003)					(millions of US$) (1)
Income Statement Data:						
Chilean GAAP: (2)(9)						
Operating Revenues	495,999	473,664	360,994	374,257	362,332	610
Income from operations	89,846	83,518	73,072	119,049	109,953	185
Net Income (3)	7,211	2,367	(2,091)	35,576	53,678	90
Income from operations per share	16	15	13	21	19	0.03
Weighted average shares outstanding (000s)	5,881,996	5,632,079	5,672,743	5,672,753	5,672,753	5,672,753
Capital stock (000s)	5,630,563	5,672,738	5,672,753	5,672,753	5,672,753	5,672,753
U.S. GAAP: (7)(8)(9)						
Operating Revenues	438,920	441,624	376,011	358,375	315,393	531
Income from operations	76,465	77,869	115,150	117,406	96,904	163
Income from continuing operations	17,205	2,207	59,377	40,944	19,734	33
Net income (3)	17,205	2,207	50,789	38,309	19,530	33
Income from operations per share	13	14	20	21	17	0.03
Income from continuing operations per share	3	0	10	7	3	0.01

	At December 31,					
	1999	2000	2001	2002	2003	2003
	(In millions of constant Ch$ of December 31, 2003, except ratios)					(millions of US$, except ratios) (1)
Balance Sheet Data:						
Chilean GAAP: (2)(9)						
Total assets	2,201,687	2,342,165	1,926,634	1,903,543	1,657,046	2,791
Long term liabilities	927,612	840,399	798,163	975,596	739,118	1,245
Total shareholders' equity	892,028	894,882	748,071	784,778	808,604	1,362
Ratio of total shareholder's equity to total assets (4)	0.41	0.38	0.39	0.41	0.49	0.49
U.S. GAAP: (7)(8)(9)						
Total assets	1,657,510	1,954,784	1,518,858	1,573,160	1,229,201	2,070
Long term liabilities	812,958	788,444	664,630	896,414	677,888	1,142
Total shareholders' equity	523,221	598,284	332,154	394,793	358,949	604
Ratio of total shareholder's equity to total assets (4)	0.32	0.31	0.22	0.25	0.29	0.29

	At December 31,					
	1999	2000	2001	2002	2003	2003
	(in millions of constant Ch$ of December 31, 2003, except ratio, per share and operating data)					(In US$ except ratio, per share and operating data) (1)
Other Consolidated Financial Data: (2)						
Chilean GAAP						
Consolidated ratio of earnings to fixed charges (5)	1.48	1.18	1.16	1.54	1.89	1.89
Net income per share (Ch$)	1.28	0.42	(0.37)	6.27	9.46	0.02
Dividends per share (Ch$)	2.5	1.23	26.83	0.00	5.24	0.01
Adjusted Operating Income (6)	148,989	142,785	127,539	169,377	156,851	264
Income/(loss) from operations	89,846	83,518	73,072	119,049	109,953	185
Depreciation	55,314	57,149	46,927	50,071	45,981	77
Amortization	3,829	2,118	7,540	257	917	2
U.S. GAAP						
Consolidated ratio of earnings to fixed charges (5)	1.63	1.20	1.61	1.52	1.78	1.78
Net income per share (US$) (7)(8)(9)	2.93	0.39	8.95	6.75	3.44	0.01
Diluted net income per share (7)(8)(9)	1.91	—	8.99	N/A	N/A	N/A
Dividends per share (7)(8)(9)	0.00	0.00	0.04	—	0.01	0.01
Operating Data: (6)						
Total MW Installed Capacity	4,608	5,252	3,092	3,123	3,123	
Total GWh Produced	16,433	16,718	8,958	10,169	10,188	
Total GWh Sold	23,471	24,149	14,612	15,748	15,263	

(1) Solely for the convenience of the reader, Chilean peso amounts have been translated into dollars at the rate of Ch$593.8 per U.S. dollar, the daily observed exchange rate for December 31, 2003, for amounts given as of or through December 31, 1999, 2000, 2001, 2002 and 2003. You should not construe the translation of currency amounts in this offering memorandum to be representations that the Chilean peso amounts actually represent current U.S. dollar amounts or that you could convert Chilean peso amounts into U.S. dollars at the rate indicated or at any other rate.

(2) For the sole purpose of this offering memorandum, we have modified our Chilean financial statements previously filed with the SVS in order to recognize the error made in accounting for the accrual related to the tax deductible net loss for the years ended December 31, 2001 and 2002.

(3) Includes the effects under U.S. GAAP of discontinued operations.

(4) Ratio of total shareholders' equity to total assets is calculated by dividing total shareholders' equity by total assets. Total shareholders' equity as presented under "Chilean GAAP" in the Balance Sheet Data above includes paid-in capital, reserve for monetary correction of capital, share premium accounts, other reserves, future dividends reserve, retained earnings and net income for the period.

(5) For the purposes of calculating the consolidated ratio of earnings to fixed charges, "earnings" consist of income before income taxes plus fixed charges (excluding capitalized interest), and amortization of previously capitalized interest. "Fixed Charges" include interest expense, capitalized interest and amortization of debt issuance costs.

(6) Data for each period is on a pro forma basis to give effect to decreases in MW of nominal capacity, GWh produced and GWh sold resulting from asset sales after each such period.

(7) For the years 1999 and 2000, the effects of both price-level restatement and the remeasurement are excluded.

(8) For the years 2001, 2002 and 2003, the effects of price-level restatement are excluded while the remeasurement effect is included.

(9) For purposes of this offering memorandum, we have restated our 2003 Chilean financial statements with the SVS to include omitted disclosure of certain treasury lock agreements and their subsequent reduction in value from January 1, 2004 to March 10, 2004. We have also restated our U.S. GAAP financial statements for the two years in the period ended December 31, 2002 for a change in functional currency and the remeasurement effects and for the year ended December 31, 2003 for a mark-to-market adjustment for treasury lock agreements in the Chilean GAAP to U.S. GAAP reconciliation to net income, shareholders' equity, and earnings per share, and, additionally, the lack of disclosure related to the subsequent reduction in value of these treasury lock agreements.

RISK FACTORS

You should carefully consider the specific factors listed below and the other information included in this offering memorandum before making an investment decision.

Risk Factors Related to AES Gener

Our businesses are subject to extensive governmental legislation and regulation.

As regulated electric companies, we and our equity-method investees are subject to the extensive regulation of various aspects of our businesses. The current regulatory framework governing electricity utility businesses has been in existence in Chile since 1982, in Colombia since 1994, in Argentina since 1992 and in the Dominican Republic since 1999. We are also subject to environmental regulations, which, among other things, require us to perform environmental impact assessments of future projects and obtain regulatory permits. As with any regulated company, we cannot assure you that the laws or regulations in the countries where we have operations or investments will not change, or be interpreted, in a manner that could adversely affect us or our equity-method investees or that any environmental impact assessment will be approved by government authorities. For example, in May 2001 the Chilean government issued Resolution No. 88, under which electricity generators such as AES Gener are required to provide power to distribution companies in the SIC, if such companies are unable to freely contract for adequate power to meet their customers' needs. This resolution effectively requires us to supply more energy to distribution companies than we have otherwise freely contracted for, thereby increasing our exposure to the spot market. See ''Item 4. Information on the Company—Business Overview—Regulation of Electricity Generation in Chile, Colombia, Argentina and the Dominican Republic'' of our annual report on Form 20-F/A.

Weather conditions in the SIC and Colombia could have a direct effect on our operations in the electricity sector and could also lead to governmental involvement.

Our operations in the SIC and Colombia can be substantially impacted by hydrological conditions and the effects that such weather conditions can have on the prices of energy.

In recent years, our contracted energy in the SIC has grown beyond our generation capabilities, particularly during peak hours. Therefore, we have to purchase electricity at spot prices in order to meet our commitments. As a result, future drought conditions, which generally result in higher prices for energy, will necessitate purchases at higher prices on the spot markets in addition to generation by our less cost-efficient units. Although we have plans to construct a transmission line between Chile and Argentina, to convert an oil/diesel-fired facility we own in the SIC into a combined-cycle natural gas dependent plant, and to develop new combined-cycle plants in the SIC to reduce our exposure to drought conditions, droughts could adversely affect our operations and financial condition until these projects are completed. In addition, during periods of extreme drought conditions, Chilean authorities may impose electricity rationing and may require us to pay regulatory penalties related to the operation of our business. For example, if we are required to buy electricity on the spot market during a period in which a rationing decree is in effect, we may be required to pay a ''shortage cost'', which is the cost to consumers for not having energy available that is set by regulatory authorities to other generators. If any end-consumers fail to receive electricity, we must pay them a compensation payment based on the ''shortage cost''.

In Colombia, our energy output generated under contract is presently lower than our expected hydroelectric generation. As a result, since 2001, we have been selling between 22% and 30% of our electricity on the spot market. Due to the Colombian market structure, our Chivor business must submit bids for the sale of its generation, and its revenues from spot market sales are subject to the variable price of electricity, which depend on current market and electric system conditions at any point in time. Spot market prices depend directly on hydrological weather conditions, with prices increasing in dry years and falling in wet years. Thus, revenues received from Chivor's spot market transactions may fluctuate and affect our operating results.

We cannot assure you that the level of our future contractual commitments in the SIC or Colombia will be appropriate for the weather conditions prevailing at that time. In addition, severe weather conditions may lead to governmental intervention, imposing power rationing and penalties on companies involved in the electricity sector, which could have a negative impact on our operations and financial condition.

In the future, we may review the book values of our assets and may determine that such book values have been impaired.

When events or circumstances warrant, we review the book values of our assets to determine whether there has been an impairment of the value of any of our assets. Due to unfavorable economic and regulatory conditions in Colombia and excess capacity in the SING that had resulted in dispatch limitations and low prices to our Argentine asset TermoAndes/InterAndes, we have recently performed impairment tests under Chilean GAAP and U.S. GAAP with respect to our Colombian asset, Chivor, and our Argentine asset, TermoAndes/InterAndes. At this time, we do not believe that any impairment-related adjustments to the book values of these assets are necessary. In the future, we will continue to review the book values of our assets. We cannot assure you that any such review will not require adjustments to the book values of our assets, including Chivor and TermoAndes/InterAndes. A downward adjustment to the book values of our assets would have a negative impact on our earnings under Chilean GAAP and therefore would reduce our capacity to pay dividends to our shareholders.

A substantial portion of our operations is conducted through subsidiaries and equity-method investees.

We conduct a substantial portion of our operations through our subsidiaries and equity-method investees. In 2003, about 49% of our operating revenues were accounted for by our subsidiaries. Generally, claims of creditors of a subsidiary or an equity-method investee, guarantees issued by a subsidiary or an equity-method investee and claims of preferred shareholders of a subsidiary or an equity-method investee will have priority with respect to its assets and earnings over the claims of creditors of its parent company or other shareholders, including the notes in this offering, except to the extent that the claims of creditors of the parent company are guaranteed by the subsidiary or the equity-method investee. The notes issued in this offering are not guaranteed by any of our subsidiaries or equity method investees. As of December 31, 2003, our subsidiaries had aggregate indebtedness of Ch$347,503 million (US$585 million) outstanding to third parties, which will effectively rank senior to the notes. Of this indebtedness, US$283.6 million represents indebtedness of our unrestricted subsidiary, Chivor, that is non-recourse to us and our other subsidiaries, except for a maximum potential liability of US$50 million of AES Gener S.A. Additionally, in certain circumstances the ability of each of our subsidiaries and equity-method investees to pay dividends may be restricted by, among other things, its ability to generate cash flows from operations, the laws of the jurisdiction of its incorporation, and the financing agreements to which it is a party. See ''Operating and Financial Review and Prospects—Liquidity and Capital Resources'' in this offering memorandum for a description of AES Gener S.A.'s and its subsidiaries' outstanding debt.

Our financial results can be adversely affected by foreign exchange fluctuations.

The Chilean peso, the Colombian peso and the Argentine peso have been subject to large devaluations in the past and may be subject to significant fluctuations in the future. Historically, a significant portion of our consolidated indebtedness has been denominated in U.S. dollars and, although a substantial portion of our revenues in Chile is linked in part to U.S. dollars, we generally have been, and will continue to be, exposed to fluctuations of the Chilean peso against the dollar because of time lags and other limitations in the indexation of Chilean tariffs to the U.S. dollar. Furthermore, in the event of a devaluation of the Chilean peso under Chilean GAAP, we are required to account in Chilean pesos for 100% of the losses relating to our U.S. dollar-denominated indebtedness in the year that such losses occur. This can materially reduce our earnings under Chilean GAAP, thereby limiting our ability to pay or preventing us from paying dividends in excess of retained earnings. Historically, in Colombia a significant portion of our indebtedness has been denominated in U.S. dollars, but approximately 50% of our revenues have been denominated in Colombian pesos. As a result, a devaluation of the Colombian peso in relation to the U.S. dollar may adversely affect our financial condition and results of operations. In Argentina, our earnings are denominated in U.S. dollars, except for net tax credits, including VAT and others, which are denominated in Argentine pesos, and in 2003 amounted to approximately US$24.3 million. Consequently, a further devaluation of the Argentine peso may result in a decrease in our tax credits in U.S. dollar terms. Since the U.S. dollar is our functional currency for U.S. GAAP reporting purposes, our financial results are not affected by foreign exchange fluctuations, except for those asset and liability line items expressed in Chilean pesos and other non U.S.-denominated currencies, such as the UF-denominated local bond of Electrica Santiago, marketable securities and time-bank deposits held at AES Gener S.A., our Chilean subsidiaries and our equity-method investees, among others. See ''Operating and Financial Review and Prospects—Operating Results—Impact of Inflation and Price-Level Restatement'' in this offering memorandum.

We may be unable to successfully implement our capital investments.

The success of our capital investments will depend on numerous factors, including the cost and availability of financing and the effect of delays or difficulties in obtaining regulatory approvals and permits. Although we have experience with large-scale construction projects, the construction of new facilities may be adversely affected by factors commonly associated with such projects, which will have an adverse effect on our market share.

A significant portion of our revenues is derived from long term energy supply contracts, and we cannot assure you that we will be able to renew these contracts on favorable terms or at all.

For the year ended December 31, 2003, we derived approximately 40.5% of our Chilean operating revenues from long term electricity sales contracts with unregulated customers. Such contracts are entered into at the market prices prevailing at the time of execution and, given their long term nature, their value may deviate from the market price of electricity at different points during the lives of the contracts. We cannot assure you that we will be able to renew any such contracts upon expiration, or that if we do renew such contracts, the renewal will be at prices that are as favorable as the original prices.

Our ability to refinance our debt facilities could be adversely affected by variations in our international and local credit ratings and for other reasons.

If our recapitalization plan is successfully implemented we would have, exclusive of indebtedness that is recourse only to Chivor, US$86.8 million of debt maturing in 2005, of which

US$50 million represents AES Gener S.A.'s maximum potential liability on debt of Chivor that is otherwise non-recourse to AES Gener S.A. and its other subsidiaries, US$105.3 million in 2006, and US$34.0 million in 2007. Our ability to refinance our indebtedness could be adversely affected by variations in our international and local credit ratings and for other reasons.

Lawsuits against AES Gener or its equity-method investees could adversely affect operating results.

We and our equity-method investees sell electricity on a contractual basis to numerous distribution companies, industrial customers and electricity generation companies, among others. Additionally, we enter into other legal agreements customary to the normal conduct of business. The provisions of such contracts and agreements may be disputed by the parties from time to time, and we cannot assure you that pending or future lawsuits brought against us or our equity-method investees will not adversely affect our operations or financial condition. See ''Item 8. Financial Information—Consolidated Statements and Other Financial Information—Legal Proceedings'' of our annual report on Form 20-F/A.

Our operations could be adversely affected by fuel price variability.

Our and our equity-method investees' thermoelectric plants burn natural gas, coal and other petroleum-based fuels. Argentine natural gas is purchased under long term market-based contracts for the Eléctrica Santiago and TermoAndes combined-cycle units. Additionally, coal is purchased internationally as the primary fuel for several of our plants, while our peaking plants utilize petroleum-based fuels. In addition, two of our equity-method investees, Guacolda and Itabo, also burn fossil fuels. Significant increases in the market prices for these fuels would lead to higher operating costs, which could adversely affect our operations, at least until the higher fuel costs are adequately reflected in electricity prices.

Our cash flow may be adversely affected by difficulties in collecting accounts receivable from our customers.

In Colombia we have had difficulties in recent years in collecting payments from some of our customers, in particular distribution companies. In 2003, after repeated collection problems with a certain distribution company that owed Chivor approximately US$2 million, Chivor sold that company's debt to a third party for 10% of the balance, or US$200,000. Additionally, in the SIC during the severe drought that occurred in 1998 and 1999, generation companies disputed the amounts to be paid for purchases made on the spot market during rationing periods, resulting in collection difficulties. We have also experienced minor problems collecting outstanding payments from certain customers in Chile. Difficulties in collecting payments for electricity supply from contract or spot market customers may adversely affect our cash flow.

Risk Factors Related to Our Chilean Operations

We are substantially dependent on economic conditions prevailing in Chile.

For the year ended December 31, 2003, 78% of our consolidated operating revenues were derived from our operations in Chile, including the operations of TermoAndes, which is located in Argentina although its generated electricity is sold in Chile. Accordingly, our financial condition and results of operations are substantially dependent on economic conditions prevailing in Chile. In turn, economic conditions are substantially dependent on exports of raw materials, which depend on international prices for those raw materials. In addition, in recent years, the growth of the Chilean economy has slowed. In 2003, the gross domestic product of Chile increased at an inflation-adjusted rate estimated at 3.2%, compared to the 2.1% increase experienced in 2002. We cannot predict with certainty whether the Chilean economy or electricity consumption will grow or decline in the future or if future developments in the Chilean economy will not materially adversely affect our business, financial condition or results of operations.

Our financial results could be adversely affected by overcapacity in the SIC and the SING.

At present, there is no overcapacity in the SIC. In the next few years, any growth in electricity supply that outpaces growth in demand, including from certain potential interconnection projects, such as SIC-SING and SIC-SADI, as defined below, and the construction of new combined-cycle power plants, may create overcapacity in the SIC. Under those circumstances our operating revenues from regulated customers, spot sales and potential new unregulated customers could decline, and our financial results could be adversely affected.

In the SING, excess capacity currently exists and, as a result of reliability constraints, the Economic Load Dispatch Center of the SING, or the CDEC-SING, has the power to set the maximum level of dispatch for each independent unit in the SING between 150 MW and 270 MW. While this limit had previously been set at 180 MW, it was increased in 2002 to 220 MW during peak hours and on June 17, 2003 to 240 MW during peak hours. This measure is part of the ''Short-Term Operational Reliability Plan'' adopted by the CDEC-SING in order to minimize the risk of energy outages in the SING, which in the past have been affected by blackouts sanctioned by the *Superintendencia de Electricidad y Combustibles*, the Chilean Superintendency of Electricity and Fuels, or CSEC. This dispatch restriction limits generation from all power plant facilities in the SING. As a result, TermoAndes is only able to produce up to 240 MW. The dispatch limitation level set by the CDEC-SING tracks total electricity demand in the SING, which principally relates to mining activities. If further system blackouts occur, or the demand for electricity in the SING declines, the dispatch limitation may be reduced. If the dispatch level were to be reduced, TermoAndes' operating income, and over the long term, Norgener's operating income, would be adversely affected.

Our business may be affected by natural gas supply interruptions from Argentina.

Our subsidiary Eléctrica Santiago produces electricity by burning natural gas produced in southern Argentina and transported from there to central Argentina through a pipeline owned by Transportadora Gas del Norte S.A., or TGN. The natural gas is then transported to Eléctrica Santiago through a pipeline owned and operated by GasAndes Argentina S.A. and GasAndes Chile S.A. that originates in Argentina and crosses into Chile through the Andes Mountains. The TGN pipeline supplies consumers in Argentina and Chile. TGN is currently experiencing financial difficulties and may not be able to invest in necessary expansions. Given the current economic, social and political instability in Argentina, interruptions in the supply and/or transportation of natural gas may occur, which would adversely affect the operations and financial condition of Eléctrica Santiago. Such potential interruptions would materially impair Eléctrica Santiago's ability to generate electricity and would force it to rely on the spot market to purchase electricity to meet its contractual commitments. Furthermore, because all combined-cycle plants in the SIC use the same pipeline to obtain their natural gas supplies from Argentina, a disruption of this supply would materially increase prices in the spot market, and therefore would negatively affect our business, operations and financial condition. See ''—Risk Factors Related to Our Argentinean Operations'' below.

Our financial statements are reported, and our dividends are declared, based on Chilean GAAP, which generally differs from U.S. GAAP.

There are important differences between Chilean GAAP and U.S. GAAP. As a result, Chilean financial statements and reported earnings generally differ from those that are reported based on U.S. GAAP. In particular, our earnings and the amount of dividends that we declare under Chilean GAAP may be subject to a higher degree of fluctuation as compared to U.S. GAAP, due to accounting pronouncements or other modifications required under Chilean GAAP. See note 37 to our audited consolidated financial statements included in this offering memorandum for a description of the principal differences between Chilean GAAP and U.S. GAAP as they relate to our business and a reconciliation to U.S. GAAP of our net income for the years ended December 31, 2001, 2002 and 2003 and our total shareholders' equity as of December 31, 2001, 2002 and 2003.

Risk Factors Related to Our Colombian Operations

If Chivor is not successful in reducing indebtedness, AES Gener S.A. will be obligated to make certain payments to Chivor's creditors.

On May 31, 2002, Chivor entered into a refinancing agreement with a bank syndicate, led by Bank of America, to restructure its defaulted debt of US$335.5 million through a ''prepackaged'' Chapter 11 bankruptcy proceeding in the United States, which became effective in August 2002. As of December 31, 2003, Chivor had US$283.6 million of outstanding indebtedness owed to its creditors. Pursuant to the terms of the prepackaged plan, Chivor must reduce its indebtedness to US$225 million by March 31, 2005 through scheduled amortization payments and a cash sweep of any excess amounts. If Chivor is not successful in reducing its indebtedness to that level by that date, Energy Trade is obligated to pay on that date the difference between Chivor's outstanding indebtedness and the amortization target for that date, up to US$50 million. If Energy Trade is unable to meet its obligations, then AES Gener S.A. will be obligated to make certain payments to Chivor's creditors. Any such principal payments will be limited to US$50 million in the aggregate. We cannot assure you that Chivor will be able to reduce its debt as required.

If Chivor is unable to refinance its outstanding indebtedness prior to maturity, Chivor's creditors may have the right to foreclose on Chivor's assets.

As of December 31, 2003, Chivor had outstanding US$283.6 million of indebtedness. By March 31, 2005, Chivor must reduce its indebtedness to US$225 million through scheduled amortization payments and a trust-managed ''cash sweep account'' of any excess amounts to avoid an increase in interest rates, both prospectively and retroactively, and recourse to AES Gener S.A., as discussed above. The remaining outstanding balance at that time is scheduled to mature on December 31, 2006. We cannot assure you that Chivor will be able to refinance this indebtedness prior to maturity on favorable terms or at all. Chivor previously attempted to consensually restructure its indebtedness, but was unable to do so outside of a ''prepackaged'' Chapter 11 bankruptcy proceeding. Additionally, the Chivor credit agreement includes a ''go to market'' clause under which we have agreed to use our best efforts to place Chivor bonds or to syndicate a refinancing loan on or before December 30, 2004 in order to repay, in whole or in part, outstanding amounts due under the Chivor credit agreement. If Chivor is unable to refinance or repay this indebtedness prior to maturity, Chivor's creditors will have the right to foreclose on Chivor's assets, which have been pledged in favor of the banks to secure the indebtedness.

Our financial condition and results of operations are substantially dependent on economic conditions prevailing in Colombia.

We generate a significant portion of our consolidated operating revenue and consolidated operating income before taxes in Colombia. For both years ended December 31, 2003 and 2002, our Colombian operations accounted for approximately 22% of our consolidated operating revenue. Therefore, economic conditions in Colombia have a significant impact on our results of operations and financial condition. In recent years, economic conditions in Colombia have deteriorated as a result of political instability. As a result of the adverse economic conditions in Colombia, their impact on Chivor and the terms of Chivor's credit agreement, we do not expect Chivor to distribute any dividends to AES Gener S.A. in the near future.

Colombia's foreign exchange policy may be subject to intervention by the Colombian Central Bank, and we may be unable to convert Colombian pesos to U.S. dollars or Chilean pesos.

While the Colombian government does not currently restrict the ability of Colombian persons or entities to convert Colombian pesos into U.S. dollars or Chilean pesos, we cannot assure you that it will not institute a restrictive exchange control policy that may affect Chivor's ability to remit funds to us in the future. Although the government has not imposed foreign exchange restrictions since 1990, Colombia's foreign currency markets have historically been heavily regulated. Currently, foreign exchange transactions occur at free, or market, rates of exchange. In 2001, the Colombian peso appreciated against the U.S. dollar by 4.5%, in 2002 it depreciated by 16.8% and in 2003 it appreciated by 9.7%, in each case in real terms. We cannot assure you that the Colombian Central Bank will continue to follow its current foreign exchange policy in the future or whether it will intervene in the foreign exchange markets to support the Colombian peso in the event of a substantial devaluation or that any such intervention would be effective.

Colombian law permits the Colombian Central Bank to impose foreign exchange controls if the foreign currency reserves of the Colombian Central Bank fall below a level equal to the value of three months of imports of goods and services into Colombia. The Colombian Central Bank reported net international reserves of US$10.6 billion at December 31, 2003, representing coverage of approximately eight months of imports of goods and services as of such date.

The Colombian electricity power industry has been adversely affected by guerilla attacks in the past.

Guerilla organizations have long been active in Colombia. In many remote regions of the country that have traditionally lacked an effective government presence, guerilla organizations have engaged in acts of terrorism to draw attention to their causes. Most of this activity has been directed towards the oil industry, but the electric power industry has been affected as well. Attacks by guerilla groups have disrupted power supplies, which disruption, in some cases, has led to short-term regional power outages. If any of these attacks were to damage Chivor's facilities or the related transmission lines, Chivor's revenues and its ability to refinance its debt would be adversely affected. With the exception of one incident in August 2003, on the transmission lines that connect our facilities to the electricity grid, Chivor's facilities have not been subject to attacks by any guerilla group. We cannot assure you, however, that such attacks will not occur in the future.

Regulatory changes in Colombia may adversely affect Chivor's operating results.

AES Gener S.A. purchased Chivor in December 1996 as part of the Colombian government's privatization process. Since our purchase of this company, there has been frequent governmental intervention in the electricity market, including changes in the methodology for the determination of capacity payments paid to generation companies and payments made by distribution companies to generators for electricity purchases. Chivor's capacity payments have decreased significantly in recent years, from approximately US$31 million in 2000 to approximately US$17 million in 2003, as a result of Resolution No. 077, implemented in 2000 by the *Comisión de Regulación de Energía y Gas*, a Colombian regulatory agency. This resolution effectively reduced the level of capacity payments received by hydroelectric generation companies such as Chivor, while increasing the level received by thermoelectric generation companies. Capacity payments for 2006 and onward have not yet been defined. We cannot assure you that payments for Chivor's capacity will not decrease in the future as a result of further regulatory changes or that additional regulatory changes will not adversely affect Chivor's operating results.

Chivor has exposure to spot market price fluctuations, which, depending on hydrological conditions in any given year, may adversely impact our operating results.

Since 2001, Chivor has historically sold between 22% and 30% of its electricity on the spot market, which in Colombia consists of a wholesale energy exchange with hourly spot market transactions. As a participant in this market, Chivor must submit bids for the sale of its generation, and its revenue from spot market sales is subject to the variable price of electricity, which depends on current market and electric system conditions at any point in time. Spot market prices depend directly on hydrological weather conditions, with prices increasing in dry years and falling in wet years. Revenue received from Chivor's spot market transactions may fluctuate, and we cannot assure you that it will not adversely affect our operating results.

Risk Factors Related to Our Argentinean Operations

Argentina's legal regime and economy are susceptible to changes that could adversely affect our Argentinean Operations.

The Argentine economy has experienced significant volatility in recent decades, characterized by periods of low or negative growth and high and variable levels of inflation. To address these pressures, the Argentine government has implemented various plans and utilized a number of exchange rate systems. In 1991, the Argentine government launched a plan aimed at controlling inflation and restructuring the economy enacting Law No. 23,928 and its Regulatory Decree No. 529/91, together, the Convertibility Law. This law fixed the exchange rate at Arg$1.00 to US$1.00, among other provisions. The country's economy experienced growth throughout most of the period from 1991 to 1997, but entered into a recession in 1998. During the second half of 2001, Argentina's recession worsened significantly, precipitating the current ongoing economic and political crisis.

In 2001, in response to the severe difficulties faced by the Argentine financial system, the government responded by implementing new regulations. The lack of confidence in the country's economic future and the inability to sustain the Argentine peso's parity with the U.S. dollar led to massive withdrawals of deposits from the financial system. Despite prior assurances to the contrary, on December 1, 2001, the Argentine government enacted Decree 1570/2001, which effectively froze bank deposits and introduced exchange controls restricting capital outflows. On January 7, 2002, the Argentine Congress enacted the Public Emergency and Foreign Exchange System Reform Law, Law No. 25,561, or the Public Emergency Law, which abrogated several sections of the Convertibility Law and granted the executive branch the power to determine the new exchange rate between the Argentine peso and foreign currencies and to approve the corresponding monetary regulations. Thereafter, the executive branch issued several supplementary resolutions. Decree No. 71/2002 and Communication A3425, as modified, issued by the Argentine Central Bank, created a dual currency system in which certain transactions were settled at a fixed rate of Arg$1.40=US$1.00, while non-qualifying transactions were settled using a market rate. On the first day of operations of the market rate on January 11, 2002, the exchange rate was between Arg$1.60 and Arg$1.70 per US$1.00.

On February 3, 2002, Decree 214/2002, or Decree 214, was issued by the executive branch and established the conversion of dollar deposits held in financial institutions to pesos, or pesification, at an exchange rate of Arg$1.40 per US$1.00, and also converted into Argentine pesos (pesified) all obligations incurred in dollars as of January 6, 2002 at the exchange rate of ARG$1.00 per US$1.00. Deposits and debts converted into Argentine pesos are subsequently adjusted by the reference stabilization ratio, or the CER, an inflation index published by the Argentine Central Bank, which is applied from the date of the publication of the decree. In addition, the minimum interest rate to be applied for deposits and the maximum interest rate for obligations under the financial system are to be established by the Argentine Central Bank. Decree 214 also converted all obligations in U.S. dollars related to private contracts subscribed as of January 6, 2002 at an exchange rate of Arg$1.00 per US$1.00, which are to be adjusted by the CER in the same manner mentioned above. After issuing Decree 214, the Argentine government issued other regulations that established specific exceptions to pesification, such as debts with local financial institutions related to foreign trade, credit card purchases made abroad and forward and options agreements, among others.

The Argentine financial system's situation remains very unstable after the events of recent years. The main problems that have been faced by financial institutions, particularly banks, include extremely tight liquidity, negative cash flows, deteriorating loan portfolios and insolvency. From December 2001 through December 2003, the consumer price index, the wholesale price index and the CER exhibited cumulative increases of 44.6%, 115.12% and 45.68%, respectively. However, in 2003 the inflationary trend slowed, with the consumer price index rising 3.7% from January to December 2003 and the wholesale price index rising 2.0% in the same period. In 2003, Argentina's gross domestic product increased by an estimated 7.9%.

Overall, the series of measures applied by the Argentine government has severely affected the financial system's stability and has had a materially negative impact on its reputation. We cannot predict how the current Argentine government, which took office on May 25, 2003, will attempt to resolve the economic crisis, and the extent to which it will be able to maintain a strict monetary policy and control inflation. The unpredictability, timing and scope of economic measures enacted by the Argentine government, including expropriations, higher taxes and exchange control measures that may require TermoAndes to sell electricity to Argentina, may adversely affect our Argentinean Operations and our results of operations.

TermoAndes' gas supply and gas transportation costs could increase significantly as a result of changes in monetary policy and disputes with gas and gas transportation suppliers.

Pursuant to the pesification established by the Public Emergency Law and related decrees in Argentina, TermoAndes, as a local consumer of gas, has, since the beginning of 2002, converted its obligations under its gas supply and gas transportation agreements into pesos, while the income it receives from its electricity exports is accounted for in U.S. dollars. In accordance with current regulations, payments must be made in Argentine pesos at a 1:1 exchange rate plus the CER, and suppliers may legally request an equitable adjustment of the contract.

During 2002, TermoAndes' gas and transportation service providers requested that regulatory authorities redollarize TermoAndes' gas supply and gas transportation agreements, citing Decrees 689/2002 and 1491/2002, which state that the Public Emergency Law does not apply to gas export contracts, gas transportation for gas exports or electricity exports. TermoAndes responded to both requests, clarifying that it is an Argentine generation company and that all of the gas it purchases is consumed within Argentina and is not intended for export. Furthermore, TermoAndes has been making payments under its gas supply and transportation contracts in Argentine pesos at a 1:1 exchange rate against the U.S. dollar, excluding the CER, which has not been invoiced by the gas suppliers. TermoAndes currently believes that prices for local transportation contracts do not include the CER. We cannot assure you that TermoAndes' gas supply and transportation contracts payments will not be redollarized in the future or that the CER will not be applied to such payments, even with respect to retroactive payments. Any such redollarization could negatively impact our cash flow and financial condition.

On August 20, 2003, the Natural Gas Regulatory Agency in Argentina, or Enargas, ruled in favor of a preliminary injunction filed by TermoAndes against its natural gas transportation service provider, TGN, ordering it to provide the requested service and to invoice TermoAndes for such service in Argentine pesos. The injunction was appealed by TGN but no further ruling has been issued by Enargas.

On January 30, 2004, TermoAndes was notified that Tecpetrol S.A., Mobil Argentina S.A. and Compañía General de Combustibles S.A., which are members of the consortium that provides gas to TermoAndes, filed a claim for arbitration at the International Chamber of Commerce, or the ICC, requesting the redollarization of the gas price. TermoAndes responded to this claim on March 10, 2004, which response included a counterclaim regarding (i) the non-fulfillment by the suppliers of the ''Most Favored Nation'' clause, (ii) the lack of basis of the unilateral modification of the gas injection point where the suppliers deliver the natural gas, (iii) the obligation to supply the contracted quantities, and (iv) the ability of TermoAndes to resell gas that was not consumed.

TermoAndes may have to pay for gas it may not be able to consume under its take-or-pay obligations.

TermoAndes has take-or-pay agreements with its Argentine natural gas suppliers that provide for payments of a certain minimum amount of gas, regardless of whether it is consumed. The gas that is purchased but not consumed may be consumed throughout the term of the supply contract and two years beyond its termination. Since TermoAndes has been producing much less electricity than originally projected, it has also been consuming less gas and therefore accumulating volumes of gas that must be paid for or consumed at a later date. The only way to increase the use of gas is by increasing electricity production, either by a higher level of dispatch in the SING or by selling electricity in Argentina; however, neither option is likely to occur in the near future. Even though TermoAndes has until December 2012 to consume its accumulated take-or-pay gas, TermoAndes may not be able to consume the full amount before such date, and therefore may not be able to use the gas for which it will be required to pay, unless it is able to renegotiate its agreements as described below.

TermoAndes believes that the application of the ''most favored nation'' clause in the supply contracts may substantially reduce or eliminate its take-or-pay obligations, and has consistently communicated this position to its gas suppliers. In August 2003, TermoAndes was invoiced for take-or-pay obligations for 2001 and 2002 by one of its gas suppliers, and these invoices were rejected on the basis of the aforementioned ''most favored nation'' clause. In January 2004, one of the suppliers wrote again to TermoAndes to demand payment of the aforementioned invoices, and TermoAndes rejected this demand again on the basis of the ''most favored nation'' clause. We cannot assure you that TermoAndes will be successful in renegotiating, reducing or eliminating its take-or-pay obligations. If TermoAndes is not successful in renegotiating, reducing or eliminating its take-or-pay obligations, it will have a material adverse effect on our financial conditions or operations.

Argentina's tax regulations are susceptible to differing and changing interpretations as well as future modifications.

Argentine federal, provincial and other local authorities have interpreted some tax regulations differently from private companies and have also changed their interpretations over time. As a result of different tax interpretations, there was a dispute between TermoAndes and the Argentine tax authority in the Salta province regarding the imposition of a stamp tax on a certain agreement, which was resolved in January 2003. We cannot assure you that there will not be other different interpretations of the regulations in the future that could negatively affect our Argentinean Operations.

Until April 2002, no export taxes were applied to energy exports. In May 2002, a 5% export tax was imposed on all energy exports and an additional tax was imposed equal to Arg$3.80 per thousand cubic meters of natural gas consumed. We cannot assure you that new taxes or contributions will not be created or that interpretations will not change that could materially adversely affect our financial condition and operations.

On December 4, 2003, Law 25,822 was enacted, relating to the expansion of the Argentine electricity transmission system. This law provides that electricity exports are subject to federal taxes, which could mean that electricity exporters would be liable for a tax of Arg$3.00 per megawatt hour that now affects end-users' electricity purchases. The law also provides that this amount may be adjusted, but it does not identify the circumstances or the method of adjustment. TermoAndes believes that this tax is not applicable to generators or to foreign end-users. However, we cannot assure you that this law will not adversely affect our Argentinean Operations and our results of operations.

Risk Factors Related to the Notes

If we do not generate positive cash flows, we may be unable to service our debt.

Our ability to pay principal and interest on the notes and on our other debt depends on our future operating performance. Future operating performance is subject to market conditions and business factors that are beyond our control. Consequently, we cannot assure you that we will have sufficient cash flows to pay the principal, premium, if any, and interest on our debt.

If our cash flows and capital resources are insufficient to allow us to make scheduled payments on our debt, we may have to reduce or delay capital expenditures, sell assets, seek additional capital or restructure or refinance our debt. We cannot assure you that the terms of our debt will allow these alternative measures or that such measures would allow us to satisfy our scheduled debt service obligations.

If we cannot make scheduled payments on our debt, we will be in default and, as a result:

- our debtholders could declare all outstanding principal and interest to be due and payable;
- our debtholders could commence foreclosure proceedings against our assets; and
- we could be forced into bankruptcy or liquidation.

If we lose control and/or ownership of our Restricted Subsidiaries, TermoAndes and InterAndes, for any reason, you will not have recourse to or remedies against us or those Restricted Subsidiaries.

TermoAndes and InterAndes are Restricted Subsidiaries within the meaning of the indenture and their EBITDA and Cash Flow (each as defined in "Description of Notes—Certain Definitions") is included in the calculations of our Total Debt to EBITDA Ratio and our Interest Coverage Ratio, which are important ratios that determine our ability, among other things, to incur additional indebtedness and to make restricted payments. In 2003, TermoAndes and InterAndes contributed a total of Ch$20,308 million (approximately US$29.4 million) of EBITDA to our financial results. As a result of the restructuring of the TermoAndes and InterAndes debt, TermoAndes and InterAndes have no outstanding debt and are expected to have no interest expense in the near future. Therefore, upon completion of our proposed recapitalization plan, the inclusion of the financial results of TermoAndes and InterAndes in these calculations will, on a pro forma basis, lower our Total Debt to EBITDA Ratio from approximately 4.25 to 3.54 and will raise our Interest Coverage Ratio from approximately 3.28 to 3.94, which, as of the date of this offering memorandum, would increase the amount of indebtedness that we could incur by Ch$91,472 million (approximately US$132.3 million). In addition, bankruptcy and other similar events affecting TermoAndes or InterAndes will not constitute events of default under the indenture. To the extent any calculation was performed with respect to a particular period for purposes of this paragraph and involved the conversion of Chilean peso amounts for such period into U.S. dollar amounts, or vice versa, the conversion rate used was the average of the daily observed exchange rates reported by the Chilean Central Bank during such period.

Our management believes that our TermoAndes and InterAndes businesses are subject to significant risks due to changes in monetary policy in Argentina and related disputes between TermoAndes and its gas and gas transportation suppliers, as well as uncertainty related to Argentina's tax regulations. See ''—Risk Factors Related to Our Argentine Operations'' and, in particular, the risk factors entitled, ''TermoAndes' gas supply and gas transportation costs could increase significantly as a result of changes in monetary policy and disputes with gas and gas transportation suppliers'' and ''Argentina's tax regulations are susceptible to differing and changing interpretations as well as future modifications''.

The notes will be structurally junior to the indebtedness and other liabilities of our subsidiaries.

The notes will be structurally subordinated to the outstanding indebtedness and other liabilities of our subsidiaries, including TermoAndes and InterAndes. Assuming we had completed the transactions described under ''Capitalization'' on December 31, 2003, the notes offered hereby would have been structurally junior to approximately US$434 million of indebtedness and other liabilities of our subsidiaries. This amount includes US$283.6 million of indebtedness of our unrestricted subsidiary, Chivor, all of which is non-recourse to us and our other subsidiaries, except for a US$50 million maximum potential liability of AES Gener S.A. These subsidiaries generated about 49% of our consolidated operating revenues for the year ended December 31, 2003. As of December 31, 2003, these subsidiaries held approximately 68% of our net consolidated property, plant and equipment. If one of these subsidiaries were to be liquidated, the creditors of that subsidiary would be paid in full from the assets of the liquidated subsidiary before holders of notes would be paid from those assets.

There is no public market for the notes.

The notes will be a new issue of securities for which there is currently no active trading market. If the notes are traded after their initial issuance, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities and other factors, including general economic conditions and our financial condition, performance and prospects. Because the notes are being sold under exemptions from registration under applicable securities laws and, therefore, may not be publicly offered, sold or otherwise transferred in any jurisdiction in which registration may be required, no public market for the notes will develop. Although we are obligated to consummate an exchange offer with respect to the notes under an effective registration statement by the date that is 270 days after the closing date of the offering, we cannot assure you that the exchange will occur in the required time period or whether an active trading market for the notes will develop. The SEC has broad discretion to determine whether any registration statement will be declared effective and may delay or deny the effectiveness of any registration statement we file for a variety of reasons. Failure to have the registration statement declared effective could adversely affect the liquidity and price of the notes. If we do not comply with our registration obligations with respect to the notes in a timely manner, we will be obligated to pay additional cash interest on such notes.

It may be difficult to enforce civil liabilities against us or our directors, officers and controlling persons.

We are a *sociedad anónima abierta*, or an open stock corporation, organized under the laws of Chile. Only three of our seven directors reside in the United States. All of our executive officers and certain of the experts named herein reside in Chile. In addition, all or a substantial portion of the assets of these persons and of our company are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon such persons, or to enforce against them or us in U.S. courts, judgments predicated upon the civil liability provisions of the federal securities laws of the United States or otherwise obtained in U.S. courts. There is doubt as to the enforceability against such persons in Chile, whether in original actions or in actions to enforce judgments of U.S. courts, of liabilities based solely on the U.S. federal securities laws.

EXCHANGE RATES

Chile has two currency markets, the *Mercado Cambiario Formal*, or Formal Exchange Market, and the *Mercado Cambiario Informal*, or Informal Exchange Market. The Formal Exchange Market is comprised of banks and other entities authorized by the Chilean Central Bank. The Informal Exchange Market is comprised of entities that are not expressly authorized to operate in the Formal Exchange Market, such as certain foreign exchange houses and travel agencies, among others. The Chilean Central Bank is empowered to determine that certain purchases and sales of foreign currencies must be carried out on the Formal Exchange Market. Both the Formal and Informal Exchange Markets are driven by free market forces. Current regulations require that the Chilean Central Bank be informed of certain transactions and that they be effected through the Formal Exchange Market.

For the purposes of the operation of the Formal Exchange Market, the Chilean Central Bank sets a *dólar acuerdo*, or Reference Exchange Rate. The Reference Exchange Rate is reset daily by the Chilean Central Bank, taking into account internal and external inflation and variations in parities between the Chilean peso and each of the U.S. dollar, the Japanese yen and the Euro at a ratio of 80:5:15, respectively. In order to keep the average exchange rate within certain limits, the Chilean Central Bank may intervene by buying or selling foreign currency on the Formal Exchange Market. The *dólar observado*, or Observed Exchange Rate, which is reported by the Chilean Central Bank and published daily in the Chilean newspapers, is computed by taking the weighted average of the previous business day's transactions on the Formal Exchange Market. On September 2, 1999, the Chilean Central Bank eliminated the band within which the Observed Exchange Rate could fluctuate, in order to provide greater flexibility in the exchange market. Nevertheless, the Chilean Central Bank has the power to intervene by buying or selling foreign currency on the Formal Exchange Market to attempt to maintain the Observed Exchange Rate within a desired range.

The Informal Exchange Market reflects transactions carried out at an informal exchange rate, or the Informal Exchange Rate. There are no limits imposed on the extent to which the rate of exchange in the Informal Exchange Market can fluctuate above or below the Observed Exchange Rate. Since 1993, the Observed Exchange Rate and the Informal Exchange Rate have typically been within less than 1% of one another.

The following table sets forth the annual low, high, average and year-end Observed Exchange Rate for U.S. dollars for each year starting in 1999 as reported by the Chilean Central Bank. The Federal Reserve Bank of New York does not report a noon buying rate for Chilean pesos.

Observed Exchange Rate of Ch$ per US$ (1)

	Low (2)	**High** (2)	**Average** (3)	**Year-end**
1999	468.69	550.93	512.43	527.70
2000	501.04	580.37	542.62	572.68
2001	557.13	716.62	636.39	656.20
2002	641.75	756.56	694.46	712.38
2003	593.10	758.21	691.54	599.42
September 2003	655.92	697.91	675.44	—
October 2003	628.10	661.63	646.07	—
November 2003	616.34	632.23	625.47	—
December 2003	593.10	621.27	602.90	—
January 2004	559.21	596.78	573.64	—
February 2004	571.35	598.60	584.31	—

Source: Chilean Central Bank

(1) In nominal (non-inflation adjusted) pesos.

(2) Exchange rates are the actual high and low, on a day-to-day basis, for each period.

(3) The average of monthly rates during the period.

The Observed Exchange Rate reported by the Chilean Central Bank was Ch$607.91 per US$1.00 as of March 18, 2004.

EXCHANGE CONTROLS

The Chilean Central Bank is responsible for monetary policies and exchange controls in Chile, among other things. Chilean issuers are authorized to offer securities internationally by complying with, among other things, the provisions of Chapter XIV of the Compendium of Foreign Exchange Regulations of the Chilean Central Bank, or the Compendium.

Pursuant to the provisions of Chapter XIV of the Compendium, it is not necessary to seek the Chilean Central Bank's prior approval in order to issue the notes. The Chilean Central Bank only requires that (i) if we bring the funds obtained from the sale of the notes into Chile, we bring such funds through the Formal Exchange Market and, in any event, we inform the Chilean Central Bank of the issuance of the notes in the terms and conditions described below, and (ii) all remittances of funds to make payments under the notes made from Chile shall be made through the Formal Exchange Market and, in any event, shall be disclosed to the Chilean Central Bank in accordance with the terms and conditions described below.

If we bring the funds obtained from the sale of the notes into Chile we must deliver to the participant of the transaction in the Formal Exchange Market an annex providing information about the transaction, together with a letter instructing such participant to deliver to us the foreign currency or the peso equivalent thereof, on or before the date on which the foreign currency is brought into Chile. If we do not bring the funds obtained from the sale of the notes into Chile, we have to provide the same information to the Department of International Financial Operations of the Chilean Central Bank directly or through an entity of the Formal Exchange Market, within 10 days following the date we received the funds.

All payments in U.S. dollars in connection with the notes made from Chile must be made through the Formal Exchange Market. Pursuant to Chapter XIV of the Compendium, no prior authorization from the Chilean Central Bank is required for such remittance of U.S. dollars. The participant of the Formal Exchange Market participating in the transfer must provide certain information to the Chilean Central Bank on the next banking business day. In the event payments are made outside Chile, we must provide the relevant information to the Chilean Central Bank directly or through an entity of the Formal Exchange Market within 10 days following the date on which the payment was made.

Under Chapter XIV of the Compendium, payments and remittances of funds from Chile are governed by the rules in effect at the time the payment or remittance is made. Therefore, any change made to Chilean laws and regulations after the date hereof will affect foreign investors who have acquired the notes. We cannot assure you that further Chilean Central Bank regulations or legislative changes to the current foreign exchange control regime in Chile will not restrict or prevent us from acquiring U.S. dollars or that further restrictions applicable to us will not affect our ability to remit U.S. dollars for payment of interest or principal on the notes. For instance, until June 26, 1998, foreign loans to Chile were subject to an *encaje*, or mandatory deposit, with the Chilean Central Bank in an amount equal to 30% of the proceeds of the foreign loan or, in the alternative, in lieu of such deposit, an upfront payment to the Chilean Central Bank in an amount determined in relation to the amount otherwise required to be deposited. This deposit had to be made in U.S. dollars and had to remain with the Chilean Central Bank, without accruing interest, for a period of one year. On June 26, 1998, the *encaje* was reduced to 10%, on September 17, 1998, it was reduced to 0% and, on April 19, 2001, it was eliminated from the Compendium. We cannot assure you that the Chilean Central Bank will not reinstate the *encaje* at such levels or at higher levels.

The above is a summary of the Chilean Central Bank's regulations with respect to the issuance of debt securities, including the notes, as in force and effect as of the date of this offering memorandum. We cannot assure you that restrictions will not be imposed in the future, nor can there be any assessment of the duration or impact of such restrictions if imposed. This summary does not purport to be complete and is qualified in its entirety by reference to the provisions of Chapter XIV of the Compendium, a copy of which is available from us upon request.

USE OF PROCEEDS

We expect to receive net proceeds from the offering of the notes of approximately US$394.4 million, after deducting fees and commissions. We expect to use US$30 million of the net proceeds of this offering for working capital purposes and US$22.1 million to pay the costs of treasury lock agreements entered into in connection with this offering. We expect to use the remainder of the net proceeds of this offering, along with our US$125 million capital increase and cash on hand, to finance our offer to repurchase the U.S. convertible notes and the Chilean convertible notes pursuant to the concurrent tender offers for those notes or to otherwise redeem those notes.

RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth the consolidated ratio of our earnings to fixed charges for the periods 1999-2003 considering both Chilean and U.S. GAAP. For the purposes of calculating the consolidated ratio of earnings to fixed charges, ''earnings'' consist of income before income taxes plus fixed charges (excluding capitalized interest), and amortization of previously capitalized interest. ''Fixed Charges'' include interest expense, capitalized interest and amortization of debt issuance costs.

	As of December 31,				
	1999	2000	2001	2002	2003
Chilean GAAP	1.48	1.18	1.16	1.54	1.89
U.S. GAAP	1.63	1.20	1.61	1.52	1.78

CAPITALIZATION

The following table sets forth the consolidated cash and cash equivalents at both AES Gener S.A.'s and its subsidiaries' level, the mercantile account, restricted cash, short-term debt, long-term debt, minority interest and shareholders' equity in accordance with Chilean GAAP as of December 31, 2003, as adjusted to give effect to the following events as if each had occurred on December 31, 2003:

- our issuance of the notes in this offering with an aggregate principal amount of US$400 million,
- the payment of US$22.1 million related to treasury lock agreements in connection with this offering to be made on March 22, 2004,
- the repayment by Cachagua of US$298 million, representing all amounts due to us under the mercantile account,
- our distribution of a dividend to our common shareholders and the payment of costs incurred in connection with a related foreign exchange rate hedge in the aggregate amount of approximately US$100 million,
- the repurchase of US$145.2 million of Yankee notes,
- a capital increase of US$125 million to be effected by us and purchased by Cachagua and minority shareholders,
- the restructuring of indebtedness outstanding under the TermoAndes and InterAndes notes, including an upfront payment to the holders thereof funded with approximately US$32.7 million of cash currently held in TermoAndes and InterAndes trust accounts along with US$29.4 million of our cash on hand, and
- the application of the remaining net proceeds from the transactions mentioned above and cash on hand to fund the repurchase of all of our outstanding U.S. convertible notes and Chilean convertible notes, assuming that 100% of such notes are tendered and accepted for payment in our concurrent tender offers or are otherwise redeemed.

The projected amounts below represent only a possible outcome of the recapitalization plan, based on the assumptions specified above, and actual amounts will differ, perhaps significantly, if the assumptions differ from the actual outcome of the recapitalization plan.

	As of December 31, 2003 (1)			
	Actual	As Adjusted	Actual	As Adjusted
	(Unaudited)			
	(In millions of Ch$)		(In millions of US$)	
Cash and cash equivalents	20,052	17,941	34	30
Cash and cash equivalents at subsidiaries level	37,107	28,827	62	49
Mercantile account (2)	174,566	0	294	0
Restricted cash (3)	12,795	0	22	0
Short term debt				
Short term debt due to banks and financial institutions	4,217	4,217	7	7
Current portion of long term debt due to banks and financial institutions	18,503	28,739	31	48
Current portion of bonds payable	10,041	1,129	17	2
TermoAndes/InterAndes notes	21,754	0	37	0
Total short term debt	**54,515**	**34,085**	**92**	**57**
Long term debt (4)				
Notes offered hereby	0	237,520	0	400
Long term debt due to banks and financial institutions	183,927	236,939	310	399
Bonds payable (5)	454,307	85,035	765	143
TermoAndes/InterAndes notes	68,766	0	116	0
Total long term debt	**707,000**	**559,494**	**1,191**	**942**
Minority interest	7,081	7,081	12	12
Shareholders' equity				
Shareholders' paid-in capital (7)	660,615	734,840	1,113	1,238
Others	83,045	83,045	140	140
Retained earnings	64,944	5,564	109	9
Total equity	**808,604**	**823,449**	**1,362**	**1,387**
Total capitalization (6)	**1,332,681**	**1,377,341**	**2,245**	**2,319**

(1) There has been no material change in our capitalization since December 31, 2003.

(2) Actual reflects the amount outstanding as of December 31, 2003. As of February 27, 2004, no amounts were outstanding under the mercantile account.

(3) Represents cash held in trust accounts related to TermoAndes and InterAndes debt.

(4) Includes a US$34 million loan given to Norgener by its supplier Mitsubishi Heavy Industry to finance the construction of the Tocopilla thermoelectric plant.

(5) Assumes the repurchase or redemption of 100% of the U.S. convertible notes and Chilean convertible notes, in either case at an assumed price of 105.0785%. Includes accrued and unpaid interest as of December 31, 2003.

(6) Total Capitalization is net of cash and cash equivalents and the mercantile account.

(7) Assumes US$125 million capital increase purchased by Cachagua and minority shareholders.

SELECTED CONSOLIDATED FINANCIAL DATA

The following table presents selected consolidated financial and statistical information for each of the periods indicated. You should read the information below together with our audited consolidated financial statements included elsewhere in this offering memorandum, as well as the sections entitled "Presentation of Information" and "Operating and Financial Review and Prospects" in this offering memorandum. Information included below for the 2002 and 2003 balance sheet data and 2001, 2002 and 2003 income statement data appears in our audited consolidated financial statements included in this offering memorandum. Information included below for the 1999, 2000 and 2001 balance sheet data and the 1999 and 2000 income statement data is not included separately in this offering memorandum.

	For the year ended December 31,					
	1999	2000	2001	2002	2003	2003
	(millions of constant Ch$ of December 31, 2003)					(millions of US$) (1)
Income Statement Data:						
Chilean GAAP: (2)(9)						
Operating Revenues	495,999	473,664	360,994	374,257	362,332	610
Income from operations	89,846	83,518	73,072	119,049	109,953	185
Net Income (3)	7,211	2,367	(2,091)	35,576	53,678	90
Income from operations per share	16	15	13	21	19	0.03
Weighted average shares outstanding (000s)	5,881,996	5,632,079	5,672,743	5,672,753	5,672,753	5,672,753
Capital stock (000s)	5,630,563	5,672,738	5,672,753	5,672,753	5,672,753	5,672,753
U.S. GAAP: (7)(8)(9)						
Operating Revenues	438,920	441,624	376,011	358,375	315,393	531
Income from operations	76,465	77,869	115,150	117,406	96,904	163
Income from continuing operations	17,205	2,207	59,377	40,944	19,734	33
Net income (3)	17,205	2,207	50,789	38,309	19,530	33
Income from operations per share	13	14	20	21	17	0.03
Income from continuing operations per share	3	0	10	7	3	0.01

	At December 31,					
	1999	2000	2001	2002	2003	2003
	(In millions of constant Ch$ of December 31, 2003, except ratios)					(millions of US$, except ratios) (1)
Balance Sheet Data:						
Chilean GAAP: (2)(9)						
Total assets	2,201,687	2,342,165	1,926,634	1,903,543	1,657,046	2,791
Long term liabilities	927,612	840,399	798,163	975,596	739,118	1,245
Total shareholders' equity	892,028	894,882	748,071	784,778	808,604	1,362
Ratio of total shareholder's equity to total assets (4)	0.41	0.38	0.39	0.41	0.49	0.49
U.S. GAAP: (7)(8)(9)						
Total assets	1,657,510	1,954,784	1,518,858	1,573,160	1,229,201	2,070
Long term liabilities	812,958	788,444	664,630	896,414	677,888	1,142
Total shareholders' equity	523,221	598,284	332,154	394,793	358,949	604
Ratio of total shareholder's equity to total assets (4)	0.32	0.31	0.22	0.25	0.29	0.29

	At December 31,					
	1999	2000	2001	2002	2003	2003
	(in millions of constant Ch$ of December 31, 2003, except ratio, per share and operating data)					(In US$ except ratio, per share and operating data) (1)
Other Consolidated Financial Data: (2)						
Chilean GAAP						
Consolidated ratio of earnings to fixed charges (5)	1.48	1.18	1.16	1.54	1.89	1.89
Net income per share (Ch$)	1.28	0.42	(0.37)	6.27	9.46	0.02
Dividends per share (Ch$)	2.5	1.23	26.83	0.00	5.24	0.01
Adjusted Operating Income (6)	148,989	142,785	127,529	169,377	156,851	264
Income/(loss) from operations	89,846	83,518	73,072	119,049	109,953	185
Depreciation	55,314	57,149	46,927	50,071	45,981	77
Amortization	3,829	2,118	7,540	257	917	2
U.S. GAAP						
Consolidated ratio of earnings to fixed charges (5)	1.63	1.20	1.61	1.52	1.78	1.78
Net income per share (US$) (7)(8)(9)	2.93	0.39	8.95	6.75	3.44	0.01
Diluted net income per share (7)(8)(9)	1.91	—	8.99	N/A	N/A	N/A
Dividends per share (7)(8)(9)	0.00	0.00	0.04	—	0.01	0.01
Operating Data: (6)						
Total MW Installed Capacity	4,608	5,252	3,092	3,123	3,123	
Total GWh Produced	16,433	16,718	8,958	10,169	10,188	
Total GWh Sold	23,471	24,149	14,612	15,748	15,263	

(1) Solely for the convenience of the reader, Chilean peso amounts have been translated into dollars at the rate of Ch$593.8 per U.S. dollar, the daily observed exchange rate for December 31, 2003, for amounts given as of or through December 31, 1999, 2000, 2001, 2002 and 2003. You should not construe the translation of currency amounts in this offering memorandum to be representations that the Chilean peso amounts actually represent current U.S. dollar amounts or that you could convert Chilean peso amounts into U.S. dollars at the rate indicated or at any other rate.

(2) For the sole purpose of this offering memorandum, we have modified our Chilean financial statements previously filed with the SVS in order to recognize the error made in accounting for the accrual related to the tax deductible net loss for the years ended December 31, 2001 and 2002.

(3) Includes the effects under U.S. GAAP of discontinued operations.

(4) Ratio of total shareholders' equity to total assets is calculated by dividing total shareholders' equity by total assets. Total shareholders' equity as presented under ''Chilean GAAP'' in the Balance Sheet Data above includes paid-in capital, reserve for monetary correction of capital, share premium accounts, other reserves, future dividends reserve, retained earnings and net income for the period.

(5) For the purposes of calculating the consolidated ratio of earnings to fixed charges, ''earnings'' consist of income before income taxes plus fixed charges (excluding capitalized interest), and amortization of previously capitalized interest. ''Fixed Charges'' include interest expense, capitalized interest and amortization of debt issuance costs.

(6) Data for each period is on a pro forma basis to give effect to decreases in MW of nominal capacity, GWh produced and GWh sold resulting from asset sales after each such period.

(7) For the years 1999 and 2000, the effects of both price-level restatement and the remeasurement are excluded.

(8) For the years 2001, 2002 and 2003, the effects of price-level restatement are excluded while the remeasurement effect is included.

(9) For purposes of this offering memorandum we have restated our 2003 Chilean financial statements with the SVS to include omitted disclosure of certain treasury lock agreements and their subsequent reduction in value from January 1, 2004 to March 10, 2004. We have also restated our U.S. GAAP financial statements for the two years in the period ended December 31, 2002 for a change in functional currency and the remeasurement effects and for the year ended December 31, 2003 for a mark-to-market adjustment for treasury lock agreements in the Chilean GAAP to U.S. GAAP reconciliation to net income, shareholders' equity, and earnings per share, and, additionally, the lack of disclosure related to the subsequent reduction in value of these treasury lock agreements.

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Overview

Our principal business and that of the majority of our consolidated subsidiaries and equity-method investees is the generation and sale of electricity. The most significant variables affecting our results are the prices of energy and capacity, weather conditions and foreign exchange variations in the countries in which we operate.

We are the second largest electricity generation group in Chile in terms of operating revenue and generating capacity with an installed capacity of 2,428 MW, composed of 2,157 MW of thermal and 271 MW of hydro generating capacity. We are the largest thermal generator in Chile, and we serve both the SIC and the SING. Through various subsidiaries and equity-method investees, we own a dam-based hydroelectric plant in Colombia with a total nominal operating capacity of 1,000 MW (Chivor); a combined-cycle natural gas-fired unit with 643 MW of installed capacity in Argentina (TermoAndes), connected to the SING by a 345 kV transmission line of 420 km, 140 km of which are owned by AES Gener S.A. and 280 km are owned by InterAndes; a 25% interest in a thermoelectric generation facility located in the Dominican Republic with approximately 586.5 MW of installed capacity (Itabo); and a 13% interest in a natural gas transportation company in Chile and Argentina (GasAndesChile and GasAndes Argentina). The following table presents the percentage of revenues contributed by each of the different markets in which we operate and the percentage of sales of energy to regulated and unregulated customers and spot sales for the years ended December 31, 2003, 2002 and 2001.

Revenues	2001	2002	2003
SIC	47%	43%	46%
SING	21%	25%	24%
Colombia	20%	22%	22%
Other Income	12%	10%	8%

Revenues in Chile	2001	2002	2003
Regulated	48%	49%	49%
Unregulated	50%	44%	44%
Spot Sales	2%	7%	7%

Our largest customers in Chile are two distribution companies, Chilectra S.A. and Chilquinta Energía S.A., operating in the SIC and Minera Escondida, operating in the SING.

Most of our sales in the spot markets are in the SING as a result of production from subsidiary TermoAndes' combined-cycle plant. In the SIC, we become a spot purchaser of electricity from other generation companies during relatively wet conditions, while spot purchases of electricity decline in periods of low water conditions.

In Chile, the amount of our capacity that is contracted or left uncommitted to be sold at spot prices is critical to our profitability. The desired level of contractual commitments depends on our estimation of demand, based on standard economic theory, node prices and system marginal cost using dynamic programming models. Historically, this strategy has led us to enter into long term contracts for our most efficient units and to reserve our less efficient units for sales in the spot market. According to our current level of contracted capacity, in case of a dry year, we may be adversely affected as we would generate electricity at a higher cost and buy energy at higher prices.

The introduction of natural gas as a source of fuel for electric generation in Chile in the SIC in 1997 and in the SING in 1999, with the construction of the pipelines which transport natural gas from Argentina to Chile, led to a significant technological change in the industry, reducing energy prices and the country's reliance on hydrological conditions. We are currently analyzing the conversion of one of our existing fuel generation plants into a gas-fired generation unit.

We plan to increase our installed generating capacity in the SIC to reduce our exposure to significant changes in hydrological conditions and stabilize our level of cash flow. In addition, we plan to maintain our coal-fired thermoelectric plants, which have higher operating costs, for sales to the spot market in periods of low water conditions and/or high demand when the system marginal cost generally exceeds the node price.

Operating Results

The following discussion is based on, and should be read in conjunction with, our audited consolidated financial statements and the accompanying notes included in this offering memorandum. We prepare our audited consolidated financial statements in accordance with Chilean GAAP, which differs in certain important respects from U.S. GAAP. See note 37 to our audited consolidated financial statements for a summary of the principal differences between Chilean GAAP and U.S. GAAP. Unless otherwise specified, financial data is presented in constant Chilean pesos of December 31, 2003 purchasing power.

An understanding of our financial condition and the results of our operations for the periods discussed in this offering memorandum requires an understanding of the regulatory structure for the production and pricing of electricity in Chile, Colombia, Argentina and the Dominican Republic, the principal countries in which we and our equity-method investees operate. Factors such as the method of determining the dispatch of generating units in a system, the pricing of electricity sales to regulated and unregulated customers and in the spot market, the significance of a generation company's mix of contract and spot market sales, the effect of a company's mix of hydro and thermal generation and the effect of hydrological conditions on operations are important factors in determining financial results. Accordingly, the following discussion should be read in conjunction with the discussion of these and related matters that appears elsewhere in this offering memorandum and in our annual report on Form 20-F/A, under the following headings:

- ''Item 4. Information on the Company—Business Overview—Electricity Generation in Chile'';
- ''Item 4. Information on the Company—Business Overview—Electricity Generation in Colombia'',
- ''Item 4. Information on the Company—Business Overview—Electricity Generation in Argentina'';
- ''Item 4. Information on the Company—Business Overview—Electricity Generation in the Dominican Republic''; and
- ''Item 4. Information on the Company—Business Overview—Regulation of Electricity Generation in Chile, Colombia, Argentina and the Dominican Republic''.

Our TermoAndes and InterAndes facilities are included in Chilean operations, given that currently they only receive revenue from the Chilean market. The results of our Chilean operations are separated between the two primary electric systems, the SIC and SING. Colombian operations correspond to our subsidiary Chivor.

Operating Revenues

The following table shows operating revenue information for 2001, 2002 and 2003:

	For the Year Ended December 31,					
	2001		2002		2003	
	(in millions of Ch$, except percentages)					
Operating Revenues						
Chile(1)						
Regulated electricity sales	118,717	32.9%	124,315	33.2%	125,966	34.8%
Unregulated electricity sales	122,165	33.8	113,542	27.8	111,285	30.7
Spot sales in the SIC(2)	(170)	—	(1,537)	(0.4)	154	—
Spot sales in the SING(2)	5,011	1.4	19,429	7.8	15,286	4.2
Total	245,723	68.1	255,749	68.3	252,691	69.7
Colombia						
Contractual electricity sales	35,311	9.8	46,488	12.4	39,223	10.8
Spot sales	36,385	10.1	35,127	9.4	39,441	10.9
Total	71,696	19.9	81,615	21.8	78,664	21.7
Total Electricity	317,419	87.9	337,364	90.1	331,355	91.5
Other	43,575	12.1	36,892	9.9	30,977	8.5
Total	360,994	100	374,257	100	362,332	100.0

(1) Includes revenue from electricity generation. Sales of coal and services are included in "Other".

(2) Includes revenue related to annual electrical capacity reconciliation settlement payments that are determined by the CDECs in each system at the end of every year. These payments may be positive if we receive capacity payments in excess of the amount provisioned, or negative as was the case in the SIC in 2001 and 2002, when we paid for electricity capacity in excess of the amount provisioned.

The following table provides information about our sales volume of energy and capacity in 2001, 2002 and 2003:

	For the Year Ended December 31,					
	2001		2002		2003	
	Energy (GWh)	Capacity (MW/month)	Energy (GWh)	Capacity (MW/month)	Energy (GWh)	Capacity (MW/month)
Sales Volume						
Chile	9,948	15,698	9,409	16,050	9,447	16,277
Regulated	5,061	8,943	5,039	9,279	5,023	8,842
Unregulated	4,252	4,968	3,690	5,417	3,754	5,457
Spot sales in the SIC	6	920	31	153	8	—
Spot sales in the SING	629	867	649	1,201	662	1,978
Colombia	4,664	—	6,339	—	5,816	—
Contract sales	2,107	—	2,491	—	2,542	—
Spot sales	2,557	—	3,848	—	3,274	—
Total	14,612	15,698	15,748	16,050	15,263	16,277

2003 Compared to 2002

As an electricity generation company with our primary market located in Chile, our operating revenues are relatively stable and generally are only subject to significant variations under extreme hydrological conditions. Our primary revenue source comes from our two principal products, electrical energy and capacity, which are sold both under contracts to regulated and unregulated customers and in the spot market.

Our consolidated operating revenues decreased by Ch$11,925 million to Ch$362,332 million in 2003 from Ch$374,257 million in 2002. This decrease was mainly due to: (1) a Ch$3,058 million decrease in revenues from energy and capacity sales in Chile, attributable to higher capacity reconciliation settlement payments received during the first quarter of 2002, (2) a Ch$5,915 million decrease in revenues from fuel sales, consulting services and other sales to third parties, and (3) a Ch$2,951 million decrease in revenues in the Colombian electricity sales market. Although U.S. dollar-denominated revenues in Colombia increased significantly, exchange rate declines resulted in decreased peso-equivalent revenues. Electrical capacity reconciliation settlement payments are determined by the CDECs in each of the SIC and the SING at the beginning of each year with respect to the prior year, may be positive or negative in any given year and are applied to revenue in the year of determination.

In 2003, the contribution to total sales in the different markets in which we operate was as follows: SIC 46%, SING 24%, Colombia 22%, and fuel sales and technical assistance to third parties 8%.

Chile

Our revenues from the Chilean electricity sector decreased by Ch$3,058 million to Ch$252,691 million in 2003 from Ch$255,749 million in 2002 for the reasons described below.

Sistema Interconectado Central (SIC)

Revenues from our electricity operations in the SIC were Ch$166,798 million in 2003, as compared to Ch$162,287 million in 2002, primarily due to an increase in capacity sales. Revenues from capacity sales increased by Ch$4,163 million in 2003 primarily as the result of higher prices, as physical sales of capacity remained virtually unchanged in 2003. Revenues from energy sales in the SIC increased by Ch$347 million in 2003 primarily due to a 1% increase in physical sales of electricity, which was partially offset by a 0.9% decrease in the average sale price per unit sold. The increase in physical sales was due to increased sales to Chilectra of 188 GWh, partially offset by decreased sales to Chilquinta of 81 GWh.

Sistema Interconectado del Norte Grande (SING)

Revenues generated by our activities in the SING decreased by Ch$7,569 million to Ch$85,893 million in 2003 from Ch$93,462 million in 2002. This decrease was primarily due to a decrease in capacity revenues of Ch$5,765 million, which resulted primarily from the Ch$9,769 million net effect of an extraordinary capacity reconciliation settlement for the years ended 2000 and 2001 that positively affected our operating income in the first quarter of 2002. The reconciliation settlement adjusted 2000 and 2001 capacity payment distributions among SING generators, and it is not expected to occur in the future. Energy sales also decreased by Ch$1,804 million in 2003 due to a decrease in the average sale price.

Colombia

Sistema Interconectado Nacional Colombiano (SIN)

Chivor's revenues decreased by Ch$2,975 million to Ch$78,640 million in 2003 from Ch$81,615 million in 2002, mainly due to exchange rate declines. Although U.S. dollar-denominated revenues in Colombia increased significantly, peso-equivalent revenues decreased. U.S. revenues denominated in dollars but paid in Colombian pesos increased, mainly as a result of higher revenues from services provided for transmission frequency regulation. These higher revenues were partially offset by a 523 GWh decrease in physical sales in 2003, mainly due to lower physical sales on the spot market. Although in Colombian pesos the average spot market price increased to Col$67/kWh in 2003 from Col$49/kWh in 2002, and the average sale price to contracted customers increased to Col$74/kWh in 2003 from Col$65/kWh in 2002, these increases were insufficient to offset the overall decrease in physical sales. Average Colombian peso sale prices increased in 2003 due to the effects of the *El Niño* weather phenomenon, which caused a reduction in hydrological resources in almost the entire Colombian system.

Other Revenues

Our other revenues are comprised mainly of coal and natural gas sales to third parties and steam sales to industrial clients through our subsidiary, Energía Verde. Other revenues decreased by Ch$5,915 million to Ch$30,977 million in 2003 from Ch$36,892 million in 2002. This decrease was primarily due to a Ch$7,825 million increase in coal sales to industrial customers and a Ch$1,720 million decrease in sales to Guacolda. In terms of sales volume, tonnage decreased by approximately 132 thousand metric tons, as a result of lower sales to industrial clients. Large volumes of coal are sold in bidding processes. Therefore, fluctuations in quantities sold may vary from year to year.

2002 Compared to 2001

Our consolidated operating revenues increased by Ch$13,263 million to Ch$374,257 million in 2002 from Ch$360,994 million in 2001. This increase was mainly due to: (1) a Ch$9,769 million increase in revenues in the SING due to firm capacity reconciliation settlements and higher physical sales volumes, (2) a Ch$3,904 million increase to our principal regulated clients, Chilectra and Chilquinta, due to an increase in the node price expressed in pesos, and (3) a Ch$9,918 million increase in sales in the Colombian market. These increases were offset by a decrease in revenues of Ch$6,682 million from fuel sales, due to lower physical coal sales to industrial clients and Guacolda, and from consulting services and other sources of revenue and a decrease of Ch$3,647 million in sales to other clients.

In 2002, the contribution to total sales from the different markets in which we operate was as follows: SIC 43%, SING 25%, Colombia 22%, and fuel sales and technical assistance to third parties 10%.

Chile

Our revenues from the Chilean electricity sector increased by Ch$10,026 million to Ch$255,749 million in 2002 from Ch$245,723 million in 2001.

Sistema Interconectado Central (SIC)

Revenues from electricity operations in the SIC decreased by Ch$10,615 million to Ch$162,169 million in 2002 from Ch$172,784 million in 2001. This decrease was primarily due to the termination of the contract between Eléctrica Santiago and the Empresa Nacional de

Electricidad, or Endesa Chile, in June 2001. The decrease in revenue was partially offset by higher revenues from sales to regulated customers in 2002 due to an increase in the average capacity sale price of 24% compared to 2001. During 2002, physical sales of electricity in the SIC decreased by 7.8% due to lower sales to unregulated customers.

Sistema Interconectado del Norte Grande (SING)

Revenues generated by our activities in the SING increased from Ch$72,938 million in 2001 to Ch$93,581 million in 2002 due to: (1) the net effect of the above-mentioned firm capacity settlement which positively affected TermoAndes' income, offsetting the negative impact on our Norgener subsidiary, (2) an increase in physical sales to the spot market in the SING, which was made possible by an increase in the dispatch limitation imposed by the CDEC-SING from 180 MW to 220 MW during peak periods for all independent combined-cycle units in the SING, including TermoAndes' Central Salta plant, and (3) to a lesser extent, an increase in exchange rates that affected sales contracts with our Zaldivar and Lomas Bayas mining clients.

Colombia

Sistema Interconectado Nacional Colombiano (SIN)

Chivor's revenues increased by Ch$9,918 million to Ch$81,615 million in 2002 from Ch$71,697 million in 2001 as a result of higher sale prices. The average sale price to customers under contract increased to Col$65/kWh in 2002 from Col$57/kWh in 2001. In addition, physical sales in 2002 increased by 1,675 GWh compared to 2001, mainly due to an increase in sales on the spot market. However, revenues generated from increased physical sales on the spot market were offset by lower prices. On the spot market, the average sale price decreased to Col$49/kWh in 2002 from Col$53/kWh in 2001. These lower sale prices were a result of more favorable hydrological conditions in Colombia during 2002.

Other Revenues

Other revenues decreased by Ch$6,683 million to Ch$36,892 million in 2002 from Ch$43,575 million in 2001. This decrease was due to lower coal sales to Guacolda (Ch$4,577 million in 2002 compared to Ch$10,787 million in 2001) and to industrial clients (Ch$17,751 million in 2002 compared to Ch$20,033 million in 2001). In terms of sales volume, tonnage decreased by approximately 376 thousand metric tons in 2002, 227 thousand of which resulted from a decrease in sales to Guacolda because of competitors that offered better contract terms to Guacolda in the 2002 bidding process. The remaining decrease in tonnage resulted from lower sales to industrial clients. The decrease in tonnage was partially offset by a Ch$932 million increase in sales of steam by our subsidiary, Energía Verde, as a result of higher demand by its sawmill, paper and pulp company customers.

Operating Expenses

The following table provides our operating expense information for 2001, 2002 and 2003:

	Year Ended December 31,					
	2001		2002		2003	
	(in millions of Ch$, except percentages)					
Variable Costs:						
Purchases of energy	68,214	26.5%	64,109	27.4%	73,008	31.0%
Purchases of capacity	17,906	7.0	13,910	5.9	12,775	5.4
Use of transmission system	14,732	5.7	12,203	5.2	11,972	5.1
Fuel consumption	52,236	20.3	35,972	15.4	44,096	18.7
Costs of fuel sales	26,049	10.1	27,022	11.5	17,960	7.6
Costs of technical consultants and other	14,617	5.7	9,521	4.1	6,686	2.8
Total Variable Costs	193,754	75.2	162,737	69.5	166,497	70.8
Fixed Costs:						
Energy production	16,918	6.6	21,284	9.1	22,837	9.7
Depreciation	46,926	18.2	50,065	21.4	45,980	19.5
Total Fixed Costs	63,844	24.8	71,349	30.5	68,817	29.2
Total Operating Expenses	257,598	100.0	234,086	100.0	235,314	100.0

2003 Compared to 2002

Operating expenses increased by Ch$1,228 million to Ch$235,314 million in 2003 from Ch$234,086 million in 2002 primarily as a result of an increase in variable costs partially offset by a decrease in fixed costs, as explained in greater detail below. Costs of our subsidiaries in Colombia and Argentina are recorded in accordance with *Boletín Técnico* No. 64 of the *Colegio de Contadores de Chile*, or Chilean Accounting Board, which requires certain investments to be accounted for in U.S. dollars.

Variable Costs

Our variable costs consist primarily of purchases of electricity and capacity on the spot market, fuel consumption, mainly natural gas by Eléctrica Santiago and TermoAndes, and purchases of coal by AES Gener S.A. and Norgener. Variable costs increased by Ch$3,760 million to Ch$166,497 million in 2003 from Ch$162,737 million in 2002, primarily as the result of a Ch$8,899 million increase in electricity purchases and a Ch$8,124 million increase in fuel consumption, partially offset by a Ch$9,062 million decrease in the cost of fuel sales and a decrease in capacity purchases of Ch$1,135 million.

Chile

Variable costs for our Chilean Operations consist primarily of purchases of energy and capacity on the spot market in the SIC and the SING and fuel consumption. Variable costs for our Chilean Operations increased by Ch$3,556 million to Ch$135,983 million in 2003 from Ch$132,427 million in 2002.

Energy purchases in the SIC increased by Ch$7,056 million in 2003 as compared to 2002 due to an increase in the average purchase price partially offset by a 2.3%, or 690 GWh, decrease in the amount of energy purchased. During 2003, our thermal generation in the SIC increased to 2,925 GWh from 2,146 GWh during 2002, but was partially offset by 136 GWh decrease in hydroelectric generation in 2003, mainly due to the maintenance and repair of our Alfalfal plant. Capacity purchases in the SIC decreased by Ch$710 million in 2003 as compared to 2002 due to the positive net effect of readjustments of Ch$374 million and a 4% (245 MW) decrease in amounts purchased.

Energy purchases in the SING increased by Ch$1,640 million and 235 GWh in 2003 as compared to 2002, mainly as a result of the unexpected generation of Norgener units in 2002. In the SING, net generation (gross generation less own consumption) decreased by 20 GWh to 2,031 GWh in 2003 from 2,051 GWh in 2002. This decrease was caused by lower generation of Norgener, which was partially offset by the 180 GWh increase in generation by our TermoAndes plant due to a regulatory change in June 2003 that increased the maximum level of dispatch for combined-cycle units operating in the SING from 220 MW to 240 MW during peak periods. The increase was partially offset by a 155 GWh decrease in generation by Norgener, which substantially increased its generation during the second quarter of 2002 as a result of the interruption of a natural gas pipeline supplying northern Chile. Capacity purchases in the SING decreased by Ch$799 million in 2003 as compared to 2002 due to the positive net effect of Norgener's capacity reconciliation settlements and a decrease in the average purchase price.

Fuel consumption increased by Ch$8,124 million in 2003 as compared to 2002 due to an 804 GWh increase in thermal generation, primarily as the result of a 541 GWh increase in generation by Eléctrica Santiago due to higher requirements imposed by the SIC.

Colombia

Variable costs for our Colombian Operations, which consist primarily of purchases of energy on the spot market, decreased by Ch$1,867 million to Ch$37,006 million in 2003 from Ch$38,873 million in 2002, mainly due to lower costs of technical assistance, connection costs and expenses related to an environmental tax (Law No. 99) that is imposed on the amounts of energy generated during the year. A 193 GWh increase in energy purchases in 2003 was partially offset by a decrease in exchange rates resulting in lower peso-equivalent amounts.

Fixed Costs

Our fixed costs consist primarily of maintenance costs and salaries of technical personnel. Fixed costs decreased by Ch$2,532 million to Ch$68,817 million in 2003, from Ch$71,349 million in 2002. The decrease was the result of a decrease in depreciation of Ch$4,085 million, mainly due to the exchange rate effect on our foreign subsidiaires, Chivor and TermoAndes, partially offset by an increase in operating and maintenance fixed costs of Ch$1,553 million.

2002 Compared to 2001

Operating expenses decreased by Ch$23,512 million to Ch$234,086 million in 2002 from Ch$257,598 million in 2001 primarily as a result of a decrease in fuel consumption, capacity purchases in the SIC and SING markets, lower electricity prices and coal sale costs, as explained in greater detail below. Costs of our subsidiaries in Colombia and Argentina are recorded in accordance with Boletín Técnico No. 64 of the *Colegio de Contadores de Chile*, or the Chilean Accounting Board, which requires certain investments to be accounted for in U.S. dollars.

Variable Costs

Variable costs decreased by Ch$31,017 million to Ch$162,737 million in 2002 from Ch$193,754 million in 2001 as a result of: (1) a Ch$9,428 million reduction in TermoAndes' fuel consumption costs due to the ''pesification'' of gas supply and transportation contracts, (2) a Ch$8,100 million decrease in costs associated with energy and capacity purchases, primarily as a result of lower costs of energy purchases in the SIC due to higher rainfall, (3) a Ch$6,835 million decrease in costs related to fuel consumption due to a lower dispatch of our thermal plants and (4) lower transmission costs of Ch$2,529 million.

Chile

During 2002, our thermal generation in the SIC was 2,146 GWh as compared to 2,595 GWh during 2001. However, as a result of the termination of our subsidiary Eléctrica Santiago's contract with Endesa Chile, it was not necessary to increase purchases in the spot market, which contributed to a decrease in costs. In the SING, our net generation (gross generation less own consumption) was 2,051 GWh, representing an increase of 640 GWh in net generation from 2001. This increase in net generation was primarily due to the higher dispatch of TermoAndes' Central Salta plant, which resulted from a regulatory change allowing all combined—cycle units operating in the SING to increase their maximum generation from 180 MW to 220 MW during peak periods, and the substantial increase in generation of Norgener's coal-fired plant during the second quarter of 2002 as a result of the interruption of a natural gas pipeline supplying northern Chile.

Colombia

Variable operating costs increased by Ch$3,287 million to Ch$38,873 million in 2002 from Ch$35,586 million in 2001, mainly due to Ch$2,889 million in costs associated with energy purchases as a result of a 720 GWh increase in sales volume.

Fixed Costs

Fixed costs increased by Ch$7,504 million to Ch$71,349 million in 2002 from Ch$63,844 million in 2001, primarily due to an increase in depreciation. Higher depreciation costs resulted in an increase of Ch$3,138 million in fixed costs, principally caused by the higher dispatch of TermoAndes, which depreciates its assets based on generation hours, and the exchange rate effect on foreign subsidiaries' costs.

Administrative and Selling Expenses

2003 Compared to 2002

Our administrative and selling expenses consist primarily of administrative personnel salaries, services rendered by third parties and insurance premiums. Administrative and selling expenses decreased by Ch$4,056 million to Ch$17,065 million in 2003 from Ch$21,121 million in 2002. This decrease was mainly due to a Ch$4,169 million decrease in services rendered by third parties and in other items relating to legal and advisory fees incurred in connection with Chivor's debt refinancing during 2002. This reduction was offset by a Ch$716 million increase in insurance costs and information technology systems and communications expenses.

2002 Compared to 2001

Administrative and selling expenses decreased by Ch$9,203 million to Ch$21,121 million in 2002 from Ch$30,324 million in 2001. This decrease was primarily due to the inclusion in our 2001 results of Ch$6,462 million in costs related to our employee retirement program as the result of a staff reduction in 2001 initiated after our acquisition by The AES Corporation in 2000. In addition, in 2002 there was a Ch$1,278 million reduction in remunerations and social benefits due to a minor reduction in personnel, which occurred in October 2002, and a Ch$1,744 million reduction in services rendered by third parties. Insurance costs increased by Ch$1,620 million in 2002 mainly as the result of an increase in insurance premiums based on market conditions.

Operating Income

2003 Compared to 2002

Operating income decreased by Ch$9,097 million to Ch$109,953 million in 2003 from Ch$119,050 million in 2002. This decrease was primarily due to a higher capacity settlement of Ch$8,220 million in 2002, as a result of the extraordinary impact on operating income in the first quarter of 2002 resulting from a Ch$9,769 million capacity reconciliation settlement in the SING for 2000 and 2001. In addition, in 2003 there was an increase in the average energy purchase price in the SIC and higher fuel consumption, offset by higher income from capacity sales.

2002 Compared to 2001

Operating income increased by Ch$45,978 million to Ch$119,050 million in 2002 from Ch$73,072 million in 2001. This increase resulted from: (1) a Ch$11,628 million decrease in fuel and capacity costs in the SIC and SING markets, (2) a Ch$9,769 million positive impact on operating income from the capacity settlement in the SING, (3) higher revenues from sales in the SING from the spot market and unregulated clients of Ch$10,874 million, (4) a Ch$9,918 million increase in sales to the Colombian market, and (5) a Ch$9,203 million decrease in administrative and sales costs.

Non-Operating Income

The following table sets forth non-operating income information for 2001, 2002 and 2003:

	For the year ended December 31,		
	2001	2002	2003
	(in millions of constant Ch$)		
Interest income	17,602	36,315	22,794
Other non-operating income	79,720	6,802	2,874
Total non-operating income items	97,322	43,117	25,668

2003 Compared to 2002

Our non-operating income consists primarily of financial income. Our non-operating income decreased by Ch$17,449 million to Ch$25,668 million in 2003 from Ch$43,117 million in 2002. This decrease was primarily due to a Ch$13,521 million decrease in financial income, a decrease in exchange rates and a decrease in interest income related to the intercompany loan between us and our parent company, Cachagua. On May 15, 2003, the interest rate of the account was reduced from 21.14% to 10%. Furthermore, the outstanding balance of US$310 million as of June 30, 2003 was reduced to US$288 million as the result of an amortization payment from Cachagua with the proceeds from our dividend payment on August 5, 2003. As of December 31, 2003, the outstanding balance of this intercompany account, including accrued interest, was US$294 million. Our other non-operating income decreased by Ch$3,928 million, primarily as a result of Ch$2,435 million in revenues that we received from the sale of our headquarters and other properties in 2002.

2002 Compared to 2001

Our non-operating income decreased by Ch$54,205 million to Ch$43,117 million in 2002 from Ch$97,322 million in 2001. This decrease was primarily due to a gain on asset sales finalized during 2001 involving Central Puerto and Puerto Ventanas, which had contributed Ch$72,416 million to non-operating income in 2001. Financial income increased by Ch$18,713 million in 2002, to Ch$36,315 million from Ch$17,602 million, due to higher interest income related to the intercompany loan between us and our parent company, Cachagua. This intercompany loan was executed in February 2001 and the last disbursement thereunder was in September 2001. Since then, changes in the balance of the loan were due to accrued interest.

Non-Operating Expenses

Our non-operating expenses consist primarily of interest expenses, expenses related to the issuance of debt, non-conversion premiums and provisioned losses related to the sales of assets. The following table sets forth our non-operating expense information for 2001, 2002 and 2003:

	For the year ended December 31,		
	2001	2002	2003
	(in millions of constant Ch$)		
Financial expenses	(74,299)	(73,442)	(54,855)
Other non-operating expenses	(65,413)	(30,157)	(15,775)
Total non-operating expense items	(139,712)	(103,599)	(70,630)

2003 Compared to 2002

Our financial expenses decreased by Ch$18,587 million to Ch$54,855 million in 2003 from Ch$73,442 million in 2002, mainly due to the lower interest rate applied to Chivor's credit obligations and debt amortizations since December 2002 and to lower interest rates applied to our credit obligations with banks and financial institutions, including Energy Trade, Norgener, TermoAndes and InterAndes.

Our other non-operating expenses in 2003 decreased by Ch$14,382 million to Ch$15,775 million in 2003 from Ch$30,157 million in 2002. This decrease was due to provisions and losses of Ch$7,130 million recorded during 2002 for the sales of our subsidiaries, Oil Gener, Carbones del Cesar, Ecogener and Explotaciones Sanitarias S.A. and our Fell Block assets, and to a decrease of Ch$3,595 million in provisions for the non-conversion premium of our convertible notes as a result of lower exchange rates in 2003 as compared to 2002. These amounts were partially offset by provisions of Ch$1,427 million in 2003 relating to interest rate coverage of TermoAndes and InterAndes. As of December 31, 2003, the credit was overhedged and, according to Chilean accounting rules, we needed to recognize any gain or losses for the portion that was contracted for in excess.

2002 Compared to 2001

Our financial expenses decreased by Ch$857 million to Ch$73,442 million in 2002 from Ch$74,299 million in 2001 due to a decrease in bank and financial institution debt of Energy Trade and Chivor as a result of scheduled principal payments during the period.

Our other non-operating expenses in 2002 decreased by Ch$36,113 million to Ch$103,599 million in 2002 from Ch$139,712 million in 2001. This decrease was mainly due to losses of Ch$27,913 million derived from our sale of Hidroneuquén, CCNI and Agencias Universales S.A. and losses of Ch$8,409 million associated with the sale process of OilGener and the Fell Block assets, which took place in 2001. For further details concerning non-operating expenses incurred in both years see note 29 to our audited consolidated financial statements included in this offering memorandum.

Investments in Equity-Method Investees

	For the year ended December 31,		
	2001	2002	2003
	(in millions of constant Ch$)		
Gains from investment in equity-method investees	8,541	1,799	9,836
Loss from investment in equity-method investees	(7,973)	(2,184)	(19)
Amortization of goodwill	1,064	(995)	(753)
Net income (loss) from equity-method investees (net of amortization of goodwill and negative goodwill)	1,632	(1,380)	9,064

2003 Compared to 2002

Income from equity-method investees increased by Ch$10,444 million to Ch$9,064 million in 2003 from a loss of Ch$1,380 million in 2002 due to a Ch$7,082 million increase in equity income from Guacolda and a Ch$2,956 million increase in equity income from Itabo.

During 2003, Guacolda, which is 50% owned by us, recorded profits of Ch$15,789 million, while in 2002 it recorded profits of Ch$1,637 million. This difference was mainly due to a Ch$23,307 million increase in non-operating income resulting from the positive effects of exchange rates as a result of the reduction in their U.S. dollar-denominated debt and a price-level restatement of Ch$22,025 million as compared to 2002. Guacolda's operating income decreased by Ch$7,577 million in 2003 primarily due to a Ch$2,800 million increase in fuel consumption and a Ch$1,530 million increase in energy and capacity purchases.

Itabo, which is 25% owned by us, recorded profits of Ch$4,832 million in 2003 as compared to losses of Ch$7,333 million in 2002. The improvement was primarily due to a Ch$5,282 million increase in revenues due to more favorable energy and capacity sales agreements in terms of both volumes of physical sales and prices. In addition, Itabo sold electricity to the spot market in 2003 as a result of the higher availability and higher dispatch of its steam-coal units during the year.

2002 Compared to 2001

Income from equity-method investees decreased by Ch$3,012 million to a loss of Ch$1,380 million in 2002 from Ch$1,632 million in 2001 due to a decrease in income from entities that were sold during 2001, primarily Puerto Ventanas and Central Puerto, and a loss of Ch$1,833 million recorded by Itabo as a result of lower operating results.

In 2002, Guacolda recorded profits of Ch$1,637 million compared to a loss of Ch$9,255 million in 2001. This improvement was mainly due to higher operating income, which increased to Ch$24,329 million in 2002 from Ch$15,563 million in 2001, and lower interest expense.

Itabo reported a loss of Ch$7,334 million in 2002 as compared to profits of Ch$7,751 million in 2001 as a result of a lower operating income due to a decrease in contracted sales prices and an increase in spot market purchases due to the rehabilitation of its units.

Price-Level Restatements

2003 Compared to 2002

Our price-level restatement generated a loss of Ch$46 million in 2003, as compared to a profit of Ch$1,420 million recorded in 2002. The difference was primarily due to a change in the Chilean Consumer Price Index, or CPI, factor applied in 2003, which was 1% in comparison to a 3% factor used in 2002.

Exchange rate differences generated a negative effect of Ch$13,561 million in 2003, as compared to a loss of Ch$19,527 million in 2002. During 2002, losses were mainly attributable to the devaluation of the Argentine peso, which negatively affected our investments in Argentina. Exchange rates reflected a 17% nominal appreciation of the Chilean peso in 2003, as compared to a nominal devaluation of 10% in 2002.

2002 Compared to 2001

Our price-level restatement generated earnings of Ch$1,420 million, approximately Ch$2,542 million less than the Ch$3,962 million recorded in 2001. The difference was primarily due to a change in the CPI factor applied in 2002, which was 3.0% in comparison to a 3.1% factor used in 2001, and the decrease in the price level restatement of shareholders' equity resulting from the distribution of dividends in 2001.

Exchange rate differences generated a negative effect of Ch$19,527 million in 2002, as compared to a loss of Ch$29,668 million in 2001. The lower effect was mainly due to the devaluation of the Argentine peso during 2002, which affected our investments in Argentina, and the devaluation of the Chilean peso during 2002, which affected our consolidated debts. The exchange rate effect reflected a nominal devaluation of the Chilean peso of 9.8% in 2002, as compared to a nominal devaluation of 14.2% in 2000.

Impact of Inflation and Price-Level Restatement

We are required under Chilean GAAP to restate non-monetary assets and liabilities, equity and income and expense accounts to reflect changes in the CPI from the date they were acquired or incurred to the end of the period. During inflationary periods, monetary items generate a gain or loss in purchasing power depending upon the currency in which they are denominated. Non-monetary assets and liabilities are restated so as to correct the effect of inflation and remain constant in real terms from period to period. Under Chilean GAAP, liabilities in foreign currency or denominated in UFs are considered to be non-monetary, and all resulting foreign exchange adjustments and indexation are included in the price-level adjustment account. See note 1(b) to our audited consolidated financial statements included in this offering memorandum.

Non-monetary assets and liabilities are generally restated using the CPI published by the Chilean National Institute of Statistics. Monetary assets and liabilities are not adjusted because their amounts are fixed by contract or otherwise in terms of currency regardless of changes in specific prices or in the general price level. Holders of monetary assets and liabilities lose or gain general purchasing power during periods of inflation. Monetary liabilities in foreign currency are stated at closing exchange rates and are affected by the relationship between local inflation and the exchange rate of the local currency with the U.S. dollar.

Our audited consolidated financial statements have been restated in accordance with Chilean GAAP for the purpose of reflecting the actual purchasing power of the peso. The effects of monetary restatement are summarized below in millions of Chilean pesos.

Credit (charge) to income	Year ended December 31, 2001	2002	2003
	(in millions of Ch$, except percentages)		
Property, plant and equipment	22,948	21,397	6,942
Other assets in local currency	20,839	19,330	5,828
Other assets in foreign currency	(13,793)	13,374	(24,119)
Liabilities in foreign currency	(15,398)	(29,703)	11,679
UF Indexed liabilities	(14,797)	(15,451)	(5,202)
Shareholders' equity	(24,414)	(21,697)	(7,783)
Net balance sheet effect reflected in income	(24,614)	(12,750)	(12,654)
Net price-level restatement of income statement accounts	(615)	(2,159)	(168)
Net losses due to foreign exchange differences	(477)	(3,198)	(784)
Charge to income	(25,706)	(18,107)	(13,606)

Net Non-Operating Loss

2003 Compared to 2002

We had a non-operating loss of Ch$49,504 million in 2003, which was Ch$30,465 million lower than the Ch$79,969 million non-operating loss in 2002. The decrease was mainly due to a Ch$18,587 million decrease in interest expenses and other non-operating expenses. In addition, the contribution to net income from equity-method investees increased by Ch$10,444 million and the appreciation of the Chilean peso generated a positive exchange rate effect of Ch$5,966 million.

2002 Compared to 2001

We had a non-operating loss of Ch$79,969 million in 2002, which was Ch$11,296 million higher than the Ch$68,673 million non-operating loss recorded in 2001, mainly due to our sales in 2001 of Central Puerto and Puerto Ventanas at a significant gain of Ch$72,416 million, compared to the gains of Ch$2,435 million recorded in connection with the sale of other assets. This decrease in other non-operating income was partially offset by a reduction in the effect of the U.S. dollar exchange rate variation of Ch$10,140 million, a decrease in other non-operating expenses of Ch$35,255 million related to losses on sales of assets in 2001 (CCNI, Hidroneuquén and Agunsa) and an increase in financial income of Ch$18,713 million in 2001.

Income Taxes

2003 Compared to 2002

A higher income tax provision of Ch$4,748 million was recorded in 2003 as compared to a provision of Ch$1,663 million in 2002.

2002 Compared to 2001

A lower income tax provision of Ch$1,663 million was recorded in 2002 as compared to a provision of Ch$7,049 million in 2001. This decrease was due to tax losses related to exchange differences of our Argentine subsidiaries and a decrease in the valuation allowance set up by our subsidiary Chivor for deferred tax assets for tax loss carryforwards. The latter decrease resulted from a lengthening of tax depreciable lives of fixed assets.

Net Income

2003 Compared to 2002

Net income increased by Ch$18,103 million to Ch$53,678 million in 2003 from Ch$35,575 million in 2002. The most significant components of this increase were a Ch$30,465 million or 38% decrease in non-operating expenses as a result of a decrease in interest expenses and other non-operating expenses, a Ch$10,444 million improvement in operating results among our equity-method investees, and the positive exchange rate effects of Ch$5,966 million, which offset a 7.6% decrease in our operating income, mainly due to extraordinary income in 2002 from a retroactive capacity reconciliation settlement in the SING.

2002 Compared to 2001

During 2002, we recorded net income of Ch$35,575 million, compared to a net loss of Ch$2,091 million in 2001. This increase was attributable to higher operating income of Ch$45,977 million in 2002, a 63% increase from the previous year, offsetting higher non-operating losses by Ch$11,296 million due to lower revenues from equity-method investees and the impact of the extraordinary gains obtained from sales of Central Puerto and Puerto Ventanas in 2001, which were not totally offset by the increase in financial income and the decrease in exchange losses.

Liquidity and Capital Resources

Cash Flow Analysis

As an electricity generation company with our primary market located in Chile, our operational cash flows are relatively stable and generally are only subject to significant variations under extreme hydrological conditions. Our primary operating revenue comes from our two principal products, electrical energy and capacity, which are both sold under contracts to regulated and unregulated customers and on the spot market. Since The AES Corporation acquired us at the end of 2000, two significant cash flow items related to asset sales and personnel benefits as a result of a staff reduction were recorded in 2001 and 2002, as a result of a restructuring plan that has been completed. In terms of our financing cash flow, we expect to refinance a significant portion of our debt, including AES Gener S.A.'s Chilean convertible notes and Yankee notes which come due in 2005 and 2006, respectively, which would have an impact on our long term cash flow.

2003 Compared to 2002

In 2003, we generated a positive cash flow of Ch$25,208 million, as compared to a negative cash flow of Ch$30,075 million in 2002.

Operating activities generated a positive flow of Ch$119,680 million in 2003, which was Ch$45,665 million higher than the Ch$74,015 million recorded in 2002. This increase was due to a Ch$28,246 million decrease in payments to suppliers and personnel, a Ch$26,832 million decrease in interest payments, offset by a Ch$16,139 million decrease in trade accounts receivable and a Ch$1,354 million decrease in accrued financial income.

Financing activities generated a negative cash flow of Ch$122,779 million in 2003, as compared to a negative cash flow of Ch$100,429 million in 2002. The Ch$22,350 million increase in negative cash flow was mainly due to a Ch$28,336 million increase in dividend payments, which were offset by a Ch$8,143 million decrease in bond payments.

Investment activities generated positive cash flow of Ch$28,306 million in 2003, as compared with a negative cash flow of Ch$3,661 million in 2002. This difference was primarily due to a Ch$28,406 million increase in loan collections in 2003, mainly from Cachagua, which made two amortization payments in 2003 with dividends received from us.

2002 Compared to 2001

In 2002, we generated a negative cash flow of Ch$30,075 million, compared to negative cash flow of Ch$3,360 million in 2001.

Operating activities generated a positive flow of Ch$74,015 million in 2002, higher than the Ch$24,553 million recorded in 2001. This increase was due to a higher collection of trade receivables of Ch$47,075 million, lower payments to suppliers and personnel of Ch$28,945 million, and lower VAT and other payments of Ch$8,361 million in 2002. This increase was partially offset by higher interest payments of Ch$3,977 million, a decrease in dividends, other income and distributions received of Ch$14,436 million and a decrease in financial revenue of Ch$5,153 million in 2002.

Financing activities generated a negative cash flow of Ch$100,429 million in 2002, compared to our negative cash flow of Ch$157,855 million in 2001. The difference was mainly due to reduced dividend payments of Ch$151,357 million, partially offset by the net negative effect between borrowings and loan payments of Ch$60,249 million, higher payments of public liabilities of Ch$26,082 million related to payments of the TermoAndes and InterAndes notes, and higher payments of other financing activities of Ch$9,671 million in 2002.

Investing activities generated a negative cash flow of Ch$3,661 million, compared to the Ch$129,941 million positive cash flow generated in 2001. This decrease was the result of reduced proceeds from investment sales of Ch$274,010 million in 2002, lower loan collections from equity-method investees of Ch$22,508 million and lower revenues from other investments of Ch$27,086 million. In addition, during 2002, there was a Ch$16,332 million decrease in permanent investments and the acquisition of fixed assets, a Ch$148,312 million decrease in loans to equity-method investees and a Ch$14,476 million decrease in investments in financial instruments.

2004 Capital Expenditures

We have included in our budget capital expenditures for approximately US$15.4 million in 2004 for both major and minor routine maintenance repairs, including the TG11 gas turbine maintenance in TermoAndes.

Sources of Our Cash Flows

We expect that we will have sufficient resources from operations to fund our currently anticipated capital expenditures, for working capital needs and for general corporate purposes.

We expect to fund our future projects and investments with a combination of internally generated cash, sales of assets and additional indebtedness, including project financing. In addition, we believe that the implementation of a recapitalization plan, which will reduce the amount of our outstanding indebtedness and extend the maturities of our long term debt, will improve our financial condition and enhance our financial flexibility and our ability to generate cash flow for the upcoming years. Any additional indebtedness may be incurred by our subsidiaries and may or may not be guaranteed by AES Gener S.A. See ''Item 4. Information on the Company—Business Overview—Electricity Generation in Chile—Other Generation Projects Under Development in Chile'' of our annual report on Form 20-F/A.

Certain of our credit agreements contain provisions that impose restrictions on the transfer of funds in the form of cash dividends, loans or advances. Our subsidiary Chivor is restricted from declaring or paying any dividends or return on any capital, or authorizing or making any other distribution, payment or delivery of cash to its shareholders in accordance with the Second Amendment and Waiver to the Credit Agreement executed by Chivor and a bank syndicate led by Bank of America on August 27, 2002. The credit agreement executed by our subsidiary Energía Verde and Banco de Crédito e Inversiones and Scotia Bank Sudamericano establishes a minimum cash flow coverage ratio for the distribution of dividends. As of December 31, 2003, the note purchase agreement with Bank of America and the loan agreement with ABN Amro restrict the amount of dividend payments by AES Gener S.A., in excess of the minimum amount required by Chilean law. In January 31, 2004, the loan agreement with ABN Amro was completely repaid. Additionally, the provisions of the TermoAndes and InterAndes notes prohibit these companies from making or declaring any distribution, unless such distribution is made from the funds available for distribution in accordance with the terms of these agreements. Finally, our Argentine subsidiaries TermoAndes and InterAndes cannot distribute dividends or transfer money abroad without prior authorization of the Argentine Central Bank. These restrictions have been incorporated in our financial projections, and we do not expect them to affect our ability to meet our cash obligations, as we estimate that we will have sufficient operational resources to meet our projected capital expenditures and working capital needs.

Investment and Financial Policy

Until 2001, each year our shareholders had to approve an annual financing and investment policy proposed by management, which set forth limits on the amount of debt we could incur. At the shareholders' general meeting held on July 4, 2001, the assembly resolved to modify our by-laws by eliminating all references to investment, financing and commercial policies, with respect to both us and our subsidiaries.

In order to comply with our corporate purpose under Chilean law, we may make investments in each of the companies in which we have an interest or to which we make capital contributions, supervise and coordinate the management of the companies in which we have an interest or to which we make capital contributions, and provide the companies in which we have an interest or to which we make capital contributions with management, auditing, financial, commercial, technical and legal services and all and any services of any nature that may be necessary. Notwithstanding the foregoing, we are required to maintain at least a 51% interest in companies in which we gain an interest, by making contributions of electricity generation assets.

We intend to maintain a balanced portfolio between Chilean peso and U.S. dollar-denominated investments. In 2003, we held an average of US$18.6 million on financial investments, of which almost 50% were in U.S. dollar-denominated instruments. In addition, we have stringent financial investment policies approved by our CFO and the CEO. The compliance with our financial investment policy is controlled by our internal audit department.

We have no formal coverage policies for risks related to exchange rates and interest rates. However, our board of directors constantly evaluates alternatives to minimize foreign exchange and interest rate risks. We cover our foreign exchange exposure relating to interest, debt payments, power purchase agreements and take-or-pay payments by purchasing forward rate agreements.

Long Term Debt

Our long term bank debt consists principally of U.S. dollar-denominated loans from certain financial institutions. We have also issued bonds and other long term debt, primarily in U.S. dollars, in Chile, the United States and Argentina. See note 17 to our audited consolidated financial statements, included in this offering memorandum, for additional information.

Long term liabilities were Ch$739,118 million as of December 31, 2003 compared to Ch$981,570 million as of December 31, 2002. The decrease in long term liabilities resulted principally from the amortization in 2003 of the TermoAndes and InterAndes notes and Chivor's debt.

Bank Liabilities as of December 31, 2003

		Years to Expiration				
Bank	**Currency**	**1-2 Years Million Ch$**	**2-3 Years Million Ch$**	**3-5 Years Million Ch$**	**Total Long Term Million Ch$**	**Average Annual Interest Rate %**
Bank of America	US$	17,729	139,391	—	157,119	4.64%
Scotiabank	US$	4,988	—	—	4,988	3.08%
Banco Crédito Inversiones	US$	7,482	—	—	7,482	3.08%
Total	**—**	**30,199**	**139,391**	**—**	**169,589**	**—**

Bonds Payable as of December 31, 2003

Series	Issue Amount Outstanding (in issue currency)	Issue Currency	Interest Rate %	Maturity Date	Periodicity Interest Payments	Periodicity Principal Payments	Carrying Value 2003 Million Ch$	Place of Issuance
—	200,000,000	US$	6.50%	15-Jan-06	Semiannual	Upon Maturity	122,305	U.S.
LA1	659,900	US$	6.00%	1-Mar-05	Semiannual	Upon Maturity	400	Chile
LA2	2,591,000	US$	6.00%	1-Mar-05	Semiannual	Upon Maturity	1,569	Chile
LA3	15,705,000	US$	6.00%	1-Mar-05	Semiannual	Upon Maturity	9,512	Chile
LA4	110,800,000	US$	6.00%	1-Mar-05	Semiannual	Upon Maturity	67,105	Chile
LA5	273,000,000	US$	6.00%	1-Mar-05	Semiannual	Upon Maturity	165,341	Chile
M	73,883,000	US$	6.00%	1-Mar-05	Semiannual	Upon Maturity	44,747	Chile
A	57,500,000	US$	8.00%	15-Oct-09	Semiannual	Semiannual	34,709	Chile
B	1,086,000	UF	7.50%	15-Oct-24	Semiannual	Semiannual	18,661	Chile
O	126,202,247	US$	6.36%	31-Dec-07	Semiannual	Semiannual	74,939	Argentina
O	25,190,353	US$	6.36%	31-Dec-07	Semiannual	Semiannual	15,581	Argentina

Chivor

In December 1996, our Colombian subsidiary, Chivor, borrowed US$400 million under a five-year bank credit facility, the net proceeds of which were used to finance a portion of the acquisition price of Chivor. The Chivor credit facility was secured by substantially all of Chivor´s assets, including accounts receivable, payments under contracts, funds held offshore, insurance proceeds, real property and its plant and equipment. On December 28, 2001, Chivor failed to pay when due approximately US$336 million of the principal amount of indebtedness borrowed pursuant the terms of the bank credit facility.

On May 31, 2002, Chivor reached an agreement for refinancing its debt of US$336 million with the original bank syndicate led by Bank of America. This agreement, which involved 19 of the 20 members of the bank syndicate, specifies a new interest rate and amortization schedule and expires on December 31, 2006. The agreement stipulated that the refinancing would be structured under terms and conditions established under Chapter 11 of the U.S. bankruptcy law, specifically in terms of a pre-packaged voluntary reorganization.

On July 6, 2002, a hearing regarding First Day Papers of Chivor was conducted in the United States Bankruptcy Court for the Southern District of New York. On August 13, 2002, Judge Burton R. Lifland in New York approved the financing restructuring plan. An agreement executed on August 27, 2002, the second amendment and waiver to the credit agreement, amended the credit agreement entered into on December 30, 1996, and provided Chivor with a term extension up to December 2006, including a new payment schedule with interim amortization payments. Under the terms of the new agreement, Chivor paid US$15 million in 2002 and US$37 million in 2003. A minimum of US$19 million is scheduled to be paid in 2004. The contract also requires Chivor to maintain a debt service coverage ratio of 1.0 and restricts Chivor from paying dividends and other distributions to its shareholders or from incurring additional debt outside of the ordinary course of business, with a limit on working capital indebtedness of US$10 million. Finally, in accordance with the second amendment and waiver, the lenders may declare the principal and any accrued interest due and payable if Chivor defaults in the payment of all or any portion of other indebtedness or in the performance of any agreement that requires other indebtedness to become due. The conditions of default under the agreement also include a default by AES Gener S.A. in the performance of any agreement, covenant or condition relating to its indebtedness, the effect of which causes such indebtedness to become due prior to its stated maturity.

In connection with the execution of the second amendment and waiver, also on August 27, 2002, a support agreement was executed, under which Energy Trade agreed to irrevocably and unconditionally provide funds to Chivor for payment of outstanding debt under the second amendment and waiver, up to a maximum amount of US$50 million, if the outstanding amount of debt exceeds US$290 million on March 31, 2004 and US$225 million on March 31, 2005. In the same support agreement, AES Gener S.A. agreed to irrevocably and unconditionally guarantee Energy Trade's obligations. As of December 31, 2003, the outstanding amount of the debt under the amended credit agreement was approximately US$283.6 million.

Scotiabank and Banco Crédito e Inversiones Loan Agreement

Energía Verde borrowed US$25 million under a five-year bank credit facility with Scotiabank and Banco Crédito e Inversiones in November 2001. The net proceeds were used to refinance the capital structure of Energía Verde. Annual interest rate is based on LIBOR 180 days plus a fixed spread of 1.85%. As part of the financing, we pledged all our shares in that subsidiary in favor of the two banks. In addition, Energía Verde pledged all its assets in favor of the bank creditors. As of December 31, 2003, the outstanding amount under this bank credit facility was US$24 million.

Eléctrica Santiago Local Bonds

In September 1999, the SVS approved the issuance by Eléctrica Santiago of a local bond of US$100 million, which was principally used to prepay debt to General Electric for the construction of the Nueva Renca combined-cycle plant. This bond was divided into a U.S. dollar-denominated tranche of US$60 million and a UF-denominated tranche equivalent to US$40 million. In October 1999, Eléctrica Santiago placed US$57.5 million of the dollar-denominated tranche, which comes due in October 2009. A portion of the outstanding principal is to be paid semiannually beginning April 2005. Interest is paid semiannually and the annual interest rate is 8%. The outstanding amount as of December 31, 2003 was US$57.5 million. In July 2000, Eléctrica Santiago placed the UF-denominated tranche of UF1,086 million. A portion of the outstanding principal is to be paid semiannually beginning April 2006. Interest is paid semiannually, and the annual interest rate is 7.5%. The outstanding amount as of December 31, 2003 was UF1,086 million, equivalent to US$30.9 million.

The indentures governing these issuances establish the following financial covenants, which were fully complied with as of December 31, 2003:

- unpledged assets must equal at least 125% of unsecured liabilities;
- the ratio of debt to equity may not exceed 1.75 to 1.00;
- a minimum equity level of UF2 million (approximately US$57 million) must be maintained; and
- "Essential Assets" which represent more than 40% of Total Assets that may not be sold, without the previous authorization of the bondholders.

Convertible Debt

In September 1998, our shareholders approved the issuance of up to US$500 million of convertible debt securities. These notes totaling US$499.9 million were placed in Chile between December 1998 and March 1999, and in the United States in June 1999. As of December 31, 2003, Ch$283,028 million (approximately US$476.6 million) of convertible debt was outstanding. Convertible notes outstanding in Chile account for Ch$239,156 million (approximately US$402.76 million), convertible notes outstanding in the United States account for US$73.88 million (approximately Ch$43,872 million), and notes that have already been converted amount to US$23.3 million (approximately Ch$13,836 million). The Chilean convertible notes differ from the U.S. convertible notes in that they are:

- payable in Chilean pesos;
- governed by Chilean law;
- not entitled to the receipt of additional amounts with respect to withholding taxes; and
- exchangeable for U.S. convertible notes by non-Chileans, subject to certain conditions.

In addition, the U.S. convertible notes are not exchangeable for Chilean convertible notes.

The indenture governing the convertible notes issued in Chile and the United States restricts the incurrence of debt by us in excess of the amount approved at the annual shareholders' meeting. Our shareholders, however, currently do not restrict our incurrence of debt to a particular amount. Further, AES Gener S.A. and its subsidiaries may not issue, assume or guarantee debt secured by mortgages, which, together with the aggregate outstanding principal amount of all our other debt, exceeds 10% of total net consolidated assets. Nonetheless, we may incur indebtedness secured by a mortgage upon property or assets as long as such indebtedness shall be secured equally and ratably with these securities. The noteholders may require immediate payment if an event of default occurs, including failure by us to pay any indebtedness in an aggregate principal amount exceeding 1.5% of total consolidated assets.

On November 24, 2003, AES Gener announced a cash tender offer for any and all of its U.S. and Chilean convertible notes, which remains outstanding.

Yankee Notes

In January 1996, we issued US$200 million aggregate principal amount of our 6½% notes due January 15, 2006 in the United States, which principal amount was outstanding as of December 31, 2003, representing approximately Ch$118,760 million. On January 9, 2002, we solicited and obtained the required consent of a majority of the note holders to amend the indenture to eliminate the possibility that (i) a default on payments due or money borrowed by Chivor (unless AES Gener S.A. or a subsidiary guarantees or otherwise agrees to be liable, directly or indirectly, for such Chivor indebtedness), including Chivor's aforementioned default, or (ii) a bankruptcy proceeding involving Chivor would, in each case, constitute, or be the basis for, an event of default with respect to the notes under the indenture.

Under the terms of the indenture for the Yankee notes, we may not issue, assume or guarantee debt secured by mortgages, which, together with the aggregate outstanding principal amount of all our debt, exceeds 10% of consolidated net tangible assets. The provisions of the indenture governing this issue also allow for the holders to require immediate payment if an event of default occurs, including default in the payment of the note obligations as well as default by AES Gener S.A. or any subsidiary with respect to any indebtedness with an aggregate principal amount exceeding US$15 million.

On November 24, 2003, AES Gener announced a cash tender offer for any and all of its Yankee notes, which we accepted for payment upon expiration of the offer for a total amount of US$146.3 million, including the tender consideration, consent payment and accrued interest.

TermoAndes and InterAndes

We financed TermoAndes and InterAndes through an equity contribution of approximately US$146.9 million made with funds from our operations, floating rate debt securities of approximately US$257 million (aggregate principal amount) issued by TermoAndes and InterAndes and a US$18 million loan from Argentine banking institutions, which was primarily used to pay our value-added tax obligations. The floating rate debt is hedged with a swap that fixes the interest rate at 6.36%. The notes issued by TermoAndes and InterAndes are secured by substantially all the assets of both companies, including AES Gener S.A.'s obligations to purchase capacity and energy pursuant to its power purchase agreement with TermoAndes, which includes minimum payments in amounts sufficient, among other things, to serve the payments of the US$257 million of floating rate notes.

Additionally, US$82 million of TermoAndes and InterAndes notes are subject to a put option executed in 1998, which permits Bank of America to require AES Gener S.A. to purchase the TermoAndes and InterAndes notes at par plus accrued interest under certain defined circumstances. In April 2000, the put agreement was assigned to Energy Trade by AES Gener S.A., with a full guarantee by AES Gener S.A. The put option was further modified in September 2002, and, in connection therewith, a purchase agreement was executed by AES Gener S.A. and Bank of America.

Under the terms of the purchase agreement, AES Gener S.A. agreed to purchase the TermoAndes and InterAndes notes through quarterly principal installments of approximately US$7.9 million until September 2004. If there is a default under the terms of the TermoAndes or InterAndes notes, an acceleration of the TermoAndes or InterAndes notes or a default under the purchase agreement, Bank of America may exercise its put option, requiring AES Gener S.A. to purchase the notes at par value plus accrued interest at any time prior to payment of the final installment under the purchase agreement. The purchase agreement also contains provisions allowing Bank of America to exercise its put right in the event of default by AES Gener S.A., which may be caused by AES Gener S.A., Norgener or Eléctrica Santiago's failure to pay material indebtedness, defined as indebtedness of or guaranteed by AES Gener S.A. equal to or in excess of US$15 million in the aggregate or, in the case of Norgener and Eléctrica Santiago, indebtedness equal to or in excess of US$10 million, among other events. As of December 31, 2003, the principal balance under the TermoAndes and InterAndes notes was US$151.4 million, net of AES Gener S.A. holdings. As of December 31, 2003, the principal balance of the TermoAndes and InterAndes notes held by Bank of America was US$23 million.

On February 27, 2004, we reached an agreement to restructure the outstanding TermoAndes and InterAndes debt. Pursuant to the restructuring, the holders of TermoAndes and InterAndes notes will receive an upfront payment to be funded with a combination of cash currently held in TermoAndes' and InterAndes' trust accounts, along with a cash contribution made by us through Gener Argentina S.A. In exchange for this paydown, the holders of the TermoAndes and InterAndes notes have agreed to extend a loan to AES Gener S.A. to enable it to repurchase the notes. This loan will be amortized over a period from 2004 to 2010. The closing of the agreement is subject to several conditions, which include, among others, the amendment and restatement of certain guaranties and pledge agreements, the successful restructuring of AES Gener's other indebtedness and the condition that the proceeds from the TermoAndes and InterAndes' trust accounts established under the former debt agreement, are available for paydown of the existing debt by the new debtor, AES Gener, at the close. Additionally, the interest rate swap on the TermoAndes and InterAndes debt will be terminated at the close. The termination fee will be equal to the mark-to-market adjustment for the interest rate swap hedge.

Norgener

We financed the construction of Norgener's Tocopilla thermoelectric plant through a loan provided by Mitsubishi Heavy Industry, in the total outstanding amount of approximately US$34 million at December 31, 2003, which bears an annual interest rate of 8.17%. In addition, in order to guarantee 50% of the loan, Norgener granted Mitsubishi Heavy Industry a stand-by letter of credit issued by Banco de Chile for up to US$50 million. Furthermore, in order to guarantee the amount of the letter of credit, Norgener pledged Unit No. 2 in favor of Banco de Chile.

Recapitalization Plan—Treasury Lock Agreements

In connection with this offering of notes, we entered into treasury lock agreements in a notional amount of US$400 million (Ch$237,520 million) to hedge against the underlying interest rate of the notes to be issued pursuant to our recapitalization plan. The agreements were entered into in December 2003 and in February 2004 in contemplation of this offering to be completed on March 22, 2004. The agreements have been extended on several occasions. Since the date of the agreements, the yield on the benchmark 10-year U.S. treasury note has decreased. On March 12, 2004, the date of the pricing of the notes, we set a coupon on the notes of 7.50% based on the current market yields of the 10-year U.S. treasury note rate and unwound the agreements which set the losses under such agreements at approximately

US$22.1 million (Ch$13,140 million). On the closing date of this offering, we will be required to pay that loss to the counterparty. Under Chilean GAAP, we expect to amortize the cost associated with these transactions over the life of the notes. Under U.S. GAAP, the agreements are mark-to-market through income because they do not qualify as hedges due to the lack of documentation. With the transactions described above, we locked in the 10-year U.S. treasury note rate in connection with the issuance of the notes at an average rate of 4.37%.

The December 2003 agreements were excluded from the required tabular disclosure in note 24, Derivative Contracts, of our audited consolidated financial statements and the note 36, Subsequent Events, omitted to state the reduction in value for the period January 1, 2004 through the date of the independent auditors' report. The effect of these transactions is reflected in further adjustments to net income, shareholders' equity and earnings per share for 2003 in the reconciliation footnote, note 37, relating to the differences between Chilean GAAP and U.S. GAAP.

Guarantees and Contingencies

As of December 31, 2003, we had outstanding the following guarantees in favor of third parties and on behalf of some subsidiaries and equity-method investees:

- US$1.4 million principal amount in connection with a loan incurred by Energy Trade with Morgan Stanley Capital Group Inc. as a result of the sale of our 50% share capital of MEGA to TransAlta Corporation in June 2001; and
- US$4.8 million principal amount in connection with a loan incurred by GasAndes to finance a portion of the cost of construction of the GasAndes pipeline.

Additionally, AES Gener S.A. has outstanding the following contingencies relating to certain agreements in which AES Gener is also guarantor:

- Bank of America put agreement, assigned to our subsidiary Energy Trade by AES Gener S.A. in April 2000 in connection with the notes issued by our subsidiaries TermoAndes and InterAndes for an amount of US$82 million. The put agreement was modified in September 2002, and, in connection therewith, a purchase agreement, which includes an amended and restated put agreement, was executed. As of December 31, 2003, Bank of America's exposure in the TermoAndes and InterAndes notes was US$23.0 million.

  Bank of America may exercise its put option, requiring AES Gener S.A. to purchase the notes at par plus accrued interest, at any time prior to payment of the final installment under the purchase agreement if there is a default under the terms of the TermoAndes or InterAndes notes, an acceleration of the TermoAndes or InterAndes notes or a default under the purchase agreement. The purchase agreement also contains provisions allowing Bank of America to exercise its put right in the event of default by AES Gener S.A., which may be caused by AES Gener S.A., Norgener or Eléctrica Santiago's failure to pay material indebtedness, defined as indebtedness of or guaranteed by AES Gener S.A. equal to or in excess of US$15 million in the aggregate or, in the case of Norgener and Eléctrica Santiago, indebtedness equal to or in excess of US$10 million in the aggregate, among other events.

  Additionally, under the terms of the contract, AES Gener S.A. agreed not to enter into a transaction similar to that contemplated by the purchase agreement and not to make dividend payments in excess of the minimum amount required under Chilean law. Further, the purchase agreement also includes specific financial covenants and certain negative covenants restricting dividend payments and other note purchases.

- ABN Amro put option in connection with the loan granted to our subsidiary Energy Trade for an amount of US$40 million. Under the agreement, ABN Amro had the right to exercise at its sole discretion its option to receive early payment during July 2002. In a letter dated June 7, 2002, ABN Amro exercised its option, and, on July 31, 2002, Energy Trade reached an agreement with the bank that eliminated the put option and modified the original payment schedule. Upon execution of this amendment, Energy Trade made a payment of US$16 million, and it was agreed that the balance would be payable in six quarterly installments of US$4 million each. The outstanding principal as of December 31, 2003 was US$4 million. On January 31, 2004, we paid the total outstanding amount under this agreement.
- As part of the financing obtained by our wholly owned subsidiary Energía Verde S.A., in November 2001, we pledged all our shares in that subsidiary in favor of Banco de Crédito e Inversiones and Scotiabank Sudamericano.
- As part of the financing obtained by our wholly owned subsidiaries TermoAndes and InterAndes, in September 1998, we pledged all our shares in these subsidiaries in favor of Banco Francés Uruguay S.A.
- As part of the debt restructuring of our wholly owned subsidiary Chivor, completed in August 2002, AES Gener S.A. is a guarantor of Energy Trade's obligations under the support agreement pursuant to which Energy Trade agreed to irrevocably and unconditionally provide funds to Chivor for payment of outstanding debt under the credit agreement, up to a maximum amount of US$50 million, if the outstanding amount of debt exceeds US$290 million on March 31, 2004 and US$225 million on March 31, 2005. The outstanding principal as of December 31, 2003 was $283.6 million.

None of our subsidiaries has guaranteed AES Gener S.A.'s debt. Other non-financing related contingencies are contained in note 25 to our audited consolidated financial statements included in this offering memorandum.

Financial Covenants. Under the terms of our credit agreements with ABN Amro and Bank of America, certain financial covenants apply to AES Gener S.A. The following table shows these obligations for these agreements and our actual performance at December 31, 2003:

Covenant	Credit Agreement	Ratio, Percentage or Amount at December 31, 2003
1. Minimum interest coverage ratio of 1.8 to 1	Bank of America	2.86 to 1
2. Minimum interest coverage ratio of 2.4 to 1	ABN Amro(1)	3.27 to 1
3. Maximum leverage coverage ratio of 1.65 to 1	Bank of America	0.93 to 1
4. Maximum leverage coverage ratio of 1.7 to 1	ABN Amro(1)	0.93 to 1
5. Maximum total debt to EBITDA ratio of 7.8 to 1	Bank of America	4.86 to 1
6. Maximum total debt to EBITDA ratio of 8.5 to 1	ABN Amro(1)	4.24 to 1
7. Maximum total debt to equity ratio of 1.75 to 1	Chivor	0.93 to 1

(1) On January 31, this loan was fully repaid.

Rating Trigger Clauses. Under the terms of some credit arrangements, certain rating trigger clauses are applicable to AES Gener and may affect our liquidity:

- Under the transportation contract between TermoAndes and TGN, TermoAndes must maintain an investment grade credit rating granted by Standard & Poor's, Moody's or any other international credit agency or provide a performance guarantee from one or more of its shareholders with an investment grade rating or a letter of credit. As of December 31, 2003, TermoAndes' local credit rating satisfied the investment grade requirement under the contract.
- Our subsidiary, Eléctrica Santiago, has gas transportation agreements in place with GasAndes Chile and GasAndes Argentina to transport natural gas from Argentina to its combined-cycle facility in Santiago. Similarly, AES Gener S.A. entered into contracts with GasAndes Chile and GasAndes Argentina for a future generation project. These contracts require that Eléctrica Santiago or AES Gener S.A., as the case may be, maintain an investment grade rating, international or national, with two rating agencies approved by the Chilean Central Bank, or provide a performance guarantee or letter of credit. The gas transportation agreements of AES Gener S.A. were assigned to Eléctrica Santiago. As of December 31, 2003, Eléctrica Santiago satisfied the local investment grade rating requirement as defined under the contracts.
- Our subsidiary, Eléctrica Santiago, has a gas transportation agreement in place with TGN. This contract requires that Eléctrica Santiago maintain an investment grade rating, international or national, as defined in the contract, or provide a performance guarantee or letter of credit. As of December 31, 2003, Eléctrica Santiago satisfied the investment grade rating requirement as defined under the contract.

As of December 31, 2003, the international credit rating level assigned to AES Gener S.A.'s unsecured long term debt was "B" by Standard & Poor's, "BB-" by Fitch, and "B2" by Moody's. As of December 31, 2003, AES Gener S.A. was assigned a local credit rating of "BBB-" by both Feller Rate and Fitch. On December 6, 2003, our shares and our local notes were approved by the *Comisión Clasificadora de Riesgo*, the Institutional Rating Commission, or CCR, thereby permitting Chilean pension funds to purchase our debt and equity securities.

Differences Between Chilean GAAP and U.S. GAAP

The principal differences between Chilean GAAP and U.S. GAAP as they relate to AES Gener's reported results in 2001, 2002 and 2003 involve the following issues:

- functional currency;
- the technical revaluation of property, plant and equipment and the related impact on accumulated depreciation and depreciation expense;
- investments in equity-method investees;
- deferred taxes;
- charges to income of subsidiary start-up deficits;
- accounting for staff severance indemnities, pensions and post-retirement benefits;
- the capitalization of interest costs for the construction of new fixed assets;
- accounting for certain intangible assets;
- recognition of impairment losses for long-lived assets;
- accounting for interest rate swaps and treasury rate lock agreements;
- accounting for forward exchange contracts;

- accounting for goodwill and negative goodwill and the applicable periods of amortization;
- accounting for foreign exchange contracts that are not effective as hedges;
- recognition of minimum dividend liability under U.S. GAAP; and
- asset retirement obligation.

See note 37 to our audited consolidated financial statements for a description and quantification of the principal differences between Chilean GAAP and U.S. GAAP.

Functional and Reporting Currency

Under Chilean GAAP, financial statements are adjusted for the effect of changes in the purchasing power of the Chilean currency during each period and presented in constant Chilean pesos (''reporting currency''), as mentioned in note 1 of our audited consolidated financial statements. Transactions are recorded in Chilean pesos by applying to the foreign currency amount the exchange rate between the reporting and the foreign currency at the date of the transaction. Exchange rate differences arising on the settlement of monetary items at rates different from those at which they were originally recorded are recognized in the income statement of the period.

In accordance with *Boletín Técnico* No. 64, the financial statements of foreign subsidiaries that operate in countries exposed to significant risks, and are not considered to be an extension of the parent company's operations must be remeasured into U.S. dollars. We have remeasured our foreign subsidiaries into U.S. dollars under this requirement as follows:

- Monetary assets and liabilities are translated at year-end rates of exchange between the U.S. dollar and the local currency.
- All non-monetary assets and liabilities and shareholders' equity are translated at historical rates of exchange between the U.S. dollar and the local currency.
- Income and expense accounts are translated at average rates of exchange between the U.S. dollar and the local currency.
- The effects of any exchange rate fluctuations are included in the results of operations for the period.

Under *Boletín Técnico* No. 64, the investment in a foreign subsidiary is price-level restated, the effects of which are reflected in income, while the effects of the foreign exchange gain or loss between the Chilean peso and the U.S. dollar are reflected in equity in the account ''Cumulative Translation Adjustment'', as the foreign investment itself is measured in U.S. dollars.

Under U.S. GAAP, a definition of the functional currency is required, which may differ from the reporting currency. Upon our acquisition by The AES Corporation in 2000, management determined the U.S. dollar as our functional currency in accordance with SFAS No. 52.

However, subsequent to the issuance of our December 31, 2002 consolidated financial statements, our management determined that our reconciliation of net income and shareholders' equity from Chilean GAAP to U.S. GAAP were not prepared assuming that the U.S. dollar was the functional currency, but rather continued to reflect the Chilean peso as the functional currency. Therefore, the reconciliation of net income and shareholders' equity to U.S. GAAP as of and for the years ended December 31, 2001 and 2002 have been restated to give effect to the determination of the U.S. dollar as the functional currency.

Accordingly, we have remeasured into U.S. dollars the consolidated financial statements as of and for the years ended December 31, 2001, 2002 and 2003, and translated these financial statements into the reporting currency, the Chilean peso, by applying the procedures specified in SFAS No. 52.

Translation adjustments for periods prior to January 1, 2001 were not removed from equity, and the translated amounts for non-monetary assets at December 31, 2000 became the accounting basis for those assets, beginning January 1, 2001. In addition, price-level adjustments reflecting the effect of changes in the purchasing power of the Chilean peso recorded prior to January 1, 2001 in the amount of Ch$225,030 million were reversed.

The objective of the remeasurement process is to produce the same results that would have been reported if the accounting records had been kept in U.S. dollars. Accordingly, monetary assets and liabilities are remeasured at the balance sheet date (current) exchange rate. Non-monetary assets are recorded at their historical exchange rate at the time of purchase. Past transactions in currencies other than the U.S. dollar are remeasured at the exchange rates in effect at the time the transactions occurred. Revenues and expenses are remeasured on a monthly basis at the average rates of exchange in effect during the period, except for consumption of non-monetary assets, which are remeasured at the rates of exchange in effect when the respective assets were acquired. Transaction gains and losses on monetary assets and liabilities arising from the remeasurement are included in the determination of the net income (loss) in the period such gains and losses arise.

The amounts obtained from the remeasurement process referred to above are translated into Chilean pesos in accordance with the provisions of SFAS No. 52. Assets and liabilities are translated at the current selling exchange rate of Ch$654.79, Ch$718.61 and Ch$593.8 to US$1.00 as of December 31, 2001, 2002 and 2003, respectively. Revenues, expenses, gains and losses reported in the income statement are translated at the exchange rate existing at the time of each transaction or, if appropriate, at the monthly average exchange rate during the period. The translation effect of changes in the exchange rates is included as a cumulative translation adjustment in shareholders' equity.

For further information relating to functional and reporting currency, see note 37Ia. to our audited consolidated financial statements.

Treasury Lock Agreements

Subsequent to the issuance of our December 31, 2003 audited consolidated financial statements, our management determined that our reconciliation of net income and shareholders' equity from Chilean GAAP to U.S. GAAP did not include the mark-to-market adjustments for AES Gener S.A.'s treasury lock agreements nor the disclosure for their reduction in value from January 1, 2004 to March 12, 2004. Therefore, the reconciliation of net income and shareholders' equity to U.S. GAAP as of and for the year ended December 31, 2003 has been restated to include such adjustment.

U.S. GAAP Reconciliation

The U.S. GAAP reconciliation items had a positive effect on net income reported under U.S. GAAP in 2001, primarily due to accounting differences in adjustments for deferred taxes corresponding to the subsidiaries that were sold in 2001 and the accounting for penalties received in 2000 from contractors who had performed work for a subsidiary we sold in 2001 and transactions gains resulting from change in functional currency. In 2002, reconciliation items had a positive effect on net income reported under U.S. GAAP, principally due to the remeasurement of the functional currency and the reversal of price level restatement, which was offset by the negative effect of the reversal and classification of the interest income from the mercantile account with Cachagua as shareholders' equity. The U.S. GAAP reconciliation items had a negative effect in 2003 on net income reported under U.S. GAAP primarily due to the reversal of the interest income from the mercantile account with Cachagua and the effect of the functional currency remeasurement.

In 2002 and 2003, the U.S. GAAP reconciliation items had a negative effect on shareholders' equity reported in accordance with U.S. GAAP, mainly due to the reclassification of the mercantile account and interest income from Cachagua, the reversal of price level restatement, the reversal of a technical revaluation of property, plant and equipment made in prior years, the accounting differences regarding deferred taxes and the recognition of impairment losses in long-lived assets, which were partially offset by the cumulative translation adjustment and transaction gains that resulted from the change in functional currency.

The following table shows the difference between net income and shareholders' equity determined on a Chilean GAAP and U.S. GAAP basis for 2001, 2002 and 2003 in million of Chilean pesos:

	2001		2002		2003	
	Chilean GAAP(1)	U.S. GAAP	Chilean GAAP(1)	U.S. GAAP	Chilean GAAP	U.S. GAAP
Net income	Ch$(2,091)	Ch$50,789	Ch$35,575	Ch$38,309	Ch$53,678	Ch$19,530
Shareholders' equity			Ch$784,778	Ch$394,793	Ch$808,604	Ch$358,949

(1) For the sole purpose of this offering memorandum and our annual report on Form 20-F/A, we have modified our Chilean financial statements previously filed with the SVS in order to recognize the error as a deductible net loss for the years ended December 31, 2001 and 2002.

Subsequent to the filing of our December 31, 2002 financial statements, we determined that an error was made in accounting for the accrual related to the tax deductible net loss for the years ended December 31, 2001 and 2002, which resulted in a higher tax loss carryforward for those years. The increase in the tax loss carryforward resulted in the recognition of a higher deferred tax asset of Ch$3,138 million and Ch$2,834 million for the years ended December 31, 2001 and 2002, respectively. The statutory report filed with the SVS for the year ended December 31, 2003 reflected this effect as an increase in retained earnings as of December 31, 2003.

Effects of Change in Accounting Policy and Presentation

In 2003 and 2001, no accounting changes were made.

In 2002, the following accounting change was made:

Staff Severance Indemnities. As of January 1, 2002, we changed the interest rate used for determining the present value of the provisions for staff severance indemnities and for pensions and post-retirement benefits, reducing it from 10% to 8%. The effect of this change at the beginning of the year amounted to Ch$673,832 thousand, an amount that was charged to deferred assets in accordance with *Boletín Técnico* No. 8 of the Chilean Association of Accountants and will be amortized over 10 years.

Critical Accounting Policies and Estimates

Preparation of our financial statements requires us to make estimates and judgments that affect the amounts of our assets, liabilities, revenues and expenses. We continually evaluate these estimates, including those related to allowances for doubtful accounts, inventories, allowances for recoverable taxes, restructuring of our operations, useful lives of property, plant and equipment, goodwill, contingent liabilities, income tax valuation allowances, pension plans and the fair value of financial instruments. We base our estimates on historical experience and other assumptions, which we believe to be reasonable under the circumstances. These estimates form the basis for making judgments about the carrying value of our assets and liabilities. Actual results may differ from these estimates under different assumptions and conditions. We have identified below the accounting policies that are critical to our financial statements.

Functional Currency: Upon our acquisition by The AES Corporation in 2000, we determined the U.S. dollar as our functional currency in accordance with SFAS No. 52. As a consequence, our financial results are not affected by foreign exchange fluctuations, except for those asset and liability line items expressed in Chilean pesos and other non-US-denominated currencies.

Revenue Recognition: Revenues from the sale of electricity are recorded based on output delivery and capacity provided at rates as specified under regulated market terms, under contract terms or at prevailing spot market prices.

Since revenues in the spot market are derived from sales to other generators in accordance with the weekly price of electricity, we must prepare our invoices on the basis of estimated values, which we then reconcile in the following month's invoice. Revenues obtained from industrial clients and distribution companies do not require any reconciliation, as they are invoiced at the price determined in their respective contracts.

A substantial portion of our revenues is based on long term contractual agreements. Thus, we base our contractual terms on consumption demand projections and anticipated spot market prices. Should the actual market perform differently than the circumstance under which we performed our pricing models, our profit margin could be significantly impacted.

Property, Plant and Equipment: Property, plant and equipment is capitalized. Work in progress includes labor, materials, financing debt, interest and an allocation of some general and overhead costs. Maintenance and repairs, including replacement of minor items of property, are charged to maintenance expense as incurred. When depreciable property units are retired, the original cost and dismantling charges, less salvage value, are charged to accumulated depreciation. The direct and indirect financing costs associated with projects under construction are capitalized as a component of the asset value; however, under Chilean GAAP the capitalization of interest expenses associated with projects under construction is optional when incurred on debt that is not directly related to such projects. Under U.S. GAAP the capitalization of interest on qualifying assets under construction is required for the interest that could have been avoided if the expenditure had not been made. These costs are capitalized based on a real average financing cost rate.

Under Chilean GAAP, the interest expenses associated with plants under construction are required to be capitalized until plants have commenced operation, which occurs upon receipt of operation certification approval from the regulatory agency and/or upon utilization of a minimum of 50% of total plant capacity. In the cases where the certification approval from the regulatory agency is received and the plant use is less than 50% of total plant capacity, we could either continue to capitalize our plant costs or recognize them as operational costs. For revenues received in such situations, we could either recognize them as operational revenues or as a credit to fixed asset accounts. In 2001, use of our TermoAndes plant was under 50% of total capacity and the certification approval from the regulatory agency was received. We decided to adopt a policy of recognizing operational cost and revenues. Our operating results would have been different if the other policies had been adopted.

We and our subsidiaries evaluated the impairment or disposal of long-lived assets amount based on the provisions of SFAS No. 144. This standard requires that long-lived assets be tested for impairment or disposal. We adopted SFAS No. 144 on January 1, 2001 and the impact of this adoption was included on our results of operations, financial position and cash flows for that year.

Post-Retirement Benefits: Our employees participate in unfunded benefit pension plans. Our pension and post-retirement benefit costs are developed from actuarial valuations. Inherent in these valuations are key assumptions provided by us to our actuaries, such as the discount rate. Material changes in our pension and postretirement benefit costs may occur in the future due to changes in these assumptions, changes in the number of plan participants and changes in the level of benefits provided.

As of December 31, 2003, we used a discount rate of 8%. This decline in the discount rate generated a higher charge to income amounting to ThUS$521.

Severance Indemnities: Severance indemnities with our employees are calculated based on the liability projected cost present value, using a discount rate of 8%. This decline in the discount rate generated a higher charge to income amounting to ThUS$800.

Accounting for Income Taxes: We follow the guidelines of *Boletín Técnico* No. 60, ''Accounting for Income Taxes'', which requires that we use the balance sheet method of accounting for deferred income taxes and provide deferred income taxes for all significant temporary differences in income tax and for tax loss carryforwards.

As part of the process of preparing our financial statements, we are required to calculate our income tax expense based on rates in effect at the time of the calculation (which are subject to change and affect the calculation as any new tax rates are enacted) as well as estimates of when the above-mentioned temporary differences will reverse. We recorded a provision for income tax according to Chilean tax law. These taxes comprise a first category tax rate set at 16% for 2002 and 16.5% for 2003 (15% for prior years); our subsidiaries recorded a provision for income tax according to stipulations in force in Chile and in the countries where they operate. We record valuation allowances to reduce our deferred tax assets to the amount that we are likely to realize. Our estimate of realization of such deferred tax assets results from consideration of, among other things, our future taxable income and our tax planning strategies, which may differ from actual results.

In addition, under Chilean GAAP, upon adoption of *Boletín Técnico* No. 60, a contra asset or liability account was created in which the effects of the cumulative effect of the temporary differences were recorded. This account is being amortized into income over the estimated period of reversal, with the exception of tax loss carryforwards, which are being amortized as utilized. The actual period of reversal could differ.

For U.S. GAAP the assessment of whether a valuation allowance should be recorded is based on whether it is ''more likely than not that the deferred tax asset will be fully realized''; however, under both Chilean and U.S. GAAP, the valuation allowance was determined to be the same.

New Accounting Standards

In December 2002, the U.S. Financial Accounting Standards Board, or FASB issued SFAS No. 148, ''Accounting for Stock-Based Compensation—Transition and Disclosures''. This statement amends SFAS No. 123, ''Accounting for Stock-Based Compensation'', to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS No. 148 is effective for fiscal years beginning after December 15, 2002, with early application encouraged. We determined that the adoption of SFAS No. 148 will not have any significant impact on our results of operations, our financial position and our cash flows.

In April 2003, the FASB issued SFAS No. 149, Amendment of SFAS No. 133 on ''Derivative Instruments and Hedging Activities''. SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. SFAS No. 149 is applied prospectively and is effective for contracts entered into or modified after June 30, 2003, except for SFAS No. 133 implementation issues that have been effective for fiscal quarters that began prior to June 15, 2003, and certain provisions relating to forward purchases or sales of issued securities or other securities that do not yet exist. We determined that the adoption of SFAS No. 149 will not have any significant impact on our results of operations, our financial position and our cash flows.

In June, 2003, the FASB issued SFAS No. 150, ''Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity''. SFAS No. 150 clarifies classification and measurement of certain financial instruments with characteristics of both liabilities and equity. It requires classification of financial instruments within a company's scope as liabilities. Such financial instruments may include mandatory redeemable shares, financial instruments which embody an obligation to repurchase shares or require an issuer to settle the obligation by transferring assets, or financial instruments that embody an unconditional obligation, or, in certain circumstances, an unconditional obligation. We believe that the adoption of this pronouncement does not have an impact on our statements of financial condition, our statements of operations or cash flows.

In November 2002, the FASB published FIN 45, ''Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others''. FIN 45 expands on the accounting guidance of SFAS No. 5, 57, and 107 and incorporates without change the provisions of FIN 34: ''Disclosure of Indirect Guarantees of Indebtedness of Others and Interpretation of SFAS No. 5'', which has been superseded. FIN 45 elaborates on the existing disclosure requirements for most guarantees, including loan guarantees such as standby letters of credit. FIN 45 also clarifies that, at the time a company issues a guarantee, we must recognize an initial liability for the fair value, or market value, of the obligations we assume under that guarantee and must disclose that information in our interim and annual financial statements. The provisions of FIN 45 are required to be applied on a prospective basis to guarantees issued or modified by us on January 1, 2003 and after. The expanded disclosure requirements of FIN 45 were effective for the year ended December 31, 2002. We have various guarantees issued or modified after January 1, 2003 which are accounted for or disclosed under the provisions of FIN 45.

In December 2003, the FASB issued a revision to Interpretation No. 46, ''Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51'' (''FIN 46R'' or the ''Interpretation''). FIN 46R clarifies the application of ARB No. 51, ''Consolidated Financial Statements,'' to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. FIN 46R requires the consolidation of these entities, known as variable interest entities, or VIEs, by the primary beneficiary of the entity. The primary beneficiary is the entity, if any, that will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both.

Among other changes, the revisions of FIN 46R (a) clarified some requirements of the original FIN 46, which had been issued in January 2003, (b) eased some implementation problems, and (c) added new scope exceptions. FIN 46R deferred the effective date of the Interpretation for public companies, to the end of the first reporting period ending after March 15, 2004, except that all public companies must at a minimum apply the provisions of the Interpretation to entities that were previously considered ''special-purpose entities'' under the FASB literature prior to the issuance of FIN 46R by the end of the first reporting period ending after December 15, 2003. We are evaluating whether the adoption of FIN 46 will have a material impact on our financial position, cash flows and results of operations. We did not enter into any transactions under the scope of FIN 46R after February 1, 2003.

EITF Issue No. 01-08, ''Determining Whether an Arrangement Contains a Lease''. In May 2003, the EITF arrived at a consensus on EITF Issue No. 01-08 to clarify the requirements of identifying whether an arrangement should be accounted for as a lease at its inception. The guidance in the consensus is designed to mandate reporting revenue as rental or leasing income that otherwise would be reported as part of product sales or service revenue. EITF Issue No. 01-08 requires both parties to an arrangement to determine whether a service contract or similar arrangement is, or includes, a lease within the scope of SFAS No. 13, ''Accounting for Leases''. Upon application of EITF Issue No. 01-08, the accounting requirements under the consensus could affect the timing of revenue and expense recognition, and revenues reported as supply, transportation and storage services may be required to be reported as rental or lease income. Should capital-lease treatment be necessary, purchasers of transportation and storage services in the arrangements would be required to recognize assets on their balance sheets. The consensus is being applied prospectively to arrangements agreed to, modified, or acquired in business combinations on or after January 1, 2004. Previous arrangements that would be leases or would contain a lease according to the consensus will continue to be accounted for as transportation and storage purchases or sales arrangements. We are currently evaluating the impact of the adoption of EITF Issue No. 01-08 on our consolidated results of operations, cash flows or financial position.

EITF Issue No. 03-11, ''Reporting Realized Gains and Losses on Derivative Instruments That Are Subject to FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, and Not Held for Trading Purposes''. In July 2003, the EITF arrived at a consensus on EITF Issue No. 03-11 that determining whether realized gains and losses on derivative contracts not held for trading purposes should be reported on a net or gross basis is a matter of judgment that depends on the relevant facts and circumstances and the economic substance of the transaction. In analyzing the facts and circumstances, EITF Issue No. 99-19, and Opinion No. 29, ''Accounting for Nonmonetary Transactions'', should be considered. EITF Issue No. 03-11 is effective for transactions or arrangements entered into after September 30, 2003. We are currently evaluating the impact of the adoption of EITF Issue No. 03-11 on our consolidated results of operations, cash flows or financial position.

In December 2003, the SEC issued Staff Accounting Bulletin (SAB) No. 104, Revenue Recognition. SAB 104 updates portions of the interpretive guidance included in Topic 13 of the codification of the Staff Accounting Bulletins in order to make this interpretive guidance consistent with current authoritative accounting and auditing guidance and SEC rules and regulations. We believe that we are following the guidance of SAB 104.

Research and Development, Patents and Licenses

During 2001, 2002 and 2003, we have not had any material research or development expenses.

Trend Information

As described under "Item 4. Information on the Company—Business Overview" of our annual report on Form 20-F/A and "—Operating Results" in this offering memorandum, the most significant variables affecting our results are the prices of energy and capacity, weather conditions and foreign exchange variations in the countries in which we operate. However, our operating revenues are generally stable, except in cases of extreme weather conditions.

The introduction of natural gas as a source of fuel for electric generation in Chile in the SIC in 1997, and in the SING in 1999, with the construction of the pipelines which transport natural gas from Argentina to Chile, led to a significant technological change in the industry and reduced energy prices and the country's reliance on hydrological conditions. It is expected that the trend toward the construction of natural gas-fired facilities will continue in the future and, accordingly, as discussed in "Item 4. Information on the Company—Business Overview—Electricity Generation in Chile—Other Generation Projects Under Development in Chile" of our annual report on Form 20-F/A, we are currently analyzing the conversion of one of our existing fuel generation plants into a gas-fired generation unit.

Off-Balance Sheet Arrangements

The gas supply and transportation agreements detailed below cover all fuel needs for our combined-cycle plants located in Chile and Argentina. Costs incurred for these contracts are reflected as operating costs in the period in which the gas is consumed or the transportation services are received. These agreements are in the form of take-or-pay contracts that provide for payments of a certain minimum amount of gas, regardless of whether such minimum is consumed. TermoAndes' use of gas is contingent upon its level of electricity production. Since TermoAndes has been producing less electricity than originally projected, its volume of accumulated gas has increased. In addition, TermoAndes has been making payments under its gas supply and transportation contracts in Argentine pesos at a 1:1 exchange rate against the U.S. dollar. However, TermosAndes' gas and transportation service providers are requesting that the payments be redollarized, which would negatively impact our cash flow and financial condition. See "Risk Factors—Risks Related to Our Argentinean Operations". The minimum payments required to be made, whether or not we are able to take delivery of the gas, are as follow:

Year	Millions of US$	Millions of Ch$
2004	60	35,420
2005	78	46,560
2006	81	48,011
2007	84	49,871
2008	86	51,055
Thereafter	542	321,663
Total	**931**	**552,580**

In general, transportation agreements contain rating trigger clauses that require us to provide a letter of credit or a bank guarantee equal to the obligations for the usage of one year of the pipeline if we fail to be rated "investment grade", as defined in each contract.

There are no known events, demands, commitments, trends or uncertainties that will result in, or are reasonably likely to result in, the termination or material reduction in availability to us of our off-balance sheet arrangements, with the exception of TermoAndes, which has received letters from its gas suppliers during January and February 2004. The gas suppliers presented a demand requesting the redollarization of the gas price, as well as their intention to reduce the volume of gas supplied. We began discussions with different gas suppliers in order to secure sufficient gas to fullfil our generation requirements; however, there is no guarantee that these negotiations will be successful.

For a detailed discussion of the risks related to our operations derived from gas interruption, gas limitation, the ability to consume take-or-pay obligations and disputes with gas and gas transportation suppliers, see ''Risk Factors''.

Gas supply agreement between AES Gener S.A. and Consorcio Sierra Chata

In 1997, AES Gener S.A. entered into a 16-year gas supply agreement with Sierra Chata Consortium, formed by Mobil Exp. & Dev. Inc.—Argentine Branch, Total Austral S.A., Atalaya Energy S.A., Canadian Hunter Argentina S.A. and Petrolera Santa Fe. S.A., to produce natural gas in the Neuquén region of southern Argentina. This agreement was signed to provide for the natural gas requirements of Eléctrica Santiago's Nueva Renca combined-cycle gas-fired plant. The base contracted capacity is 1.74 million cubic meters per day delivered in Neuquén. The contract includes an obligation on the part of the supplier to provide up to 100% of the gas contracted and an average annual take-or-pay obligation of 75%, with a recovery period of three years for the purchase of the remaining take-or-pay gas not consumed, which can be sold to other consumers in Chile or Argentina directly or through Sierra Chata. At the time we entered into this contract, the contract price reflected market conditions in the Neuquén basin. Since domestic transactions were pesified and the market reference was not clear, a price reduction was agreed to and the price was fixed through April 2005, when the current market conditions will then be reinstated to the contract.

This agreement covers the needs of the Nueva Renca plant operation. As Nueva Renca is a state of the art combined-cycle plant utilizing General Electric technology and is located inside the Metropolitan Region of Santiago serving the area of the electrical system with the greatest demand, it has a high dispatch factor and usually consumes all of the gas under its take-or-pay contract. As of December 31, 2003, the amount of take-or-pay gas that was not consumed under the agreement was 9,569 cubic meters.

Gas supply agreement between AES Gener and Eléctrica Santiago

This agreement covers Eléctrica Santiago's natural gas requirements by using the gas purchased from the Sierra Chata Consortium. The base contracted capacity is 1.74 million cubic meters per day. This agreement allows AES Gener S.A. to transfer gas to Eléctrica Santiago at the same price and upon the other conditions agreed to by AES Gener S.A. and Sierra Chata, with the exception of a 1.5% fee charged by AES Gener S.A. for the gas actually provided.

Gas transportation agreement between Eléctrica Santiago and Transportadora del Gas del Norte, or TGN

In 1997, Eléctrica Santiago entered into a 25-year firm take-or-pay gas transportation agreement with TGN for transportation from Neuquén to the Mendoza province in central Argentina. The contracted volume is 1.74 million cubic meters per day. To optimize the management of available gas and transportation, Eléctrica Santiago has entered into an agreement with Metrogas, the local gas distributor, as is detailed below.

Gas transportation agreement between Eléctrica Santiago and GasAndes Chile and GasAndes Argentina

In 1997, Eléctrica Santiago entered into two 25-year firm take-or-pay gas transportation agreements with GasAndes Chile and GasAndes Argentina for the Chilean and Argentine portions of the pipeline, respectively. The contracted volume under each contract is 1.74 million cubic meters per day, transported from Mendoza to the Santiago Metropolitan Region. To optimize the management of available gas and transportation, Eléctrica Santiago has entered into an agreement with Metrogas, the local gas distributor as is detailed below.

Gas transportation agreement between Eléctrica Santiago and Metrogas

Eléctrica Santiago signed a take-or-pay gas transportation agreement with Metrogas, a local gas distributor. The volume under this agreement is 1.74 million cubic meters per day and covers all the needs of Eléctrica Santiago for the Nueva Renca plant. The agreement provides for transportation in the Metropolitan Region of Santiago from City Gate 2, which is the property of GasAndes, to the Nueva Renca plant, which is the property of Eléctrica Santiago.

Second gas transportation agreement among Eléctrica Santiago and GasAndes Chile and GasAndes Argentina

In 1995, AES Gener S.A. entered into a 25-year firm take-or-pay gas transportation agreement with GasAndes Chile and GasAndes Argentina. Both agreements commenced in August 2003. During 2003, AES Gener, GasAndes Chile and GasAndes Argentina amended the agreement. AES Gener S.A. was authorized to reduce the volume of gas transported and to assign the contract to its subsidiary, Eléctrica Santiago. On December 9, 2003, AES Gener S.A. exercised the assignment right. It is anticipated that the assignment will be finalized during the first quarter of 2004, when the permits are obtained. The contracted volume is 50,000 cubic meters per day initially, increasing up to 770 thousand cubic meters per day in 2007, to be used in the Renca gas plant after its conversion. This contracted volume will remain until the expiration of the contract in 2028.

Gas supply agreement and gas transportation agreement between Eléctrica Santiago and Metrogas

In order to optimize gas supply and transportation for the seasonal requirements of electricity generation, a take-or-pay gas sale and transportation agreement was executed by Eléctrica Santiago and Metrogas. This agreement provides for a volume of 160,000 cubic meters per day, which is approximately 9% of the gas and transportation contracted by Eléctrica Santiago. The agreement provides Eléctrica Santiago with an option to re-buy the volume sold.

Take-or-pay natural gas supply contract between TermoAndes and YPF S.A., Tecpetrol S.A., Ledesma S.A.I.I., Compañía General de Combustibles S.A. and Mobil Argentina S.A.

In January 1999, TermoAndes entered into a 12-year gas supply agreement with YPF, Tecpetrol, Ledesma, CGC and Mobil. The contracted base capacity is an average of 2.375 million cubic meters per day, and TermoAndes has the option to increase or decrease the contracted capacity by 10%. Given that the plant's current level of gas consumption is less than the contracted level, we have exercised this option, reducing contracted capacity by 10%. The contract establishes an 80% take-or-pay obligation that is applied to 95% of the monthly contracted capacity. The take-or-pay contract may be suspended up to 35 days per year during maintenance periods. TermoAndes is able to recover the gas that is paid for but not consumed during the contract term, and for up to two years after the termination date. During 2002 and 2003, payments made under this agreement amounted to US$6.0 million and US$7.0 million, respectively. As of December 31, 2003, the accumulated take-or-pay provisions were approximately US$12.6 million.

Gas transportation contract between TermoAndes and Transportadora del Gas del Norte

In January 1998, TermoAndes entered into a 17-year gas transportation contract with TGN that includes a five-year extension. The daily contracted volume is 2,800 million cubic meters as of January 1999. The base price is the "Enargas tariff", plus an additional US$0.033383 per cubic meter for firm capacity reserved. Payments under this contract amounted to US$2.0 million in 2002 and 2003.

Power purchase agreement between TermoAndes and AES Gener S.A.

In January 1997, we entered into a power purchase agreement with TermoAndes, which was modified on June 26, 1998, pursuant to which we purchase 100% of TermoAndes' electrical capacity and energy. The power purchase agreement provides for a minimum monthly payment in amounts sufficient to cover, among other things, the payment of interest and amortization of the US$257 million notes issued by TermoAndes and InterAndes and their fixed and variable costs. The payment of the notes is guaranteed by all of TermoAndes' and InterAndes' assets. Furthermore, TermoAndes has collaterally assigned its interest under the power purchase agreement to the bank arranging the issuance of the notes, Deutsche Bank A.G. New York. AES Gener S.A. has consented to such assignment and has assumed certain other obligations related to the power purchase agreement in favor of the bank and the noteholders. The amounts paid by AES Gener under the power purchase agreement since entering into the agreement amounted to US$16.4 million for the period covering June 1999 to December 1999, US$69.7 million for 2000, US$70.3 million for 2001, US$59.6 million for 2002 and US$65.2 million for 2003.

Third-Party Guarantees

As mentioned in note 25 to our audited consolidated financial statements, as of December 31, 2003, AES Gener S.A. is a guarantor of the timely payment of 15% of the capital and interest related to the loan granted to Gasoducto GasAndes S.A. and Gasoducto GasAndes Argentina S.A., by the bank Bilbao Vizcaya Argentaria (España) S.A. The amount guaranteed by us under the Gasoducto GasAndes Argentina S.A. portion of the loan totaled Ch$2,850 million (US$4.8 million). The guarantee matures in March 2006, together with the principal amount of the loan, US$32.0 million of which was outstanding on December 31, 2003. In addition, we gave a negative pledge over our shares in Gasoducto GasAndes S.A. (Chile) in favor of the lenders, for the same term of the credit agreement that amounts to US$136 million ending on 2011.

Tabular Disclosure of Contractual Obligations

	Payments due by period				
	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
	(in millions of Ch$)				
Contractual Obligations (1)					
Long Term Debt Obligations (2)	738,897	46,235	628,937	45,975	17,750
Purchase Obligations (3)	552,580	35,420	94,571	100,926	321,663
Other Long Term Liabilities (4)	46,605	10,932	28,715	1,418	5,540
Total	**1,338,082**	**92,587**	**752,223**	**148,319**	**344,953**

(1) We do not have any material operating or capital lease obligations.
(2) Includes Chivor's syndicated loan, AES Gener S.A.'s convertible notes, AES Gener S.A.'s Yankee notes, Eléctrica Santiago local bonds, TermoAndes' and InterAndes' notes and Energía Verde's bank credit facility.
(3) Includes all gas supply and transportation agreements of Eléctrica Santiago and TermoAndes.
(4) Includes Norgener's credit supplier, employee severance indemnities, conversion premium of convertible bonds and others.

Recent Developments

Changes in Regulation of Electricity Generation in Chile

On March 13, 2004 an amendment to the Chilean Electricity Law, known as the *Ley Corta*, or the Short Law, was enacted and became effective. The Short Law reduced the minimum demand requirement for a customer to qualify as an unregulated customer and reduced the range outside of which the node price must fall in order to be subject to readjustment. The Short Law reduced the minimum demand requirement from the previous level of 2.0 MW to 0.5 MW. Such modification provides generation companies with a larger unregulated customer base and allows them to sell electricity to those customers directly, rather than to regulated distributors that resell the energy to those customers. The previous law required that the difference between regulated node prices and the actual prices charged to unregulated customers, on average, not exceed 10%. If the prices determined by the Chilean regulatory agency did not meet this requirement, the node prices were adjusted upward or downward to fall within a range of 10%. The Short Law reduced the range to 5%, effectively moving the regulated price closer to unregulated market prices. The Short Law also amended the procedures used to determine transmission tolls, effectively replacing Supreme Decree No. 327.

COMPANY OVERVIEW

General

We are the largest thermal generator and the second largest electricity generation company in Chile based on our operating revenue and generating capacity. As of December 31, 2003, we and our 50% owned equity-method investee, Guacolda, accounted for approximately 22.4% of the total generating capacity in the SIC and through our subsidiaries Norgener and TermoAndes, we accounted for approximately 25.3% of total generating capacity in the SING. We are also engaged, directly or through subsidiaries and equity-method investees, in: (1) electricity generation in Colombia and the Dominican Republic; (2) coal mining in Colombia; and (3) natural gas transportation in Chile and Argentina.

We have hydroelectric, combined-cycle, coal, peaking diesel and biomass facilities, and accordingly our plants in the SIC are well distributed across the dispatch curve. This distribution allows us to operate our facilities competitively in a variety of hydrological and pricing conditions and allows us to manage effectively our contractual obligations.

As of December 31, 2003, our consolidated total assets were Ch$1,657,046 million (approximately US$2,791 million). In 2003, we reported consolidated operating income of Ch$109,953 million (approximately US$185.2 million) and consolidated net income of Ch$53,678 million (approximately US$90.4 million).

Our Acquisition by The AES Corporation

On November 3, 2000, The AES Corporation, through its subsidiary Inversiones Cachagua Limitada, or Cachagua, announced a tender offer for cash for 61.57% of our outstanding shares in Chile, as well as an exchange tender offer of all of our American Depositary Shares, or ADSs, for The AES Corporation's shares. The purchase price for the offer was US$16.50 per ADS, or its equivalent in Chilean pesos per common share.

On November 28, 2000, The AES Corporation entered into an agreement with Total Fina Elf S.A., or Total, pursuant to which The AES Corporation agreed to cause us to sell to Total all of our Argentine assets and certain other interests for a total of US$657.5 million, if The AES Corporation succeeded in its tender offer.

On December 28, 2000, The AES Corporation acquired 61.11% of our total capital for the Chilean peso equivalent of US$841.2 million and effectively assumed control of us. On January 9, 2001, The AES Corporation acquired an additional 34.56% of us for a total purchase price of US$475.6 million in the form of The AES Corporation's common stock. On February 28, 2001, The AES Corporation acquired 2.87% of us for a total purchase price of US$38 million by purchasing our shares on the Santiago Stock Exchange. In December 2001, The AES Corporation acquired an additional 0.11% of our shares for a purchase price of US$1.2 million. At that time, the total aggregate value for the acquisition of 98.65% of AES Gener was US$1,356 million. The AES Corporation is currently the owner of 98.65% of AES Gener through its wholly owned subsidiary, Cachagua.

On March 2, 2001, we provided Total with an option to purchase all of our Argentinean Operations, which, as of March 2, 2001, included Hidroneuquén S.A., or Hidroneuquén, InterAndes, TermoAndes, Central Puerto S.A., or Central Puerto, and certain of our minor projects in Argentina. Under the terms of the agreement, Total or any of its subsidiaries could purchase any combination of the companies. On July 27, 2001, Total exercised its option to buy our 63.94% interest in Central Puerto for approximately US$255 million in cash. On September 21, 2001, Total exercised its option to buy our 70.02% interest in Hidroneuquén for approximately US$72.45 million in cash. On November 1, 2001, however, Total declined to exercise its option to buy our ownership interest in TermoAndes and InterAndes.

Capital Investments

We continually review opportunities for improving our production methods and developing new plants and markets. We intend to continue to make capital expenditures to meet expected increased demand for electricity in Chile, our principal market. Over the past three years, our capital expenditures amounted to US$24.4 million in 2001, US$7.3 million in 2002 and US$5.4 million in 2003.

In 2001, our capital expenditures related to transmission line investments and a gas turbine project by our subsidiary, Energía Verde. In 2002, our principal capital expenditures were related to the completion of the gas turbine project by Energía Verde, transmission line investments and business development projects, and in 2003, our capital expenditures were related to the minor maintenance of certain of our generation units, including Chivor.

Our budget projections include capital expenditures of US$15.4 million in 2004 and US$13.2 million in 2005, exclusive of expansion projects. The substantial increase in 2004 and 2005 is due primarily to planned capital expenditures by TermoAndes associated with the first major gas turbine (TG11) maintenance scheduled at 30,000 Equivalent Operating Hours.

We believe that energy demand in Chile will continue to grow at a rate exceeding the growth rate of Chile's gross domestic product. Our expansion strategy in the SIC is based on this expected demand growth, as well as an expected increase in the proportion of energy generated by thermoelectric sources to reduce Chile's dependence on hydrological conditions and the risk of an electricity shortage during dry years. We plan to take advantage of the expertise we have acquired in Chile as the largest thermoelectric energy producer by developing combined-cycle projects.

Consistent with this strategy, in July 2002, we completed our most recent project in Chile, the installation of a 25 MW gas turbine generator by our subsidiary, Energía Verde. This turbine was connected to the SIC and is used to provide energy and capacity to meet existing contractual requirements.

We are currently pursuing several development projects in the SIC. In addition, we intend to construct a transmission line connecting the southern portion of the SIC with the Argentine interconnected system, the *Sistema Argentino de Interconección*, or SADI, which we estimate will have an interchange capacity of approximately 250 MW, giving us the option to sell electricity in both Chile and Argentina and to take advantage of favorable local demand conditions in Chile. We expect this transmission line to begin operations in 2006, as long as environmental permits are obtained and demand in the SIC continues to grow as expected. We also intend to convert our existing Renca power plant in Santiago, which city accounts for most of the electricity consumption in the SIC, from a steam turbine that burns fuel oil or diesel, into a cleaner combined-cycle plant that burns natural gas. This conversion is expected to increase Renca's nominal capacity from 100 MW to approximately 240 MW. We expect that the conversion of our Renca plant, for which we already have the environmental approval, will begin in the second half of 2005 and expect construction to be completed in 18 months. We estimate that our total investment in both projects will be approximately US$150 million over the next three years.

In the future, we plan to construct additional combined-cycle plants to meet growing demand in the SIC. We have already requested environmental approval for the construction of two 370 MW combined-cycle power plants in the Sixth Region of Chile, south of Santiago. We are also considering the Laguna Verde 394 MW combined-cycle project in the Fifth Region of Chile, near Santiago, and as of January 2004, the *Estudio de Impacto Ambiental*, or Environmental Impact Study, was submitted to the *Comisión Regional del Medioambiente*, or Fifth Region Environmental Commission. We expect to complete the approval process by the end of 2004.

Our maintenance capital expenditures that are currently in progress will be financed with our operating cash flow, while external financing as well as operating cash flow will be utilized for future capacity expansions, including those described above, and are subject to our ability to implement a recapitalization plan, as described below.

Business Overview

Generation

Chile. As of December 31, 2003, we and our equity-method investee, Guacolda, had 1,803.4 MW of nominal capacity in Chile as of December 31, 2003, which consisted of:

- 1,533 MW of primarily thermoelectric capacity, comprised of 974 MW of coal-fired capacity, 379 MW of combined-cycle capacity, 36 MW of forestry waste cogeneration capacity (18.8 MW of which produces steam and not electricity) and 144 MW of gas/oil turbine-fired capacity; and
- 271 MW of run-of-the-river hydroelectric capacity.

Demand for electrical energy in Chile's two major power grids, based on gross generation, grew in 2003 by 5.4% in the SIC and 9.8% in the SING. Sales of electrical energy grew in 2003 by 5.8% in the SIC and 10.5% in the SING. In comparison, Chile's gross domestic product increased by an estimated 3.2% in real terms in 2003. Our management believes that energy demand in Chile will continue to grow for the foreseeable future at an annual rate that exceeds the annual rate of growth in Chile's gross domestic product, which is also in accordance with the Chilean National Energy Commission forecast.

Our generation capacity in the SIC is comprised of hydroelectric, combined-cycle, coal, peaking diesel and biomass facilities, and, accordingly, our plants are well distributed across the dispatch curve. This distribution allows us to operate our facilities competitively in a variety of hydrological and pricing conditions, and to effectively manage our contractual obligations with limited exposure to the spot market.

Additionally, we have 642.8 MW of nominal capacity at its TermoAndes facility, a combined-cycle natural gas-fired plant located in the province of Salta, Argentina, which is connected by a 345 kV transmission line to the SING. This plant began commercial operations on April 13, 2000.

Colombia. We began operations in Colombia in December 1996 when we purchased the Chivor hydroelectric power plant from the Colombian government as part of its privatization process. The Chivor plant consists of eight units with a total nominal capacity of 1,000 MW. Chivor is one of the largest dam-based hydroelectric plants in Colombia, representing approximately 7.5% of the country's total generating capacity in 2003. The Chivor plant, which is located on the Batá River, 160 km northeast of Bogotá, has been operating continuously since 1977.

Argentina. Our electricity investments in Argentina consist of the TermoAndes generation plant in the province of Salta, which is a combined-cycle, natural gas-fired plant with 642.8 MW of nominal capacity, and the 345 kV InterAndes transmission line, which delivers electricity produced by TermoAndes to the SING. Although physically located in Argentina, TermoAndes sells 100% of its energy and capacity to the SING in Chile. The Argentine portion of the transmission line is currently owned by InterAndes. The Chilean portion of the line is directly owned by AES Gener S.A. We have been authorized by the Argentine energy regulatory agency to connect 203 MW of TermoAndes capacity to the Argentine grid and have invested US$15 million for that purpose; however, connection to the Argentine grid is not projected in the short term because of economic instability in Argentina.

The Dominican Republic. In the Dominican Republic, we own a 25.0% interest in and, subject to certain exceptions, have the right to manage Itabo. As of December 31, 2003, Itabo had approximately 586.5 MW of nominal capacity, but of the facility's 13 units, only seven, with approximately 432.5 MW of nominal capacity, were in commercial operation. The other units have been decommissioned based on their low levels of efficiency. During 2003, we held discussions with interested parties regarding the sale of Itabo; however, no agreements were reached. Since then no further discussions were held.

Other Businesses

We also have ownership interests in other non-electricity businesses, principally related to fuels. We are the largest distributor of coal in Chile, based on volume, and own one coal deposit in Colombia. We have entered into an agreement to sell the coal deposit and expect such sale to be completed in the second quarter of 2004. We also participate in the Chilean natural gas industry through our 13% ownership interest in each of GasAndes Argentina and GasAndes Chile, which transport natural gas through a pipeline from the Province of Mendoza in Argentina to the Santiago Metropolitan Region in Chile. We have held discussions with interested parties regarding the sale of GasAndes Argentina and GasAndes Chile, which are non-core businesses; however, no agreements have been reached.

DESCRIPTION OF THE NOTES

The notes (the "Notes") are to be issued under and governed by an Indenture, to be dated as of March 22, 2004 (the "Indenture"), between AES Gener, Law Debenture Trust Company of New York, as trustee (the "Trustee") and Deutsche Bank Trust Company Americas, as Note Registrar and Paying Agent. The following summaries of certain provisions of the Indenture do not purport to be complete and are subject to, and are qualified in their entirety by reference to, all the provisions of the Indenture. Copies of the Indenture are available for inspection during normal business hours at our principal office and at the office of the Trustee in The City of New York. The holders of the notes are entitled to the benefits of, are bound by, and are deemed to have notice of, all the provisions of the Indenture. Wherever particular sections or defined terms of the Indenture are referred to, such sections or defined terms are incorporated herein by reference. For purposes of this "Description of the Notes", the term "AES Gener" means AES Gener S.A. and its successors under the Indenture, in each case excluding its subsidiaries.

General

The Indenture does not limit the aggregate principal amount of the debt securities that may be issued under the Indenture. The Notes, and any additional Notes that may be issued under the Indenture, are herein collectively referred to as "Debt Securities".

The Notes will be issued in registered form in denominations of US$1,000 and any integral multiple thereof and will be issued as one or more Global Notes. Principal is to be payable, and the Notes will be transferable and exchangeable at our office or agency maintained for such purposes in New York City, New York, which initially will be the Corporate Trust Office of the Trustee; *provided* that the Global Note will be exchangeable only in the manner and to the extent set forth under "—Form and Registration". The Notes may be transferred, combined or divided without payment of any charge other than taxes or other governmental charges.

The Notes will mature on March 25, 2014, and the aggregate principal amount of Notes outstanding at such time will become due and payable. The Notes will bear interest at the rate per annum of 7.50% from March 22, 2004, the date of issuance, or from the most recent interest payment date to which interest has been paid or provided for. Interest on the Notes will be payable semi-annually on March 25 and September 25 of each year, commencing on September 25, 2004, to the person in whose name a note is registered at the close of business on the preceding March 10 or September 10 (each a "Record Date"), as the case may be. Interest on the Notes will be computed on the basis of a 360-day year of twelve 30-day months. Holders must surrender the Notes to the paying agent for the Notes to collect principal payments. Except as described in "—Form and Registration", AES Gener will pay principal and interest at the office or agency of the Company maintained for that purpose in New York City, New York.

The principal of and interest on the Notes will be payable in U.S. dollars or in such other coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts.

The Notes will be our direct and unsubordinated obligations ranking *pari passu* with all of our other senior and unsubordinated obligations (except those obligations preferred by operation of law). AES Gener conducts a substantial part of its operations through its subsidiaries. The Notes will effectively rank junior to any indebtedness of our subsidiaries. At December 31, 2003, AES Gener S.A. had no secured debt obligations and AES Gener's subsidiaries had aggregate indebtedness of Ch$347,503 million (US$585 million) outstanding to third parties, including approximately Ch$295,006 million (US$497 million) of secured indebtedness which will also effectively rank senior to the Notes. In connection with the restructuring of outstanding indebtedness of TermoAndes and InterAndes, AES Gener will create a lien on its 143 km transmission line in Chile. At the same date, AES Gener had no indebtedness which will rank junior to the Notes. The Indenture restricts the amount of additional indebtedness which may be incurred by AES Gener and its Restricted Subsidiaries and contains certain restrictions on AES Gener's ability and its subsidiaries' ability to incur additional secured indebtedness. AES Gener's ability to pay principal and interest on the Notes is, to a large extent, dependent upon the payment to it of distributions, dividends, interest or other amounts by its subsidiaries.

Registration Rights

AES Gener and the initial purchaser will enter into a registration rights agreement (the "Registration Rights Agreement") on or prior to the Issue Date pursuant to which AES Gener will agree that AES Gener will, at its expense, for the benefit of the Holders, use its reasonable best efforts to cause a registration statement on an appropriate registration form (the "Exchange Offer Registration Statement") with respect to a registered offer (the "Exchange Offer") to exchange the Notes for new notes (the "Exchange Notes"), which will be AES Gener's obligation and which will have terms substantially identical in all material respects to the Notes (except that the Exchange Notes will not contain terms with respect to transfer restrictions), to be declared effective under the Securities Act within 270 days after the Issue Date. Upon the Exchange Offer Registration Statement being declared effective, AES Gener will offer the Exchange Notes in exchange for surrender of the Notes. AES Gener will keep the Exchange Offer open for not less than 30 business days (or longer if required by applicable law) after the date notice of the Exchange Offer is mailed to the Holders. The commencement of the Exchange Offer and any results of the Exchange Offer will be announced in accordance with a notice as specified in "Notices". A prospectus will be distributed free of charge to anyone upon request with respect to the registration of the Exchange Notes. For each of the Notes surrendered to AES Gener pursuant to the Exchange Offer, the Holder who surrendered such note will receive an Exchange Note having a principal amount equal to that of the surrendered Note. Interest on each Exchange Note will accrue (A) from the later of (i) the last interest payment date on which interest was paid on the note surrendered in exchange therefor, or (ii) if the note is surrendered for exchange on a date in a period which includes the record date for an interest payment date to occur on or after the date of such exchange and as to which interest will be paid, the date of such interest payment date or (B) if no interest has been paid on such Note, from the Issue Date.

Under existing interpretations of the SEC contained in several no-action letters to third parties, the Exchange Notes will be freely transferable by holders thereof (other than our affiliates) after the Exchange Offer without further registration under the Securities Act; *provided*, *however*, that each Holder that wishes to exchange its Notes for Exchange Notes will be required to represent (i) that any Exchange Notes to be received by it will be acquired in the ordinary course of its business, (ii) that at the time of the commencement of the Exchange Offer it has no intention to engage in, nor any arrangement or understanding with any person to participate in, the distribution (within the meaning of Securities Act) of the Exchange Notes in violation of the Securities Act, (iii) that it is not an "affiliate" (as defined in Rule 405 promulgated under Securities Act) of AES Gener, (iv) if such Holder is not a broker-dealer, that it is not engaged in, and does not intend to engage in, the distribution of Exchange Notes and (v) if such Holder is a broker-dealer (a "Participating Broker-Dealer") and will receive Exchange Notes for its own account in exchange for Notes that were acquired as a result of market-making or other trading activities, that Participating Broker-Dealer will deliver a prospectus in connection with any resale of such Exchange Notes. AES Gener will agree to make available, during the period required by the Securities Act, a prospectus meeting the requirements of the Securities Act for use by Participating Broker-Dealers and other persons, if any, with similar prospectus delivery requirements for use in connection with any resale of Exchange Notes.

If (i) because of any change in law or in currently prevailing interpretations of the staff of the SEC, AES Gener is not permitted to effect an Exchange Offer, (ii) the Exchange Offer is not consummated within 330 days of the Issue Date, (iii) in certain circumstances, certain holders of unregistered Exchange Notes so request, or (iv) in the case of any Holder that participates in the Exchange Offer, such Holder does not receive Exchange Notes on the date of the exchange that may be sold without restriction under state and federal securities laws (other than due solely to the status of such Holder as an affiliate of AES Gener within the meaning of the Securities Act), then in each case, AES Gener will (x) promptly deliver to the Holders and the Indenture trustee (the ''Trustee'') written notice thereof and (y) at its sole expense, (a) as promptly as practicable, file a shelf registration statement covering resales of the Notes (the ''Shelf Registration Statement''), and (b) use its reasonable best efforts to keep effective the Shelf Registration Statement until the earlier of two years after the Issue Date or such time as all of the applicable Notes have been sold thereunder. AES Gener will, in the event that a Shelf Registration Statement is filed, provide to each Holder copies of the prospectus that is a part of the Shelf Registration Statement, notify each such Holder when the Shelf Registration Statement for the Notes has become effective and take certain other actions as are required to permit unrestricted resales of the Notes. A Holder that sells Notes pursuant to the Shelf Registration Statement will be required to be named as a selling security holder in the related prospectus and to deliver a prospectus to purchasers, will be subject to certain of the civil liability provisions under the Securities Act in connection with such sales and will be bound by the provisions of the Registration Rights Agreement that are applicable to such a Holder (including certain indemnification rights and obligations).

If AES Gener fails to meet the targets listed above, then additional interest (the ''Additional Interest'') shall become payable in respect of the applicable Notes as follows:

(i) if (A) neither the Exchange Offer Registration Statement nor a Shelf Registration Statement is declared effective by the SEC on or prior to 270 days after the Issue Date or (B) notwithstanding that AES Gener has consummated or will consummate an Exchange Offer, AES Gener is required to file a Shelf Registration Statement and such Shelf Registration Statement is not declared effective by the SEC on or prior to the 270th day following the date such Shelf Registration Statement was filed, then, commencing on the day after either such required effective date, Additional Interest shall accrue on the principal amount of the affected Notes at a rate of 0.50% per annum; or

(ii) if (A) AES Gener has not exchanged Exchange Notes for all Notes validly tendered in accordance with the terms of the Exchange Offer on or prior to the 60th day after the date on which the Exchange Offer Registration Statement was declared effective or (B) if applicable, the Shelf Registration Statement has been declared effective and such Shelf Registration Statement ceases to be effective at any time prior to the second anniversary of the Issue Date (other than after such time as all Notes have been disposed of thereunder), then Additional Interest shall accrue on the principal amount of the affected Notes at a rate of 0.50% per annum commencing on (x) the 60thday after such effective date, in the case of (A) above, or (y) the day such Shelf Registration Statement ceases to be effective, in the case of (B) above, such Additional Interest rate;

provided, however, that the Additional Interest rate on the Notes may not accrue under more than one of the foregoing clauses (i) and (ii) at any one time and at no time shall the aggregate amount of Additional Interest accruing exceed in the aggregate 0.50% per annum; *provided, further, however*, that (1) upon the effectiveness of the Exchange Offer Registration Statement or a Shelf Registration Statement (in the case of clause (i) above), (2) upon the exchange of Exchange Notes for all Notes tendered (in the case of clause (ii) (A) above), or upon the effectiveness of the Shelf Registration Statement which had ceased to remain effective (in the case of clause (ii) (B) above), or (4) upon the second anniversary of the Issue Date (in the case of a default related to a Shelf Registration Statement only under any of clauses (i) and (ii) above), Additional Interest on the Notes as a result of such clause (or the relevant subclause thereof), as the case may be, shall cease to accrue. Under certain circumstances, AES Gener may delay filing or delay or temporarily cease to maintain the effectiveness of the Shelf Registration Statement. Any such delay or suspension shall not result in a registration default requiring payment of Additional Interest.

All Additional Interest that accrues shall be payable in cash to Holders on each scheduled interest payment date.

In the case of any Additional Interest on the Notes, notice of the increase will be published in a leading daily newspaper of general circulation in Luxembourg, which is expected to be the *Luxemburger Wort.*

AES Gener intends to list the exchange notes on the Luxembourg Stock Exchange, subject to the following provision. The European Union Transparency Obligations Directive may be implemented in Luxembourg and elsewhere in the European Union in a manner that is unduly burdensome for AES Gener. For example, AES Gener may be required in the future to publish financial statements in the European Union in accordance with, or reconciled to, international financial reporting standards (or equivalent standards). Pursuant to the Indenture, in such circumstances we will be entitled, and may decide, to seek an alternative listing for the Exchange Notes on a stock exchange of international standing outside the European Union, which AES Gener may select after consultation with the Trustee. Notices relating to the Exchange Offer will be published in a leading daily newspaper of general circulation in Luxembourg, which is expected to be the *Luxemburger Wort.*

The Luxembourg paying agent will also furnish you with copies of documents relating to the Exchange Offer upon request. You should contact the Luxembourg paying agent at Deutsche Bank Luxembourg S.A., 2 Boulevard Konrad Adenauer, Luxembourg, Postal Code 1115. You may also present yourself at the office of the Luxembourg paying agent to exchange the Notes.

Form and Registration

The certificates representing the Notes will be issued in fully registered form without interest coupons. Notes offered and sold in reliance on Regulation S under the Securities Act will initially be represented by a single, permanent global note in definitive, fully registered book-entry form (the ''Regulation S Global Note''), which will be deposited with the Trustee as custodian for, and registered in the name of a nominee of, DTC and deposited on behalf of the purchasers of the Notes represented thereby with a custodian for DTC for credit to the respective accounts of the purchasers (or to such other accounts as they may direct at the Euroclear System (''Euroclear'') or Clearstream Banking, société anonyme, Luxembourg (''Clearstream'')).

Notes sold in reliance on Rule 144A will be represented by one or more permanent global Notes in definitive, fully registered form without interest coupons (each a ''Restricted Global Note'' and together with the Regulation S Global Note, the ''Global Notes'') and will be deposited with the Trustee as custodian for, and registered in the name of a nominee of, DTC. Each Global Note will be subject to certain restrictions on transfer set forth therein as described under ''Transfer Restrictions''.

Payment of principal and interest to Holders of Notes in definitive, fully registered form will be made to those Holders in whose names the Notes are registered at the close of business on the immediately preceding Record Date. Payment will be made by wire transfer or in the form of a check mailed to the address of such Holder, as it appears on the register maintained by the security registrar and paying agent. However, the final payment on any Note in definitive, fully registered form will be made only upon presentation and surrender of such Note at the offices of the paying agent on the payment date. The paying agent will maintain one such office in Luxembourg for as long as the Notes are listed on the Luxembourg Stock Exchange.

Ownership of beneficial interests in a Global Note will be limited to persons who have accounts with DTC or Euroclear and Clearstream (''participants''), or persons who hold interests through participants. Ownership of beneficial interests in a Global Note will be shown on, and the transfer of that ownership will be effected only through records maintained by DTC, Euroclear or Clearstream, as applicable, or their respective nominees (with respect to interests of participants) and the records of participants (with respect to interests of persons other than participants). Qualified institutional buyers may hold their interests in a Restricted Global Note, directly through DTC, if they are participants in such system, or indirectly through organizations which are participants in such system.

Investors may hold their interests in a Regulation S Global Note, directly through Euroclear or Clearstream, if they are participants in such systems, or indirectly through organizations that are participants in such systems.

So long as DTC, Euroclear or Clearstream, as applicable, or any nominee, is the registered owner or holder of a Global Note, DTC, Euroclear or Clearstream, or such nominee, as the case may be, will be considered the sole owner or holder of the notes represented by such Global Note for all purposes under the Indenture. No beneficial owner of an interest in a Global Note will be able to transfer that interest except in accordance with DTC's, Euroclear's or Clearstream's applicable procedures, in addition to those provided for under the Indenture.

Payments made with respect to a Global Note will be made to DTC, Euroclear or Clearstream, as applicable, or their nominees, as the registered owner thereof. Neither AES Gener, the Trustee, nor any paying agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in a Global Note or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

AES Gener expects that DTC, Euroclear or Clearstream, as applicable, or their nominees, upon receipt of any payment in respect of a Global Note, will credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in such Global Note as shown on their respective records. AES Gener also expects that payments by participants to owners of beneficial interests in such Global Note held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such participants.

Transfers between participants in DTC will be effected in accordance with DTC's procedures, and will be settled in same-day funds. Transfers between participants in Euroclear and Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures. Transactions settled through DTC, Euroclear and Clearstream will settle on a T+3 basis.

AES Gener expects that DTC, Euroclear or Clearstream, as applicable, will take any action permitted to be taken by a holder of Notes (including the presentation of Notes for exchange) only at the direction of one or more participants to whose account the interest in a Global Note is credited and only in respect of such portion of the securities as to which such participant or participants has or have given such direction. However, if there is an Event of Default under the Notes, each of DTC, Euroclear or Clearstream, as applicable, will exchange the applicable Global Notes for Certificated Notes which it will distribute to its participants and which may be legended as set forth under the heading ''Transfer Restrictions''.

AES Gener understands that DTC is a limited purpose trust company organized under the laws of the State of New York, a ''banking organization'' within the meaning of New York Banking Law, a member of the Federal Reserve System, a ''clearing corporation'' within the meaning of the Uniform Commercial Code and a ''Clearing Agency'' registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants and facilitate the clearance and settlement of securities transactions between participants through electronic book-entry changes in accounts of its participants thereby eliminating the need for physical movement of certificates and certain other organizations. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant either directly or indirectly (''indirect participants'').

AES Gener understands that Euroclear and Clearstream hold securities for participating organizations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their participants, among-other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions such as underwriters, securities brokers and dealers, banks, test companies and certain other organizations. Indirect access to Euroclear or Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodian relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Subject to compliance with the transfer restrictions applicable to the Global Notes, cross-market transfers between the participants in DTC, on the one hand, and Euroclear or Clearstream participants, on the other hand, will be effected through DTC in accordance with DTC's rules on behalf of each of Euroclear or Clearstream by its common depositary; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream by the counterparty in such system in accordance with the rules and procedures and within the established deadlines (Brussels time) of such system. Euroclear or Clearstream will, if the transaction meets its settlement requirements, deliver instructions to its common depositary to take action to effect final settlement on its behalf by delivering or receiving interests in the Global Notes in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear participants and Clearstream participants may not deliver instructions directly to the common depositaries for Euroclear or Clearstream.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in a Global Note from a participant in DTC will be credited, and any such crediting will be reported to the relevant Euroclear or Clearstream participant, during the securities settlement processing day (which must be a business day for Euroclear and Clearstream) immediately following the settlement date of DTC. Cash received in Euroclear or Clearstream as a result of sales of interest in a Global Note by or through a Euroclear or Clearstream participant to a participant in DTC will be received with value on the settlement date of DTC but will be available in the relevant Euroclear or Clearstream cash account only as of the business day for Euroclear or Clearstream following DTC's settlement date.

Although DTC, Euroclear and Clearstream are expected to follow the foregoing procedures in order to facilitate transfers of interests in a Global Note among participants of DTC, Euroclear and Clearstream, as the case may be, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of AES Gener, the Trustee or any paying agent will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

If DTC is at any time unwilling or unable to continue as a depositary, or Euroclear and Clearstream cease to be clearing agencies, for the Global Notes and a successor depositary or clearing agency is not appointed by us within 90 days, AES Gener will issue Certificated Notes which may bear the legend referred to under ''Transfer Restrictions'', in exchange for the Global Notes. Holders of an interest in a Global Note may receive Certificated Notes, which may bear the legend referred to under ''Transfer Restrictions'', in accordance with DTC's rules and procedures in addition to those provided for under the Indentures.

Restrictive Covenants

Limitation on Indebtedness

(1) AES Gener will not, and will not permit any Restricted Subsidiary to, Incur any Indebtedness; *provided*, *however*, that AES Gener or any Restricted Subsidiary may Incur Indebtedness if, on the date of such Incurrence and after giving effect thereto, the Interest Coverage Ratio would be no less than 2.4:1; and the Total Debt to EBITDA Ratio would be no greater than 4.5:1.

(2) Notwithstanding the foregoing paragraph (1), AES Gener and its Restricted Subsidiaries may Incur the following Indebtedness:

(a) Indebtedness of AES Gener owed to and held by any Restricted Subsidiary or Indebtedness of a Restricted Subsidiary owed to and held by AES Gener or any Restricted Subsidiary; *provided*, *however*, that:

(i) any subsequent issuance or transfer of any Capital Stock or any other event that results in any such Restricted Subsidiary ceasing to be a Restricted Subsidiary or any subsequent transfer of any such Indebtedness (except to AES Gener or a Restricted Subsidiary) shall be deemed, in each case, to constitute the Incurrence of such Indebtedness by the issuer thereof, and

(ii) if AES Gener is the obligor on such Indebtedness, such Indebtedness is expressly subordinated to the prior payment in full in cash of all obligations with respect to the Notes;

(b) Indebtedness:

(i) represented by the Notes,

(ii) outstanding on the Closing Date,

(iii) consisting of Refinancing Indebtedness Incurred in respect of any Indebtedness described in this clause (b) or the foregoing paragraph (1), or

(iv) consisting of Guarantees of any Indebtedness permitted under clause (a) of this paragraph (2);

(c) (i) Indebtedness of a Restricted Subsidiary Incurred and outstanding on or prior to the date on which such Restricted Subsidiary was acquired by AES Gener (other than Indebtedness Incurred as consideration in, or to provide all or any portion of the funds or credit support utilized to consummate, the transaction or series of related transactions pursuant to which such Restricted Subsidiary became a Subsidiary of, or was otherwise acquired by, AES Gener); *provided*, *however*, that on the date that such Restricted Subsidiary is acquired by AES Gener, AES Gener would have been able to Incur US$1.00 of additional Indebtedness pursuant to the foregoing paragraph (1) after giving effect to the Incurrence of such Indebtedness pursuant to this clause (c), and

(ii) Refinancing Indebtedness Incurred by AES Gener or a Restricted Subsidiary in respect of Indebtedness Incurred pursuant to this clause (c);

(d) Indebtedness in respect of performance bonds, bankers' acceptances, letters of credit and surety or appeal bonds provided by AES Gener and the Restricted Subsidiaries in the ordinary course of their business;

(e) Purchase Money Indebtedness and Capitalized Lease Obligations in an aggregate principal amount not in excess of US$20 million at any time outstanding;

(f) Hedging Obligations of AES Gener or any Restricted Subsidiary directly related to Indebtedness permitted to be Incurred by AES Gener or any Restricted Subsidiary pursuant to the Indenture for the purpose of fixing or hedging interest rate risk or currency fluctuations and Regulated Customer Revenue Hedges;

(g) (i) Indebtedness of another Person Incurred and outstanding on or prior to the date on which such Person consolidates with or merges with or into AES Gener (other than Indebtedness Incurred as consideration in, or to provide all or any portion of the funds or credit support utilized to consummate, the transaction or series of related transactions pursuant to which such Person consolidates with or merges with or into AES Gener); *provided*, *however*, that on the date that such transaction is consummated, AES Gener would have been able to Incur US$1.00 of additional Indebtedness pursuant to the foregoing paragraph (1) after giving effect to the Incurrence of such Indebtedness pursuant to this clause (g), and

(ii) Refinancing Indebtedness Incurred by AES Gener or any successor in compliance with the covenant described under "—Consolidation, Merger, Conveyance, Sale or Lease" in respect of Indebtedness Incurred pursuant to subclause (i) of this clause (g);

(h) Indebtedness Incurred under the TermoAndes/InterAndes Facility and any Refinancing Indebtedness Incurred in connection therewith; and

(i) other Indebtedness in an aggregate principal amount not to exceed US$20 million at any one time outstanding.

(3) Notwithstanding the foregoing, AES Gener may not Incur any Indebtedness pursuant to paragraph (2) above if the proceeds thereof are used, directly or indirectly, to repay, prepay, redeem, defease, retire, refund or refinance any Subordinated Obligations, unless such Indebtedness will be subordinated to the Notes to at least the same extent as such Subordinated Obligations.

(4) Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that AES Gener or any Restricted Subsidiary may Incur pursuant to this covenant shall not be deemed to be exceeded solely as a result of fluctuations in the exchange rates of currencies.

For purposes of determining the outstanding principal amount of any particular Indebtedness Incurred pursuant to this covenant:

(a) Indebtedness permitted by this covenant need not be permitted solely by reference to one provision permitting such Indebtedness but may be permitted in part by one such provision and in part by one or more other provisions of this covenant permitting such Indebtedness; and

(b) in the event that Indebtedness meets the criteria of more than one of the types of Indebtedness described in this covenant, AES Gener, in its sole discretion, shall classify such Indebtedness and only be required to include the amount of such Indebtedness in one of such clauses.

Limitation on Liens

AES Gener covenants and agrees that neither it nor any Restricted Subsidiary will issue, assume or Guarantee any Indebtedness secured by a Lien upon any property or assets of AES Gener or any Restricted Subsidiary without effectively providing that the Notes (together with, if AES Gener so determines, any other Indebtedness or obligation then existing or thereafter created ranking equally with the Notes) shall be secured equally and ratably with (or prior to) such Indebtedness so long as such Indebtedness shall be so secured, except that the foregoing provisions shall not apply to:

(a) Liens in existence on the Closing Date;

(b) Liens created solely for the purpose of securing Indebtedness Incurred to finance, refinance or refund the purchase price or cost (including the cost of construction) of property or assets acquired after the Closing Date (by purchase, construction or otherwise), including after acquired inventory or other assets, or Liens in favor of Guarantors of obligations or Indebtedness (including the Indebtedness of another Person) representing, or Incurred to finance, refinance or refund, such purchase price or cost, provided that no such Lien shall extend to or cover any property or assets other than the property or assets so acquired and improvements thereon (other than, in the case of Liens securing Indebtedness Incurred to finance construction or improvement costs, any theretofore unimproved real property on which the property so constructed, or the improvement, is located);

(c) Liens which secure only Indebtedness owing by a Restricted Subsidiary to AES Gener and/or one or more Restricted Subsidiaries or by AES Gener to one or more Restricted Subsidiaries;

(d) Liens on any property or assets acquired from a corporation which is merged with or into AES Gener or any Restricted Subsidiary, or any Liens on the property or assets of any corporation or other entity existing at the time such corporation or other entity becomes a Subsidiary and, in either such case, is not created as a result of or in connection with or in anticipation of any such transaction (unless such Lien was created to secure or provide for the payment of any part of the purchase price of such corporation);

(e) any Lien on any property or assets existing at the time of acquisition thereof and which is not created as a result of or in connection with or in anticipation of such acquisition (unless such Lien was created to secure or provide for the payment of any part of the purchase price of such property or assets);

(f) Liens created by AES Gener on its approximately 143 km transmission line from Sico, at the Chilean/Argentine border, to AES Gener's substation at Atacama and related interconnection facilities in Chile owned by AES Gener, securing the TermoAndes/InterAndes Facility;

(g) any Lien on the Capital Stock of an Unrestricted Subsidiary; or

(h) any extension, renewal or replacement (or successive extensions, renewals or replacements), in whole or in part, of any Lien referred to in the foregoing clauses (a) through (g) or of any Indebtedness secured thereby, provided that the principal amount of Indebtedness so secured thereby shall not exceed the principal amount of Indebtedness so secured at the time of such extension, renewal or replacement (plus reasonable expenses incurred in connection therewith), and that such extension, renewal or replacement Lien shall be limited to all or part of the property which secured the Lien extended, renewed or replaced (plus improvements on or additions to such property).

Notwithstanding the foregoing provisions of this covenant, AES Gener and one or more Restricted Subsidiaries may issue, assume or Guarantee Indebtedness secured by Liens which would otherwise be subject to the foregoing restrictions in an aggregate principal amount which, together with the aggregate outstanding principal amount of all other Indebtedness of AES Gener and its Restricted Subsidiaries which would otherwise be subject to the foregoing restrictions (not including Indebtedness permitted to be secured under clauses (a) through (h)) and the aggregate Value of the Sale and Lease-Back Transactions in existence at such time (not including Sale and Lease-Back Transactions as to which AES Gener has complied with the restriction set forth in the covenant described under ''—Limitation on Sale and Lease-Back Transactions'') does not at the time of issuance, assumption, or Guarantee thereof exceed US$50 million.

Liens required by any contract or statute in order to permit AES Gener or a Restricted Subsidiary to perform any contract or subcontract made by it with or at the request of a governmental entity or any department, agency or instrumentality thereof, or to secure partial, progress, advance or any other payments to AES Gener or any Restricted Subsidiary by a governmental entity or any department, agency or instrumentality thereof pursuant to the provisions of any contract or statute shall not be deemed to create Indebtedness secured by Liens.

Limitation on Sale and Lease-Back Transactions

AES Gener covenants and agrees that neither AES Gener nor any Restricted Subsidiary will enter into any Sale and Lease-Back Transaction unless either:

(a) AES Gener or such Restricted Subsidiary would be entitled:

(i) pursuant to the provisions of the covenant described above under ''—Limitation on Indebtedness'' to Incur Indebtedness in a principal amount equal to or exceeding the Value of such Sale and Lease-Back Transaction; and

(ii) pursuant to the provisions of the covenant described above under ''—Limitation on Liens'' to Incur a Lien to secure such Indebtedness; or

(b) AES Gener, during or immediately after the expiration of four months after the effective date of such Sale and Lease-Back Transaction (whether made by AES Gener or a Restricted Subsidiary), applies to the voluntary retirement of Funded Debt an amount equal to the Value of such Sale and Lease-Back Transaction, less an amount equal to the sum of:

(i) the principal amount of Notes delivered, within such four-month period, to the Trustee for retirement and cancellation and

(ii) the principal amount of other Funded Debt voluntarily retired by AES Gener within such four month period,

in each case excluding retirements of Notes and other Funded Debt as a result of conversions or pursuant to mandatory sinking fund or mandatory prepayment provisions or by payment at maturity.

Limitation on Sales of Assets

(1) AES Gener will not, and will not permit any Restricted Subsidiary to, make any Asset Disposition unless:

(a) AES Gener or such Restricted Subsidiary receives consideration (including by way of relief from, or by any other Person assuming sole responsibility for, any liabilities, contingent or otherwise) at the time of such Asset Disposition at least equal to the fair market value, as determined in good faith by the Board of Directors of AES Gener or the relevant Restricted Subsidiary, of the shares and/or assets subject to such Asset Disposition;

(b) at least 75% of the consideration thereof received by AES Gener or such Restricted Subsidiary is in the form of cash; *provided* that the following shall be deemed to be cash for purposes of this clause (b):

(i) the amount of any liabilities (as shown on AES Gener's, or such Restricted Subsidiary's, most recent balance sheet or in the notes thereto) of AES Gener or any Restricted Subsidiary (other than liabilities that are by their terms subordinated to the Notes) that are assumed by the transferee of any such assets, and

(ii) the amount of any securities received by AES Gener or such Restricted Subsidiary from such transferee that are converted by AES Gener or such Restricted Subsidiary into cash (to the extent of the cash received) within 90 days following the closing of such Asset Disposition,

(for purposes of this paragraph (b), all determinations of fair market value shall be made in good faith by the Board of Directors of AES Gener or the relevant Restricted Subsidiary and evidenced by an Officers' Certificate delivered to the Trustee); and

(c) an amount equal to 100% of the Net Available Cash from such Asset Disposition is applied by AES Gener (or the relevant Restricted Subsidiary):

(i) first, to the extent AES or such Restricted Subsidiary elects to, or enters into a binding agreement to, reinvest in Additional Assets (including by means of an Investment in Additional Assets by a Restricted Subsidiary with cash in an amount equal to the amount of Net Available Cash received by, or to be received by, AES Gener or another Restricted Subsidiary) within 270 days of the later of such Asset Disposition or the receipt of such Net Available Cash; and

(ii) second, to the extent of the balance of such Net Available Cash after application in accordance with clause (i), to make an Offer (as defined in clause (2) below) to purchase Notes pursuant to and subject to the conditions set forth in paragraph (2) below; *provided*, *however*, that, if AES Gener elects, such Offer may be made ratably to purchase the Notes and other Senior Indebtedness of AES Gener; *provided*, *however,* that, in connection with any prepayment, repayment or purchase of Indebtedness pursuant to this clause (ii), AES Gener or such Restricted Subsidiary will retire such Indebtedness and will cause the related loan commitment (if any) to be permanently reduced in an amount equal to the principal amount so prepaid, repaid or purchased. Upon completion of any Offer, the amount of Net Available Cash shall be reset at zero and AES Gener shall be entitled to use any remaining proceeds for any corporate purposes to the extent permitted under the Indenture.

Notwithstanding the foregoing provisions of this covenant, AES Gener and the Restricted Subsidiaries will not be required to apply any Net Available Cash in accordance with this covenant unless the aggregate Net Available Cash from all Asset Dispositions that is not applied in accordance with this covenant exceeds US$15 million (in which case AES Gener and/or the

Restricted Subsidiary shall be required to apply in accordance with this covenant all Net Available Cash that has not previously been applied in accordance with this covenant).

(2) In the event of an Asset Disposition that requires the purchase of Notes pursuant to clause (c)(ii) above, AES Gener will be required to offer to purchase Notes tendered pursuant to an offer by AES Gener for the Notes (an "Offer") at a purchase price of 100% of their principal amount plus accrued and unpaid interest (including Additional Amounts, if any) thereon, to the date of purchase in accordance with the procedures (including prorating in the event of oversubscription) set forth in the Indenture and to purchase other Senior Indebtedness on the terms and to the extent contemplated thereby. AES Gener will not be required to make an Offer for Notes (and other Senior Indebtedness) pursuant to this covenant if the Net Available Cash available therefor (after application of the proceeds as provided in clause (c)(i) above) is less than US$15 million for any particular Asset Disposition (which lesser amount will be carried forward for purposes of determining whether an Offer is required with respect to the Net Available Cash from any subsequent Asset Disposition).

(3) AES Gener will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations in connection with the repurchase of Notes pursuant to this covenant. To the extent that the provisions of any securities laws or regulations conflict with provisions of this covenant, AES Gener will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under this covenant by virtue thereof.

Limitation on Restricted Payments

(1) AES Gener will not, and will not permit any Restricted Subsidiary, directly or indirectly, to:

(a) declare or pay any dividend or make any distribution on or in respect of its Capital Stock (including any payment in connection with any merger or consolidation involving AES Gener or any Subsidiary of AES Gener) or similar payment to the direct or indirect holders of its Capital Stock except dividends or distributions payable solely in its Capital Stock (other than Disqualified Stock or Preferred Stock) and except dividends or distributions payable to AES Gener or another Restricted Subsidiary (and, if such Restricted Subsidiary has shareholders other than AES Gener or other Restricted Subsidiaries, to its other shareholders on a pro rata basis);

(b) purchase, redeem, retire or otherwise acquire for value any Capital Stock of Parent, AES Gener or any Restricted Subsidiary held by Persons other than AES Gener or another Restricted Subsidiary (other than a purchase, redemption, retirement or other acquisition for value that would constitute a Permitted Investment);

(c) purchase, repurchase, redeem, defease or otherwise acquire or retire for value, prior to scheduled maturity, scheduled repayment or scheduled sinking fund payment any Subordinated Obligations (other than the purchase, repurchase or other acquisition of Subordinated Obligations purchased in anticipation of satisfying a sinking fund obligation, principal installment or final maturity, in each case, due within one year of the date of acquisition); or

(d) make any Investment (other than a Permitted Investment) in any Person, (the actions described in clauses (a) through (d) above being herein referred to as "Restricted Payments") if at the time AES Gener or such Restricted Subsidiary makes such Restricted Payment:

(i) an Event of Default will have occurred and be continuing;

(ii) AES Gener could not Incur at least US$1.00 of additional Indebtedness under paragraph (1) of the covenant described under "—Limitation on Indebtedness" after giving effect to the Restricted Payment; or

(iii) the aggregate amount of such Restricted Payment and all other Restricted Payments, including all Minimum Legally Required Dividends, (the amount so expended, if other than in cash, to be determined in good faith by the Board of Directors of AES Gener, whose determination will be conclusive and evidenced by a resolution of the Board of Directors of AES Gener) declared or made subsequent to the Closing Date would exceed the sum of, without duplication:

(A) 100% of Consolidated Net Income accrued during the period (treated as one accounting period) from January 1, 2004 to the end of the most recent fiscal quarter for which financial statements are publicly available (or, in case such Consolidated Net Income will be a deficit, minus 100% of such deficit); *plus*

(B) the aggregate Net Cash Proceeds received by AES Gener from the issue or sale of its Capital Stock (other than Disqualified Stock) subsequent to the Closing Date (other than an issuance or sale to a Subsidiary of AES Gener and other than US$97.79 million of the Net Cash Proceeds from the sale of Capital Stock of AES Gener authorized by the shareholders of AES Gener on March 10, 2004); *plus*

(C) (1) the aggregate Net Cash Proceeds received by AES Gener from the sale or other disposition (other than to AES Gener or a Restricted Subsidiary) of any Investments previously made by AES Gener or a Restricted Subsidiary and treated as a Restricted Payment, (2) the amount of a Guarantee of AES Gener or any Restricted Subsidiary upon the unconditional release in full of AES Gener or such Restricted Subsidiary from such Guarantee if such Guarantee was previously treated as a Restricted Payment and (3) in the event that AES Gener or any Restricted Subsidiary makes an Investment in a Person that, as a result of or in connection with such Investment, becomes a Restricted Subsidiary, an amount equal to AES Gener's or such Restricted Subsidiary's existing Investment in such Person; provided that any amount added pursuant to clauses (1) and (2) of this clause (C) shall not exceed the amount treated as a Restricted Payment and not previously added pursuant to this paragraph (iii); *plus*

(D) the amount by which Indebtedness of AES Gener or its Restricted Subsidiaries is reduced on AES Gener's balance sheet upon the conversion or exchange (other than by a Subsidiary of AES Gener) subsequent to the Closing Date of any Indebtedness of AES Gener or its Restricted Subsidiaries issued after the Closing Date that is convertible or exchangeable for Capital Stock (other than Disqualified Stock) of AES Gener (less the amount of any cash or the fair market value of other property distributed by AES Gener or any Restricted Subsidiary upon such conversion or exchange); plus

(E) US$10 million.

(2) The provisions of the foregoing paragraph (1) will not prohibit:

(a) any purchase, repurchase, retirement, defeasance or other acquisition or retirement for value of Capital Stock or Subordinated Obligations of AES Gener made by exchange for, or out of the proceeds of the substantially concurrent sale of, Capital Stock of AES Gener (other than Disqualified Stock and other than Capital Stock issued or sold to a Subsidiary of AES Gener or an employee stock ownership plan or other trust established by AES Gener or any of its Subsidiaries);

(b) any purchase, repurchase, redemption, defeasance or other acquisition or retirement for value of Subordinated Obligations of AES Gener made by exchange for, or out of the proceeds of the substantially concurrent sale of, Indebtedness of AES Gener that is permitted to be Incurred pursuant to paragraph (2) of the covenant described under ''—Limitation on Indebtedness''; *provided*, *however*, that such purchase, repurchase, redemption, defeasance or other acquisition or retirement for value will be excluded in the calculation of the amount of Restricted Payments;

(c) any purchase or redemption of Subordinated Obligations from Net Available Cash to the extent permitted by the covenant described under ''—Limitation on Sales of Assets''; *provided*, *however*, that such purchase or redemption will be excluded in the calculation of the amount of Restricted Payments;

(d) any purchase, repurchase, redemption, defeasance or acquisition or retirement for value, prior to scheduled maturity or scheduled repayment, of any obligations of TermoAndes or InterAndes pursuant to the TermoAndes/InterAndes Refinancing Transactions;

(e) dividends paid within 60 days after the date of declaration thereof if at such date of declaration such dividend would have complied with this covenant; *provided*, *however*, that such dividend will be included in the calculation of the amount of Restricted Payments;

(f) the payment of the Minimum Legally Required Dividend; and

(g) any Investment of cash and cash equivalents in a Project Finance Subsidiary, or any successor thereto; *provided* that such Investment does not exceed 50% of the Total Capitalization of such Project Finance Subsidiary at the Financial Close.

Notwithstanding the foregoing, neither AES Gener nor any Restricted Subsidiary shall make any Restricted Payment (other than the payment of Minimum Legally Required Dividends) unless AES Gener shall have repurchased or redeemed all of its outstanding U.S. Convertible Notes and Chilean Convertible Notes.

Limitations on Transactions with Affiliates

AES Gener will not, and will not permit any Restricted Subsidiary to, enter into any transaction involving aggregate consideration in excess of US$5 million, including, without limitation, any purchase, sale, lease or exchange of property or the rendering of any service, with or to any Affiliate, unless a majority of the disinterested members of the Board of Directors of AES Gener or the relevant Restricted Subsidiary (or if there shall be only one disinterested member of such Board of Directors, then unless such disinterested member) determines (which determination will be evidenced by a Board Resolution) that:

(i) such transaction is in the best interests of AES Gener or such Restricted Subsidiary; and

(ii) such transaction is on terms that are no less favorable to AES Gener or a Restricted Subsidiary than those which might be obtained in arm's-length transactions with a third party at the time.

The foregoing provisions will not apply to the following:

(a) transactions between or among AES Gener and/or any of its Restricted Subsidiaries;

(b) Restricted Payments permitted by the provisions of the indenture described above under ''Limitation on Restricted Payments'';

(c) the payment of reasonable and customary fees paid to, and indemnity provided on behalf of, officers, directors, employees or consultants of AES Gener or any Restricted Subsidiary; and

(d) any agreement as in effect on the Closing Date or any amendment, supplement, restatement, replacement, renewal, extension, refinancing or refunding thereof or thereto (so long as any such amendment, supplement, restatement, replacement, renewal, extension, refinancing or refunding is not disadvantageous to the holders of the Notes in any material respect) or any transaction contemplated thereby.

Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries

AES Gener and its Restricted Subsidiaries will not create or otherwise cause or permit to exist or become effective any consensual encumbrance or restriction of any kind on the ability of any Restricted Subsidiary to:

(a) pay dividends or make any other distributions permitted by applicable law on any Capital Stock of such Restricted Subsidiary owned by AES Gener or any other Restricted Subsidiary;

(b) pay any Indebtedness owed to AES Gener or any other Restricted Subsidiary;

(c) make loans or advances to AES Gener or any other Restricted Subsidiary; or

(d) transfer any of its property or assets to AES Gener or any other Restricted Subsidiary,

provided that this prohibition shall not apply to any encumbrances or restrictions:

(1) existing in connection with Indebtedness existing on the Closing Date, and any amendments, extensions, refinancings, renewals or replacements of such Indebtedness;

(2) existing under or by reason of applicable law;

(3) existing with respect to any Person or the property or assets of such Person acquired by AES Gener or any Restricted Subsidiary, existing at the time of such acquisition and not incurred in contemplation thereof, which encumbrances or restrictions are not applicable to any Person or the property or assets of any Person other than such Person or the property or assets of such Person so acquired, and any amendments to such encumbrances or restrictions; *provided* that any such amendments are no more restrictive in any material respect than those encumbrances or restrictions that are then in effect and that are being amended; or

(4) in the case of restrictions relating to the transfers of property, restrictions that exist by virtue of any transfer of, agreement to transfer, option or right with respect to, or Lien on,

any property or assets of AES Gener or any Restricted Subsidiary not otherwise prohibited by the Indenture.

Consolidation, Merger, Conveyance, Sale or Lease

Nothing contained in the Indenture prevents AES Gener from consolidating with or merging into another corporation or conveying, transferring or leasing AES Gener's properties and assets substantially as an entirety to any Person, provided that,

(a) the corporation formed by such consolidation or into which AES Gener is merged or the person which acquires by conveyance or transfer, or which leases, AES Gener's properties and assets substantially as an entirety is a corporation organized and existing under the laws of Chile or the United States, any State thereof or the District of Columbia, and expressly assumes, by an indenture supplemental to the Indenture, executed and delivered to the Trustee, in form satisfactory to the Trustee, the due and punctual payment of the principal of (and premium, if any) and interest, if any, on all the Notes and the performance of every covenant of the Indenture on the part of AES Gener to be performed or observed;

(b) immediately after giving effect to such transaction no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing; and

(c) AES Gener has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger, conveyance, transfer or lease and, if a supplemental indenture is required in connection with such transaction, such supplemental indenture comply with the Indenture and that all conditions precedent therein provided for relating to such transaction have been complied with.

Repurchase of U.S. Convertible Notes and Chilean Convertible Notes

AES Gener will agree in the Indenture to consummate, on or before May 31, 2004, a redemption of any U.S. Convertible Notes, pursuant to section 11.01 of the indenture governing those notes, and any Chilean Convertible Notes, pursuant to title III, clause 4, section 10 of the Chilean deed governing those notes, that remain outstanding after the consummation of the cash tender offers for those notes.

Other Covenants

In addition, the Indenture will contain covenants regarding the provisioning of financial statements and reports, the performance of our obligations under the Notes, the maintenance of our corporate existence, the maintenance of our properties, the compliance with applicable laws, maintenance of our governmental approvals, our payment of taxes and other claims, the appointment of the trustee, the maintenance of insurance, the maintenance of our books and records, the maintenance of an office or agency in New York, the ranking of the Notes, notices of certain events, further actions and the use of proceeds.

Release of Covenants

If on any date following the Closing Date:

(1) the rating assigned to the notes by two of the three Ratings Agencies is an Investment Grade Rating; and

(2) no Default or Event of Default shall have occurred and be continuing,

then, beginning on that day and subject to the provisions of the following two paragraphs, the covenants specifically listed under the following captions will be suspended as to the Notes:

(a) ''—Limitation on Indebtedness'';

(b) ''—Limitation on Sales of Assets'';

(c) ''—Limitation on Restricted Payments'';

(d) ''—Limitation on Transactions with Affiliates''; and

(e) ''—Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries'';

Clauses (a) through (e) above are collectively referred to as the ''Suspended Covenants''.

During any period in which the Suspended Covenants are suspended, AES Gener's Board of Directors may not designate any of its Subsidiaries as Unrestricted Subsidiaries pursuant to the second paragraph of the definition of ''Unrestricted Subsidiary''.

If, during any period in which the Suspended Covenants are suspended, the Notes are downgraded from an Investment Grade Rating by two of the three Ratings Agencies, the Suspended Covenants will thereafter be reinstated as if such covenants had never been suspended and be applicable pursuant to the terms of the indenture (including in connection with performing any calculation or assessment to determine compliance with the terms of the indenture), unless and until the Notes subsequently attain an Investment Grade Rating from two of the three Ratings Agencies (in which event the Suspended Covenants will again be suspended for such time that the Notes maintain an Investment Grade Rating from two of the three Ratings Agencies); *provided, however*, that no Default, Event of Default or breach of any kind will be deemed to exist under the Indenture or the Notes with respect to the Suspended Covenants based on, and none of AES Gener or any of its Restricted Subsidiaries will bear any liability for, any actions taken or events occurring after the Notes attain an Investment Grade Rating from two of the three Rating Agencies and before any reinstatement of the Suspended Covenants as provided above, or any actions taken at any time pursuant to any contractual obligation arising prior to the reinstatement, regardless of whether those actions or events would have been permitted if the applicable Suspended Covenant had remained in effect during such period.

Modification of the Indenture

The Indenture contains provisions permitting AES Gener and the Trustee, with the consent of the holders of a majority in aggregate in principal amount of the outstanding Notes to modify the Indenture or any supplemental indenture or the rights of the holders of the Notes; provided that no such modification shall without the consent of the holder of each outstanding Note affected thereby:

- change the stated maturity upon which the principal of or the interest on any Note is due and payable, or reduce the principal amount thereof or the rate of interest thereon (including Additional Amounts, as defined below) or any premium payable upon the redemption thereof, or change any place of payment or the currency in which, any Note or any premium or the interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the stated maturity thereof (or, in the case of redemption, on or after redemption date), or

- reduce the percentage in principal amount of the outstanding Notes, the consent of whose holders is required for any waiver (of compliance with certain provisions of the Indenture or certain defaults thereunder and their consequences) provided for in the Indenture, or

- modify certain provisions of the Indenture.

The Indenture provides that Notes owned by AES Gener or any of its affiliates shall be deemed not to be outstanding for, among other purposes, consenting to any such modification.

The Indenture also contains provisions permitting AES Gener and the Trustee to amend the Indenture in certain circumstances without the consent of the holders of any Notes to evidence AES Gener's merger, the replacement of the Trustee and for certain other purposes.

Events of Default

An Event of Default with respect to the Notes is defined in the Indenture as being:

- default for 30 days in payment of any interest on the Notes;
- default in payment of principal of the Notes;
- default in the performance, or breach, of any covenant or warranty or obligation of AES Gener or any Restricted Subsidiary in the Indenture and continuance of such default or breach for a period of 60 days after written notice is given to AES Gener by the Trustee or to AES Gener and the Trustee by the holders of at least 25% in aggregate principal amount of the Notes;
- default under any Indebtedness of AES Gener or any Restricted Subsidiary having an aggregate principal amount exceeding US$25,000,000 (or its equivalent in any other currency or currencies), which default shall constitute the failure to pay, after the expiration of any applicable grace period, any portion of the principal of such Indebtedness when such principal becomes due and payable (whether at maturity, upon redemption or acceleration or otherwise) unless the time for payment of such amount has not been expressly extended or waived; and
- certain events of bankruptcy, insolvency or other similar laws relating to AES Gener or any Restricted Subsidiary (other than TermoAndes and InterAndes).

AES Gener will be required to file with the Trustee annually an Officers' Certificate as to the absence of default in performance of certain covenants in the Indenture. The Indenture provides that the Trustee may withhold notice to the holders of the Notes of any default (except in payment of principal of, or interest, if any, on the Notes) if the Trustee in good faith determines that it is in the interest of the holders of the Notes to do so. The Indenture provides that, if an Event of Default (other than an Event of Default involving a bankruptcy, insolvency or similar event in respect of AES Gener) with respect to the Notes specified therein shall have happened and be continuing, either the Trustee or the holders of at least 25% in aggregate principal amount of the Notes may declare the principal amount of all the Notes to be due and payable immediately. The Indenture provides that if an Event of Default involving a bankruptcy, insolvency or other similar event in respect of us shall have happened, the principal amount of all the Notes will be immediately due and payable without notice or any other act on the part of the Trustee or any holder of the Notes. However, if AES Gener cures all defaults (except the nonpayment of principal of and accrued interest on Notes at maturity or which shall be become due by acceleration) and certain other conditions are met, such declaration may be rescinded by the holders of not less than a majority in aggregate principal amount of the Notes. In addition, past defaults with respect to the Notes may be waived by the holders of not less than a majority in aggregate principal amount of the Notes except a default in the payment of principal of (or premium, if any) or interest, if any, on any Note or in respect of a covenant or provision of the

Indenture which cannot be modified or amended without the consent of the holder of each outstanding Note.

Subject to the provisions of the Indenture relating to the duties of the Trustee, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request or direction on any of the holders of the Notes, unless such holders shall have offered to the Trustee reasonable security or indemnity. Subject to such provision for indemnification, the holders of a majority in principal amount of the Notes will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee with respect to the Notes, provided that the Trustee shall have the right to decline to follow any such direction if the Trustee shall determine that the action so directed conflicts with any law or the provisions of the Indenture or if the Trustee shall determine that such action would be prejudicial to holders not taking part in such direction.

No holder of any Note shall have any right to institute any proceeding, judicial or otherwise, with respect to the Indenture, or for the appointment of a receiver or trustee, or for any other remedy thereunder, unless (i) such holder has previously given written notice to the Trustee of a continuing Event of Default with respect to the Notes; (ii) the holders of not less than 25% in principal amount of the outstanding Notes shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee thereunder; (iii) such holder or holders have offered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (iv) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and (v) no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the holders of a majority in principal amount of the outstanding Notes; it being understood and intended that no one or more of such holders shall have any right in any manner whatever by virtue of, or by availing of, any provision of the Indenture to affect, disturb or prejudice the rights of any other of such holders, or to obtain or to seek to obtain priority or preference over any other of such holders or to enforce any right under the Indenture, except in the manner therein provided and for the equal and ratable benefit of all such holders.

Additional Amounts

All payments of principal and interest in respect of the Notes shall be made free and clear of, and without withholding or deduction for or on account, of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Chile or by or within any political subdivision thereof or any authority therein or thereof having power to tax (''Chilean Taxes''), unless such withholding or deduction is required by law. In the event of any such withholding or deduction, AES Gener shall pay to holders such additional amounts (''Additional Amounts'') as will result in the payment to such holder of the amount that would otherwise have been receivable by such holder in the absence of such withholding or deduction, except that no such Additional Amounts shall be payable:

(a) in respect of any Chilean Taxes that would not have been so withheld or deducted but for the existence of any present or former connection, including a permanent establishment, between the holder or beneficial owner of the Note or any payment in respect of such Note (or, if the holder or beneficial owner is an estate, nominee, trust, partnership or corporation, between a fiduciary, settlor, beneficiary, member or shareholder of, or possessor of power over, the holder or beneficial owner) and Chile other than the mere receipt of such payment or the mere holding or ownership of such Note or beneficial interest;

(b) in respect of any Chilean Taxes that would not have been so withheld or deducted if the Note had been presented for payment within thirty days after the Relevant Date (as defined below);

(c) in respect of any Chilean Taxes that would not have been so withheld or deducted but for the failure by the holder, the beneficial owner of the Note or any payment in respect of such Note or the Trustee to (i) make a declaration of non-residence, or any other claim or filing for exemption, to which it is entitled or (ii) comply with any certification, identification, information, documentation or other reporting requirement concerning its nationality, residence, identity or connection with Chile;

(d) in respect of any estate, inheritance, gift, value added, sales, use, excise, transfer, personal property or similar taxes, duties, assessments or other governmental charges;

(e) in respect of any Chilean Taxes payable other than by withholding or deduction;

(f) in respect of any payment to a holder that is a fiduciary or partnership or any person other than the sole beneficial owner of such payment or Note, to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such partnership or the beneficial owner of such payment or Note would not have been entitled to the Additional Amounts had such beneficiary, settlor, member or beneficial owner been the actual holder of such Note;

(g) where the obligation to pay such Additional Amounts could have been avoided by the holder, the beneficial owner of the Note or the Trustee taking reasonable measures available to such holder, beneficial owner or Trustee; or

(h) any combination of (a) through (g) above.

''Relevant Date'' means whichever is the later of (i) the date on which such payment first becomes due and (ii) if the full amount payable has not been received in The City of New York by the Trustee on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the Holder in accordance with the Indenture.

References to principal and interest in respect of the Notes shall be deemed also to refer to any Additional Amounts which may be payable as set forth in the Indenture or in the Notes.

At least ten Business Days prior to the first interest payment date (and at least ten business days prior to each succeeding interest payment date if there has been any change with respect to the matters set forth in the below-mentioned Officers' Certificate), AES Gener will furnish to the Trustee and the paying agent an Officers' Certificate instructing the Trustee and the paying agent whether payments of principal of or interest on the Notes due on such interest payment date shall be without deduction or withholding for or on account of any Chilean Taxes. If any such deduction or withholding shall be required, prior to such interest payment date, AES Gener will furnish the Trustee and the paying agent with an Officers' Certificate which specifies the amount, if any, required to be withheld on such payment to holders and certifies that we shall pay such withholding or deduction. Any Officers' Certificate required by the Indenture to be provided to the Trustee and any paying agent for these purposes shall be deemed to be duly provided if telecopied to the Trustee and such paying agent.

AES Gener shall furnish to the Trustee the official receipts (or a certified copy of the official receipts) evidencing payment of Chilean Taxes. Copies of such receipts shall be made available to holders of the Notes upon request.

AES Gener shall promptly pay when due any present or future stamp, court or documentary taxes or any other excise or property taxes, charges or similar levies that arise in any jurisdiction from the execution, delivery or registration of each Note or any other document or instrument referred to herein or therein, excluding any such taxes, charges or similar levies imposed by any jurisdiction outside of Chile and except, in certain cases, for taxes, charges or similar levies resulting from certain registration of transfer or exchange of Notes.

Optional Redemption

AES Gener may redeem the Notes, in whole or in part, at its option exercisable at any time from time to time upon not less than 30 and not more than 60 days' notice as provided in the indenture, on any date prior to their maturity at a redemption price equal to:

- 100% of the principal amount of the Notes redeemed, plus
- accrued and unpaid interest thereon, if any, and Additional Interest thereon, if any, to, but excluding, the redemption date, plus
- the make-whole premium described below, if any.

The redemption price will never be less than 100% of the principal amount of the Notes redeemed plus accrued and unpaid interest thereon, if any, to, but excluding, the redemption date.

The amount of the make-whole premium with respect to any Note to be redeemed will be equal to the excess, if any, of:

(1) the sum of the present values, calculated as of the redemption date, of:

- each interest payment that, but for such redemption, would have been payable on the Note or portion thereof being redeemed on each interest payment date occurring after the redemption date (excluding any accrued and unpaid interest for the period prior to the redemption date), and
- the principal amount that, but for such redemption, would have been payable at the final maturity of the Note or portion thereof being redeemed, over

(2) the principal amount of the Note being redeemed.

The present values of interest and principal payments referred to in a clause (1) above will be determined in accordance with generally accepted principles of financial analysis. These present values will be calculated by discounting the amount of each payment of interest or principal from the date that each such payment would have been payable, but for the redemption, to the redemption date at a discount rate equal to the comparable treasury yield (as defined below) plus 50 basis points.

The make-whole premium will be calculated by an independent investment banking institution of national standing appointed by us. If AES Gener fails to appoint an independent investment banking institution at least 45 days prior to the redemption date, or if the independent investment banking institution we appoint is unwilling or unable to calculate the make-whole premium, the calculation will be made by Citigroup Global Markets Inc. If Citigroup Global Markets Inc. is unwilling or unable to make the calculation, we will appoint a different independent investment banking institution of national standing to make the calculation.

For purposes of determining the make-whole premium, ''comparable treasury yield'' means a rate of interest per annum equal to the weekly average yield to maturity of United States Treasury Securities that have a constant maturity that corresponds to the remaining term to maturity of the Notes to be redeemed, calculated to the nearest 1/12th of a year. The comparable treasury yield will be determined as of the third business day immediately preceding the applicable redemption date.

The weekly average yields of United States Treasury Securities will be determined by reference to the most recent statistical release published by the Federal Reserve Bank of New York and designated ''H.15(519) Selected Interest Rates'' or any successor release. If this statistical release sets forth a weekly average yield for United States Treasury Securities having a constant maturity that is the same as the remaining term calculated as set forth above, then the comparable treasury yield will be equal to such weekly average yield. In all other cases, the comparable treasury yield will be calculated by interpolation on a straight-line basis, between the weekly average yields on the United States Treasury Securities that have a constant maturity closest to and greater than the remaining term and the United States Treasury Securities that have a constant maturity closest to and less than the remaining term (in each case as set forth in the H.15 statistical release or any successor release). Any weekly average yields calculated by interpolation will be rounded to the nearest 1/100th of 1%, with any figure of 1/200th of 1% or above being rounded upward. If weekly average yields for United States Treasury Securities are not available in the H.15 statistical release or otherwise, then the comparable treasury yield will be calculated by interpolation of comparable rates selected by an independent investment banking institution selected in the manner described in the second preceding paragraph.

If AES Gener redeems the Notes in part, the trustee will select the notes for redemption on a pro rata basis, by lot or by such other method as the trustee in its sole discretion deems fair and appropriate. AES Gener will only redeem Notes in multiples of $1,000 in original principal amount. If any Note is to be redeemed in part only, the notice of redemption will state the portion of the principal amount to be redeemed. A new Note in principal amount equal to the unredeemed portion of the original Note will be issued upon the cancellation of the original Note.

If AES Gener redeems the Notes in full, the payment of principal at maturity is equal to the par value of the existing Notes, which value is currently US$400,000,000.

Optional Tax Redemption

The Notes may be redeemed at AES Gener's election, as a whole, but not in part, by the giving of notice as provided in the Indenture, at a price equal to the outstanding principal amount thereof, together with any Additional Amounts and accrued interest to the Redemption Date, if, as a result of any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) of Chile or any political subdivision or taxing authority thereof or therein, or any change in the official application, administration or interpretation of such laws, regulations or rulings in such jurisdiction, we have or will become obligated to pay Additional Amounts on the Notes at a rate of withholding or deduction in excess of 4.16% (''Excess Additional Amounts''), if such change or amendment is announced on or after Issue Date and such obligation cannot be avoided by us taking reasonable measures available to us; provided, however, that no such notice of redemption shall be given earlier than 60 days prior to the earliest date on which AES Gener would be obligated to pay such Excess Additional Amounts, were a payment in respect of the Notes then due. Prior to the giving of notice of redemption of such Notes pursuant to the Indenture, AES Gener will deliver to the Trustee an Officers' Certificate and a written opinion of recognized Chilean counsel independent of AES Gener to the effect that all governmental approvals necessary for us to effect such redemption, including any required approvals from the Chilean Central Bank, have been or at the time of redemption will be obtained and in full force and effect and that we are entitled to effect such a redemption pursuant to the Indenture, and setting forth, in reasonable detail the circumstances giving rise to such right of redemption.

Defeasance

AES Gener, at its option, (a) will be Discharged (as defined in the Indenture) from any and all obligations in respect of the Notes (except in each case for certain obligations, including to register the transfer or exchange of Notes, replace stolen, lost or mutilated Notes, maintain paying agencies and hold moneys for payment in trust) or (b) need not comply with certain covenants of the Indenture if AES Gener irrevocably deposits with the Trustee, in trust, (i) money or (ii) in certain cases, (A) U.S. Government Obligations (as defined in the Indenture) which through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount, or (B) a combination thereof, in each case, sufficient to pay and discharge the principal of each installment of principal and interest, if any, on the outstanding Notes on the dates such payments are due, in accordance with the terms of the Notes, to and including the Redemption Date irrevocably designated by AES Gener pursuant to the final sentence of this section on the day on which payments are due and payable in accordance with the terms of the Indenture and of the Notes; and no Event of Default or event which with notice or lapse of time would become an Event of Default (including by reason of such deposit) with respect to the Notes shall have occurred and be continuing on the date of such deposit or during the period ending on the 91st day after such date. To exercise any such option, AES Gener is required to deliver to the Trustee (x) an opinion of recognized Chilean counsel independent of AES Gener to the effect (i) that the holders will not recognize income, gain or loss for federal income tax purposes as a result of such deposit, defeasance and discharge of certain obligations, which in the case of (a) must be based on a change in law or a ruling by the U.S. Internal Revenue Service; and (ii) that the defeasance trust is not, or is registered as, an investment company under the Investment Company Act of 1940 and (y) an opinion of counsel and an Officers' Certificate as to compliance with all conditions precedent provided for in the Indenture relating to the satisfaction and discharge of the Notes. If AES Gener has deposited or caused to be deposited money or U.S. Government Obligations to pay or discharge the principal of (and premium, if any) and interest, if any, on the outstanding Notes to and including a Redemption Date on which all of the outstanding Notes are to be redeemed, such Redemption Date shall be irrevocably designated by a board resolution delivered to the Trustee on or prior to the date of deposit of such money or U.S. Government Obligations, and such board resolution shall be accompanied by an irrevocable Company request that the Trustee give notice of such redemption in the name and at our expense not less than 30 nor more than 60 days prior to such Redemption Date in accordance with the Indenture.

Governing Law; Consent to Jurisdiction and Service of Process

The Indenture and the Notes provide that they will be governed by, and construed in accordance with, the laws of the State of New York. AES Gener has consented to the jurisdiction of the courts of the State of New York and the United States courts located in the Borough of Manhattan, The City of New York with respect to any action that may be brought in connection with the Indenture or the Notes and has irrevocably appointed CT Corporation Systems as agent for service of process.

If for the purpose of obtaining judgment in any court it is necessary to convert a sum due hereunder to the holder of a Note from U.S. dollars into another currency, AES Gener has agreed, and each holder by holding such Note will be deemed to have agreed, to the fullest extent that AES Gener and they may effectively do so, that the rate of exchange used shall be that at which in accordance with normal banking procedures such holder could purchase U.S. dollars with such other currency in The City of New York on the day two business days preceding the day on which final judgment is given.

AES Gener's obligation in respect of any sum payable by it to the holder of a Note shall, notwithstanding any judgment in a currency (the ''judgment currency'') other than U.S. dollars, be discharged only to the extent that on the business day following receipt by the holder of such Note of any sum adjudged to be so due in the judgment currency, the holder of such Note may in accordance with normal banking procedures purchase U.S. dollars with the judgment currency; if the amount of the U.S. dollars so purchased is less than the sum originally due to the holder of such Note in the judgment currency (determined in the manner set forth in the preceding paragraph), AES Gener agrees, as a separate obligation and notwithstanding any such judgment, to indemnify the holder of such Note against such loss, and if the amount of the U.S. dollars so purchased exceeds the sum originally due to the holder of such Note, such holder agrees to remit to us such excess, provided that such holder shall have no obligation to remit any such excess as long as AES Gener's shall have failed to pay such holder any obligations due and payable under such Note, in which case such excess may be applied to AES Gener's obligations under such Note in accordance with the terms thereof.

Certain Definitions

The financial definitions described below are related to the covenants contained in the indenture under which the Notes will be issued.

''*Additional Assets*'' means:

(1) any property or assets (other than Indebtedness and Capital Stock) to be used by AES Gener or a Restricted Subsidiary in a Related Business;

(2) the Capital Stock of a Person that becomes a Restricted Subsidiary as a result of the acquisition of such Capital Stock by AES Gener or another Restricted Subsidiary; or

(3) Capital Stock constituting a minority interest in any Person that at such time is a Restricted Subsidiary; *provided*, *however*, that any such Restricted Subsidiary described in clause (2) or (3) above is primarily engaged in a Related Business.

''*Affiliates*'' of any specified Person means any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, ''control,'' when used with respect to any Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms ''controlling'' and ''controlled'' have meanings correlative to the foregoing. For purposes of the provisions described under ''—Restrictive Covenants—Limitation on Transactions with Affiliates'' only, ''Affiliate'' shall also mean any beneficial owner of shares representing 5% or more of the total voting power of the Voting Stock (on a fully diluted basis) of Parent or AES Gener or of rights or warrants to purchase such Voting Stock (whether or not currently exercisable) and any Person who would be an Affiliate of any such beneficial owner pursuant to the first sentence hereof.

''*Asset Disposition*'' means any sale, lease, transfer or other disposition (or series of related sales, leases, transfers or dispositions) by AES Gener or any Restricted Subsidiary, including any disposition by means of a merger, consolidation, or similar transaction (each referred to for the purposes of this definition as a ''disposition''), of:

(1) any shares of Capital Stock of a Restricted Subsidiary (other than directors' qualifying shares or shares required by applicable law to be held by a Person other than AES Gener or a Restricted Subsidiary);

(2) all or substantially all the assets of any division or line of business of AES Gener or any Restricted Subsidiary; or

(3) any other assets of AES Gener or any Restricted Subsidiary outside of the ordinary course of business of AES Gener or such Restricted Subsidiary

other than:

(a) a disposition by a Restricted Subsidiary to AES Gener or another Restricted Subsidiary or by AES Gener to a Restricted Subsidiary;

(b) for purposes of the provisions described under ''—Restrictive Covenants—Limitation on Sales of Assets'' only, a disposition subject to the covenant described under ''—Restrictive Covenants—Limitation on Restricted Payments'';

(c) a disposition of assets with a fair market value of less than US$5,000,000;

(d) a disposition of Temporary Cash Investments or goods held for sale in the ordinary course of business or obsolete equipment or other obsolete assets in the course of business consistent with past practices of AES Gener;

(e) the disposition of all or substantially all of the assets of AES Gener in a manner permitted under the covenant described under ''—Consolidation, Merger, Conveyance, Sale or Lease'' under the Indenture;

(f) the lease, assignment or sublease of any real or personal property in the ordinary course of business;

(g) the disposition of assets in a Sale-Leaseback Transaction, if otherwise permitted by the covenant ''Limitation on Sale and Lease-Back Transactions'';

(h) the expropriation or loss of control and/or ownership of TermoAndes and/or InterAndes for any reason, whether voluntary or involuntary; and

(i) the Incurrence of any Lien permitted by the covenant described under ''Limitation on Liens''.

''*Attributable Debt*'' in respect of a Sale and Lease-Back Transaction means, as at the time of determination, the present value (discounted at the interest rate borne by the Notes, compounded annually) of the total obligations of the lessee for rental payments during the remaining term of the lease included in such Sale and Lease-Back Transaction (including any period for which such lease has been extended).

''*Average Life*'' means, as of the date of determination, with respect to any Indebtedness or Preferred Stock, the quotient obtained by dividing:

(1) the sum of the products of the numbers of years from the date of determination to the dates of each successive scheduled principal payment of such Indebtedness or redemption or similar payment with respect to such Preferred Stock multiplied by the amount of such payment by

(2) the sum of all such payments.

"*Board of Directors*" means, with respect to any Person, the Board of Directors of such Person or any committee thereof duly authorized to act on behalf of the Board of Directors of such Person.

"*Capital Stock*" of any Person means any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) equity of such Person, including any Preferred Stock, but excluding any debt securities convertible into such equity.

"*Capitalized Lease Obligations*" means an obligation that is required to be classified and accounted for as a capitalized lease for financial reporting purposes in accordance with Chilean GAAP, and the amount of Indebtedness represented by such obligation shall be the capitalized amount of such obligation determined in accordance with Chilean GAAP; and the Stated Maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be prepaid by the lessee without payment of a penalty.

"*Chilean Convertible Notes*" means AES Gener's 6% Chilean convertible notes due 2005.

"*Chilean GAAP*" means generally accepted accounting principles in Chile and the rules of the *Superintendencia de Valores y Seguros,* or SVS.

"*Chivor*" means Chivor S.A. E.S.P.

"*Closing Date*" means March 22, 2004.

"*Consolidated EBITDA*" means, for any period, the aggregate of (i) Consolidated Operational Cash Flow plus (ii) Consolidated Other Income *plus* (iii) cash received by AES Gener and its Restricted Subsidiaries from Unrestricted Subsidiaries and Equity-Method Investees.

"*Consolidated Interest Charges*" means, for any period, the aggregate amount of Consolidated interest charges Incurred or accrued (including, but not limited to, any amount thereof capitalized) by AES Gener and its Restricted Subsidiaries during such period as determined in accordance with Chilean GAAP.

"*Consolidated Net Income*" means, for any period, Consolidated net income for such period; provided, however, that there shall not be included in such Consolidated Net Income:

(1) any net income of any Person (other than AES Gener) if such Person is not a Restricted Subsidiary, except that:

(a) subject to the limitations contained in clause (4) below, AES Gener's portion of the net income of a Person in which it has an ownership interest lower than required for such Person to be Consolidated for such period shall be included to reflect AES Gener's portion of such net income; but only to the extent that such Person is not restricted in its ability to distribute AES Gener's portion of such Person's net income to AES Gener; and

(b) AES Gener's portion of the net loss of any such Person for such period shall be included in determining such Consolidated Net Income;

(2) any net income (or loss) of any Person acquired by AES Gener or a Restricted Subsidiary of AES Gener in a pooling of interests transaction for any period prior to the date of such acquisition;

(3) any net income or net loss of any Restricted Subsidiary to the extent that the declaration or payment of dividends or similar distributions by such Restricted Subsidiary of its net income is not, at the date of determination, permitted without any prior governmental approval (which has not been obtained) or, directly or indirectly, by the operation of the terms of

its charter, or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to that Restricted Subsidiary or its stockholders, unless such restrictions with respect to the payment of dividends or similar distributions have been legally waived;

(4) any gain (or loss) realized upon the sale or other disposition of any asset of AES Gener or its Restricted Subsidiaries (including pursuant to any Sale and Lease-Back Transaction) that is not sold or otherwise disposed of in the ordinary course of business and any gain (or loss) realized upon the sale or other disposition of any Capital Stock of any Person;

(5) any extraordinary or otherwise nonrecurring gain or loss;

(6) any gain or loss related to currency fluctuation; and

(7) the cumulative effect of a change in accounting principles.

''*Consolidated Operational Cash Flow*'' means, for any period, the aggregate of (i) Consolidated operating income *plus* (ii) Consolidated depreciation on fixed assets of AES Gener and its Restricted Subsidiaries *plus* (iii) Consolidated amortization of intangible assets of AES Gener and its Restricted Subsidiaries.

''*Consolidated Other Income*'' means, for any period, the aggregate of (i) Consolidated financial income plus (ii) cash received by AES Gener and its Restricted Subsidiaries within its then current Fiscal Year in respect of proceeds from business interruption insurance claims, to the extent such claims represent claims for lost revenues and only if the Board of Directors of AES Gener or the relevant Restricted Subsidiary reasonably concludes that such lost revenue will be replaced (other than with the proceeds of such insurance claims) within six months of the event giving rise to the claim for business interruption insurance.

''*Consolidated Total Indebtedness*'' means Consolidated indebtedness as set forth on the most recent consolidated balance sheet of AES Gener and its Restricted Subsidiaries.

''*Consolidation*'' means the consolidation of the accounts of each of the Restricted Subsidiaries with those of AES Gener in accordance with Chilean GAAP consistently applied; *provided*, *however*, that ''Consolidation'' will not include consolidation of the accounts of any Unrestricted Subsidiary, but the interest of AES Gener or any Restricted Subsidiary in an Unrestricted Subsidiary will be accounted for as an investment. The term ''Consolidated'' has a correlative meaning.

''*Currency Agreement*'' means, with respect to any Person, any foreign exchange contract, currency swap agreement or other similar agreement or arrangement to which such Person is a party or of which it is a beneficiary.

''*Default*'' means any event which is, or after notice or passage of time or both would be, an Event of Default.

''*Disqualified Stock*'' means, with respect to any Person, any Capital Stock that by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable or exercisable) or upon the happening of any event:

(1) matures or is mandatorily redeemable pursuant to a sinking fund obligation or otherwise;

(2) is convertible or exchangeable for Indebtedness or Disqualified Stock; or

(3) is redeemable at the option of the holder thereof, in whole or in part; in each case on or prior to the first anniversary of the Stated Maturity of the Notes; *provided*, *however*, that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to repurchase or redeem such Capital Stock

upon the occurrence of an "asset sale" occurring prior to the first anniversary of the Stated Maturity of the Notes shall not constitute Disqualified Stock if the "asset sale" provision applicable to such Capital Stock are not more favorable to the holders of such Capital Stock than the provision of the covenants described under "—Restrictive Covenants—Limitation on Sale of Assets."

"*Eléctrica Santiago*" means Sociedad Eléctrica Santiago S.A.

"*Equity-Method Investees*" means a Person in which AES Gener or a Restricted Subsidiary has an ownership interest lower than required for such Person to be Consolidated.

"*Financial Close*" means, with respect to any Project Finance Subsidiary, the time at which initial financing (other than any financing provided by any Affiliate of such Project Finance Subsidiary or any bridge financing) is made available to such Project Finance Subsidiary to finance its project for the acquisition, construction, development or exploitation of any power plant, transmission facility, distribution facility or related facility.

"*Fitch*" means Fitch Ratings Ltd. and its successors.

"*Funded Debt*" means Indebtedness of AES Gener (including the Notes) maturing by the terms thereof more than one year after the original creation thereof.

"*Gener Argentina*" means Gener Argentina S.A.

"*Guarantee*" means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person and any obligation, direct or indirect, contingent or otherwise, of any Person:

(1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise); or

(2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); *provided*, *however*, that the term "Guarantee" shall not include endorsements for collection or deposit in the ordinary course of business. The term "Guarantee" used as a verb has a correlative meaning. The term "Guarantor" shall mean any Person Guaranteeing any obligation.

"*Hedging Obligations*" of any Person means the obligations of such Person pursuant to any Interest Rate Agreement or Currency Agreement.

"*Incur*" means issue, assume, Guarantee, incur or otherwise become liable for; *provided*, *however*, that any Indebtedness or Capital Stock of a Person existing at the time such Person is merged or consolidated with AES Gener or becomes a Subsidiary of AES Gener (whether by merger, consolidation, acquisition or otherwise) shall be deemed to be Incurred by such Person at the time of such merger or consolidation or at the time it becomes a Subsidiary of AES Gener. The term "Incurrence" when used as a noun shall have a correlative meaning. Neither the accretion of principal of a non-interest bearing or other discount security nor the capitalization of interest on Indebtedness shall be deemed the Incurrence of Indebtedness.

"*Indebtedness*" means, with respect to any Person on any date of determination (without duplication):

(1) the principal of and premium (if any) in respect of indebtedness of such Person for borrowed money;

(2) the principal of and premium (if any) in respect of obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;

(3) all reimbursement obligations of such Person in respect of the face amount of letters of credit or other similar instruments;

(4) all obligations of such Person to pay the deferred and unpaid purchase price of property or services (except trade payables and contingent obligations to pay earn-outs), which purchase price is due more than six months after the date of placing such property in service or taking delivery and title thereto or the completion of such services;

(5) all Capitalized Lease Obligations and all Attributable Debt of such Person;

(6) the amount of all obligations of such Person with respect to the redemption, repayment or other repurchase of any Disqualified Stock or, with respect to any Subsidiary of such Person, any Preferred Stock (but excluding, in each case, any accrued dividends);

(7) all indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such indebtedness is assumed by such Person; *provided*, *however*, that the amount of Indebtedness of such Person shall be the lesser of:

(a) the fair market value of such asset at such date of determination and

(b) the amount of such indebtedness of such other Persons;

(8) to the extent not otherwise included in this definition, Hedging Obligations and Regulated Customer Revenue Hedges of such Person to the extent that such Hedging Obligations and Regulated Customer Revenue Hedges appear as a liability on the balance sheet of such Person, prepared in accordance with Chilean GAAP; and

(9) all obligations of the type referred to in clauses (1) through (8) above of other Persons and all dividends of other Persons for the payment of which, in either case, such Person is responsible or liable, directly or indirectly, as obligor, Guarantor or otherwise, including by means of any Guarantee.

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and the maximum liability, upon the occurrence of the contingency giving rise to the obligation, of any contingent obligations at such date.

''*InterAndes*'' means InterAndes S.A.

''*Interest Coverage Ratio*'' means, for any period of four consecutive fiscal quarters ending on the last day of a fiscal quarter in a Fiscal Year, (i) Consolidated EBITDA for such period divided by (ii) Consolidated Interest Charges for such period; *provided, however*, that:

(a) if AES Gener or any Restricted Subsidiary has repaid, repurchased, defeased or otherwise discharged any Indebtedness since the beginning of such period or if any Indebtedness is to be repaid, repurchased, defeased or otherwise discharged (in each case, other than Indebtedness Incurred under any revolving credit facility unless such Indebtedness has been permanently repaid and has not been replaced) on the date of the transaction giving rise to the need to calculate the Interest Coverage Ratio, Consolidated EBITDA and Consolidated Interest Charges for such period shall be calculated on a pro forma basis as if such discharge had occurred on the first day of such period and as if AES Gener or such Restricted Subsidiary has not earned the interest income actually earned during such period in respect of cash or Temporary Cash Investments used to repay, repurchase, defease or otherwise discharge such Indebtedness;

(b) if since the beginning of such period AES Gener or any Restricted Subsidiary shall have made any Asset Disposition, the Consolidated EBITDA for such period shall be reduced by an amount equal to the Consolidated EBITDA (if positive) directly attributable to the assets that are the subject of such Asset Disposition for such period or increased by an amount equal to the Consolidated EBITDA (if negative) directly attributable thereto for such period;

(c) if since the beginning of such period, AES Gener or any Restricted Subsidiary (by merger or otherwise) shall have made an Investment in any Person that is merged with or into AES Gener or any Restricted Subsidiary (or any Person that becomes a Restricted Subsidiary) or an acquisition of assets, including any acquisition of assets occurring in connection with a transaction causing a calculation to be made hereunder, which constitutes all or substantially all of an operating unit of a business, Consolidated EBITDA and Consolidated Interest Charges for such period shall be calculated after giving pro forma effect thereto (including the Incurrence of any Indebtedness) as if such Investment or acquisition occurred on the first day of such period; any such pro forma calculation may include adjustments appropriate to reflect, without duplication, (x) any such acquisition to the extent such adjustments may be reflected in the preparation of pro forma financial information in accordance with the requirements of Chilean GAAP and Article XI of Regulation S-X under the Exchange Act, (y) the annualized amount of operating expense reductions reasonably expected to be realized in the six months following any such acquisition made during any of the four fiscal quarters constituting the four-quarter reference period prior to the date of determination and (z) the annualized amount of operating expense reductions reasonably expected to be realized in the six months following any such acquisition made by AES Gener during either of the two fiscal quarters immediately preceding the four-quarter reference period prior to the date of determination; *provided* that in either case such adjustments are set forth in an Officers' Certificate that states (i) the amount of such adjustment or adjustments, (ii) that such adjustment or adjustments are based on the reasonable good faith beliefs of the officers executing such Officers' Certificate at the time of such execution and (iii) that any related Incurrence of Indebtedness is permitted pursuant to the Indenture; and

(d) if since the beginning of such period, any Person (that subsequently became a Restricted Subsidiary or was merged with or into AES Gener or any Restricted Subsidiary since the beginning of such period) shall have made any Asset Disposition or any Investment or acquisition of assets that would have required an adjustment pursuant to clause (b) or (c) above if made by AES Gener or a Restricted Subsidiary during such period, Consolidated EBITDA and Consolidated Interest Charges for such period shall be calculated after giving pro forma effect thereto as if such Asset Disposition, Investment or acquisition of assets occurred on the first day of such period.

''*Interest Rate Agreement*'' means, with respect to any Person, any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement or other similar agreement or arrangement to which such Person is a party or a beneficiary.

''*Investment*'' in any Person means any direct or indirect advance, loan (other than advances to customers in the ordinary course of business that are recorded as accounts receivable on the balance sheet of the lender) or other extension of credit (including by way of Guarantee or similar arrangement) or capital contribution to (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others), or any purchase or acquisition of Capital Stock, Indebtedness or other similar instruments issued by such Person. For purposes of the definition of "Unrestricted Subsidiary" and the covenant described under "—Restrictive Covenants—Limitation on Restricted Payments":

(1) Investment shall include the portion (proportionate to AES Gener's equity interest in such Subsidiary) of the fair market value of the net assets of any Subsidiary of AES Gener at the time that such Subsidiary is designated an Unrestricted Subsidiary; *provided*, *however*, that, upon a redesignation of such Subsidiary as a Restricted Subsidiary, AES Gener shall be deemed to continue to have a permanent "Investment" in an Unrestricted Subsidiary in an amount (if positive) equal to:

(a) AES Gener's Investment in such Subsidiary at the time of such redesignation less

(b) the portion (proportionate to AES Gener's equity interest in such Subsidiary) of the fair market value of the net assets of such Subsidiary at the time of such redesignation; and

(2) any property transferred to or from an Unrestricted Subsidiary shall be valued at its fair market value at the time of such transfer, in each case, as determined in good faith by the Board of Directors of AES Gener.

"*Investment Grade Rating*" means a rating equal to or higher than Baa3 by Moody's and BBB- by S&P and Fitch.

"*Lien*" means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including any conditional sale or other title retention agreement or lease in the nature thereof).

"*Minimum Legally Required Dividend*" means, for any Person and any period, an amount equal to the minimum dividend required to be distributed under applicable law by such Person to holders of its Capital Stock during such period.

"*Moody's*" means Moody's Investors Service, Inc. and its successors.

"*Net Available Cash*" from an Asset Disposition means cash payments received (including any cash payments received by way of deferred payment of principal pursuant to a note or installment receivable or otherwise and proceeds from the sale or other disposition of any securities received as consideration, but only as and when received, but excluding any other consideration received in the form of assumption by the acquiring Person of Indebtedness or other obligations relating to the properties or assets that are the subject of such Asset Disposition or received in any other non-cash form) therefrom, in each case net of:

(1) all legal fees and expenses, title and recording tax expenses, commissions and other fees and expenses Incurred, and all federal, state, provincial, foreign and local taxes required to be paid or accrued as a liability under Chilean GAAP, as a consequence of such Asset Disposition;

(2) all payments, including any prepayment premiums or penalties, made on any Indebtedness that is secured by any assets subject to such Asset Disposition, in accordance with the terms of any Lien upon or other security agreement of any kind with respect to such assets, or which must by its terms, or in order to obtain a necessary consent to such Asset Disposition, or by applicable law be repaid out of the proceeds from such Asset Disposition;

(3) all distributions and other payments required to be made to minority interest holders in Subsidiaries or joint ventures as a result of such Asset Disposition;

(4) appropriate amounts to be provided by the seller as a reserve, in accordance with Chilean GAAP, against any liabilities associated with the property or other assets disposed of in

such Asset Disposition and retained by AES Gener or any Restricted Subsidiary after such Asset Disposition; and

(5) all payments required to be made on Indebtedness outstanding under the TermoAndes/ InterAndes Facility in connection with such Asset Disposition.

''*Net Cash Proceeds*'' with respect to any issuance or sale of Capital Stock, means the cash proceeds of such issuance or sale net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions and brokerage, consultant and other fees and expenses actually Incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

''*Nueva Renca Plant*'' means Eléctrica Santiago's gas-fired combined-cycle power plant in Santiago, Chile with a nominal capacity of 379 MW.

''*Parent*'' means Inversiones Cachagua Limitada.

''*Permitted Investment*'' means:

(1) an Investment by AES Gener or any Restricted Subsidiary in AES Gener, a Restricted Subsidiary or a Person that will, upon the making of such Investment, become a Restricted Subsidiary; *provided*, *however*, that the primary business of such Restricted Subsidiary is a Related Business;

(2) an Investment by AES Gener or any Restricted Subsidiary in another Person if as a result of such Investment such other Person is merged or Consolidated with or into, or transfers or conveys all or substantially all its assets to, AES Gener or a Restricted Subsidiary; *provided*, *however*, that such Person's primary business is a Related Business;

(3) Temporary Cash Investments;

(4) receivables owing to AES Gener or any Restricted Subsidiary if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms; *provided*, *however*, that such trade terms may include such concessionary trade terms as AES Gener or any such Restricted Subsidiary deems reasonable under the circumstances;

(5) payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses for accounting purposes and that are made in the ordinary course of business;

(6) stock, obligations or securities received in settlement of (or foreclosure with respect to) debts created in the ordinary course of business and owing to AES Gener or any Restricted Subsidiary or in satisfaction of judgments;

(7) an Investment by AES Gener or any Restricted Subsidiary in any Person to the extent such Investment represents the non-cash or deemed cash portion of the consideration received for an Asset Disposition that was made pursuant to and in compliance with the covenant described under ''—Restrictive Covenants—Limitation on Sales of Assets'';

(8) any Investment existing on the Closing Date;

(9) Hedging Obligations and Regulated Customer Revenue Hedges permitted under paragraph (2)(f) of the covenant described under ''—Restrictive Covenants—Limitation on Indebtedness'';

(10) Guarantees of Indebtedness permitted under the covenant described under ''—Covenants—Limitation on Indebtedness'';

(11) Investments which are made exclusively with Capital Stock of Parent or AES Gener (other than Disqualified Stock);

(12) the contribution of the Renca Plant Assets to an Unrestricted Subsidiary in connection with the conversion of the Renca Plant from a steam turbine plant into a combined-cycle plant; and

(13) additional Investments having an aggregate fair market value, taken together with all other Investments made pursuant to this clause (13) that are at the time outstanding, not to exceed US$10 million at the time of such Investment (with the fair market value of each Investment being measured at the time made and without giving effect to subsequent changes in value).

"*Person*" means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization, government or any agency or political subdivision thereof or any other entity.

"*Preferred Stock*" as applied to the Capital Stock of any Person, means Capital Stock of any class or classes (however designated) that is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person.

"*Project Finance Subsidiary*" means any Unrestricted Subsidiary that is a special purpose vehicle to be engaged in an energy business and established to finance a project for the acquisition, construction, development and exploitation of any power plant, transmission facility, distribution facility or related facility.

"*Purchase Money Indebtedness*" means Indebtedness:

(1) consisting of the deferred purchase price of an asset, conditional sale obligations, obligations under any title retention agreement and other purchase money obligations, in each case where the maturity of such Indebtedness does not exceed the anticipated useful life of the asset being financed; and

(2) Incurred to finance the acquisition by AES Gener or a Restricted Subsidiary of such asset, including additions and improvements; *provided*, *however*, that such Indebtedness is Incurred within 180 days before or after the acquisition by AES Gener or such Restricted Subsidiary of such asset.

"*Ratings Agencies*" means each of Fitch, Moody's and S&P.

"*Refinance*" means, in respect of any Indebtedness, to refinance, extend, renew, refund, repay, replace, prepay, redeem, defease or retire, or to issue other Indebtedness in exchange or replacement for, such Indebtedness. "Refinanced" and "Refinancing" shall have correlative meanings.

"*Refinancing Indebtedness*" means Indebtedness that is Incurred to refund, refinance, replace, repay, redeem, retire, renew, repay or extend (including pursuant to any defeasance or discharge mechanism) any Indebtedness of AES Gener or any Restricted Subsidiary existing on the Closing Date or Incurred in compliance with the Indenture (including Indebtedness that Refinances Refinancing Indebtedness); *provided*, *however*, that:

(1) the Refinancing Indebtedness has a Stated Maturity no earlier than the Stated Maturity of the Indebtedness being Refinanced;

(2) the Refinancing Indebtedness has an Average Life at the time such Refinancing Indebtedness is Incurred that is equal to or greater than the Average Life of the Indebtedness being refinanced;

(3) such Refinancing Indebtedness is Incurred in an aggregate principal amount (or if issued with original issue discount, an aggregate issue price) that is equal to or less than the aggregate principal amount (or if issued with original issue discount, the aggregate accreted value) then outstanding of the Indebtedness being Refinanced (plus reasonable expenses incurred in connection therewith); and

(4) if the Indebtedness being Refinanced is subordinated in right of payment to the Notes, such Refinancing Indebtedness is subordinated in right of payment to the Notes at least to the same extent as the Indebtedness being Refinanced; *provided further, however*, that Refinancing Indebtedness shall not include Indebtedness of AES Gener or a Restricted Subsidiary that Refinances Indebtedness of an Unrestricted Subsidiary.

''*Regulated Customer Revenue Hedge*'' means any agreement into which AES Gener and/or its Restricted Subsidiaries may enter in order to mitigate the foreign exchange risk of sales to regulated customers in Chile and sales to unregulated customers in Chile where prices are linked to regulated prices, in each case through the establishment of a fixed exchange rate for peso-denominated revenues invoiced each month in a six-month period during which the regulated customer tariff (the *precio nudo*) remains unchanged in peso-denominated terms, unless modified by the relevant regulatory authority in Chile in accordance with applicable regulations.

''*Related Business*'' means any business related, ancillary or complementary to the businesses of AES Gener and the Restricted Subsidiaries on the Closing Date.

''*Renca Plant*'' means Eléctrica Santiago's combined fuel oil/diesel power plant in Santiago, Chile with a nominal capacity of 100 MW.

''*Renca Plant Assets*'' means (1) the turbines, furnaces, electricity transformers and other devices located in Santiago, which together comprise the Renca Plant, (2) 3.8 acres of land upon which the Renca Plant is located, (3) a 500 Gwh electricity supply agreement to deliver energy produced by the Renca Plant to one or more customers, (4) all electrical connections from the Renca Plant to the SIC, and (5) all regulatory and environmental permits relating to the operation of the Renca Plant, in each case (a) to the extent not shared with the Nueva Renca Plant or any Restricted Subsidiary and (b) existing on the Closing Date.

''*Restricted Subsidiary*'' means any Subsidiary of AES Gener other than an Unrestricted Subsidiary.

''*S&P*'' means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies Inc., and its successors.

''*Sale and Lease-Back Transaction*'' means any arrangement with any person (other than AES Gener or a Restricted Subsidiary), or to which any such person is a party, providing for the leasing to AES Gener or a Restricted Subsidiary for a period of more than three years of any property or assets which has been or is to be sold or transferred by AES Gener or such Restricted Subsidiary to such person or to any other person (other than AES Gener or a Restricted Subsidiary) to which funds have been or are to be advanced by such person on the security of the leased property or assets.

''*Senior Indebtedness*'' means all unsubordinated Indebtedness of AES Gener or of any Restricted Subsidiary, whether outstanding on the Closing Date or Incurred thereafter.

"*Stated Maturity*" means, with respect to any security, the date specified in such security as the fixed date on which the final payment of principal of such security is due and payable, including, with respect to any principal amount which is then due and payable pursuant to any mandatory redemption provision, the date specified for the payment thereof (but excluding any provision providing for the repurchase of such security at the option of the holder thereof upon the happening of any contingency beyond the control of the issuer unless such contingency has occurred).

"*Subordinated Obligation*" means any Indebtedness of AES Gener (whether outstanding on the Closing Date or thereafter Incurred) that is subordinate or junior in right of payment to the Notes pursuant to a written agreement.

"*Subsidiary*" means, with respect to any Person (the "parent") at any date, any corporation, limited liability company, partnership, association or other entity the accounts of which would be consolidated with those of the parent in the parent's consolidated financial statements if such financial statements were prepared in accordance with Chilean GAAP as of such date, as well as any other corporation, limited liability company, partnership, association or other entity:

(1) of which securities or other ownership interests representing more than 50% of the equity or more than 50% of the ordinary voting power or, in the case of a partnership, more than 50% of the general partnership interests are, as of such date, owned, controlled or held; or

(2) that is, as of such date, otherwise controlled by the parent or one or more subsidiaries of the parent or by the parent and one or more subsidiaries of the parent.

"*Temporary Cash Investments*" means any of the following:

(1) any investment in direct obligations of the United States of America or any agency thereof or obligations Guaranteed by the United States of America or any agency thereof;

(2) investments in time deposit accounts, certificates of deposit and money market deposits maturing within 180 days of the date of acquisition thereof issued by a bank or trust company that is organized under the laws of the United States, any state thereof or any foreign country recognized by the United States having capital, surplus and undivided profits aggregating in excess of US$250.0 million (or the foreign currency equivalent thereof) and whose long-term debt is rated "A" (or such similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in Rule 436 under the Securities Act);

(3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (1) above entered into with a bank meeting the qualifications described in clause (2) above;

(4) investments in commercial paper, maturing not more than 90 days after the date of acquisition, issued by a corporation (other than an Affiliate of AES Gener) organized and in existence under the laws of the United States or any foreign country recognized by the United States with a rating at the time as of which any investment therein is made of "P-1" (or higher) according to Moody's Investors Service, Inc. or "A-1" (or higher) according to S&P;

(5) investments in securities with maturities of six months or less from the date of acquisition issued or fully Guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof, and rated at least "A" by S&P or "A" by Moody's; and

(6) (a) marketable direct obligations issued or unconditionally Guaranteed by Chile, (b) time deposits or certificates of deposit of a Chilean bank, the commercial paper or other short-term unsecured debt obligations of which (or in the case of a bank that is the principal subsidiary of a

holding company, the holding company) are rated the highest rating of any Chilean bank, but in no event less than the short term rating of "A2" by S&P or "P2" by Moody's, and maturing within 90 days (unless the short term rating is not less than "A1" by S&P or "P1" by Moody's in which case maturing within one (1) year) from the date of acquisition thereof by AES Gener or a Restricted Subsidiary, (c) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (a) above entered into with a bank meeting the qualifications described in clause (b) above, or (d) commercial paper of a Chilean issuer the long-term unsecured debt obligations of which are rated the highest rating of a Chilean issuer, but in no event not less than the equivalent short term rating of "A2" by S&P or "P2" by Moody's, and maturing within 90 days (unless the short term rating is not less than "A1' by S&P or "P1" by Moody's, in which case maturing within one (1) year) from the date of acquisition thereof by AES Gener or a Restricted Subsidiary.

"*TermoAndes*" means TermoAndes S.A.

"*TermoAndes/InterAndes Facility*" means the term loan credit facilities made available to AES Gener under the Credit Agreement dated as of February 27, 2004 among AES Gener, TermoAndes, InterAndes, Gener Argentina, the banks signatory thereto and Deutsche Bank AG, New York Branch, as administrative agent.

"*TermoAndes/InterAndes Refinancing Transactions*" means (i) the repayment or purchase, as applicable, of the outstanding Indebtedness of TermoAndes and InterAndes with the secured funds of TermoAndes and InterAndes and the proceeds from the TermoAndes/InterAndes Facility, (ii) the partial prepayment and capitalization of the outstanding Hedging Obligations of TermoAndes and InterAndes with the secured funds of TermoAndes and InterAndes and the proceeds from the TermoAndes/InterAndes Facility, and (iii) and the Investment of the Indebtedness of TermoAndes and InterAndes into TermoAndes and InterAndes by AES Gener, and cancellation of such Indebtedness by TermoAndes and InterAndes.

"*Total Capitalization*" means, as to any Project Finance Subsidiary, the projected total cost of acquiring, constructing, developing and exploiting any power plant, transmission facility, distribution facility or related facility as of the Financial Close relating thereto, as determined in good faith by the Board of Directors of AES Gener on the basis of reasonable assumptions.

"*Total Debt to EBITDA Ratio*" means at any date (i) Consolidated Total Indebtedness less Unrestricted Cash, divided by (ii) Consolidated EBITDA for the period of four consecutive fiscal quarters ending on or most recently prior to such date *provided*, *however*, that:

(a) if AES Gener or any Restricted Subsidiary has repaid, repurchased, defeased or otherwise discharged any Indebtedness since the beginning of such period or if any Indebtedness is to be repaid, repurchased, defeased or otherwise discharged (in each case, other than Indebtedness Incurred under any revolving credit facility unless such Indebtedness has been permanently repaid and has not been replaced) on the date of the transaction giving rise to the need to calculate the Total Debt to EBITDA Ratio, Consolidated EBITDA for such period shall be calculated on a pro forma basis as if such discharge had occurred on the first day of such period and as if AES Gener or such Restricted Subsidiary has not earned the interest income actually earned during such period in respect of cash or Temporary Cash Investments used to repay, repurchase, defease or otherwise discharge such Indebtedness;

(b) if since the beginning of such period AES Gener or any Restricted Subsidiary shall have made any Asset Disposition, the Consolidated EBITDA for such period shall be reduced by an amount equal to the Consolidated EBITDA (if positive) directly attributable to the assets that are the subject of such Asset Disposition for such period or increased by an amount equal to the Consolidated EBITDA (if negative) directly attributable thereto for such period;

(c) if since the beginning of such period, AES Gener or any Restricted Subsidiary (by merger or otherwise) shall have made an Investment in any Person that is merged with or into AES Gener or any Restricted Subsidiary (or any Person that becomes a Restricted Subsidiary) or an acquisition of assets, including any acquisition of assets occurring in connection with a transaction causing a calculation to be made hereunder, which constitutes all or substantially all of an operating unit of a business, Consolidated EBITDA for such period shall be calculated after giving pro forma effect thereto (including the Incurrence of any Indebtedness) as if such Investment or acquisition occurred on the first day of such period; any such pro forma calculation may include adjustments appropriate to reflect, without duplication, (x) any such acquisition to the extent such adjustments may be reflected in the preparation of pro forma financial information in accordance with the requirements of Chilean GAAP and Article XI of Regulation S-X under the Exchange Act, (y) the annualized amount of operating expense reductions reasonably expected to be realized in the six months following any such acquisition made during any of the four fiscal quarters constituting the four-quarter reference period prior to the date of determination and (z) the annualized amount of operating expense reductions reasonably expected to be realized in the six months following any such acquisition made by AES Gener during either of the two fiscal quarters immediately preceding the four-quarter reference period prior to the date of determination; *provided* that in either case such adjustments are set forth in an Officers' Certificate that states (i) the amount of such adjustment or adjustments, (ii) that such adjustment or adjustments are based on the reasonable good faith beliefs of the officers executing such Officers' Certificate at the time of such execution and (iii) that any related Incurrence of Indebtedness is permitted pursuant to the Indenture; and

(d) if since the beginning of such period, any Person (that subsequently became a Restricted Subsidiary or was merged with or into AES Gener or any Restricted Subsidiary since the beginning of such period) shall have made any Asset Disposition or any Investment or acquisition of assets that would have required an adjustment pursuant to clause (b) or (c) above if made by AES Gener or a Restricted Subsidiary during such period, Consolidated EBITDA for such period shall be calculated after giving pro forma effect thereto as if such Asset Disposition, Investment or acquisition of assets occurred on the first day of such period.

For purposes of this definition, whenever pro forma effect is to be given to an acquisition of assets and the amount of income or earnings relating thereto, the pro forma calculations shall be determined in good faith by a responsible financial or accounting officer of AES Gener. If any Indebtedness bears a floating rate of interest and is being given pro forma effect, the interest expense on such Indebtedness shall be calculated as if the rate in effect on the date of determination had been the applicable rate for the entire period (taking into account any Interest Rate Agreement applicable to such Indebtedness if such Interest Rate Agreement has a remaining term as at the date of determination in excess of twelve months).

"*Unrestricted Cash*" means, as of any date of determination, cash or cash equivalents as set forth on the balance sheet of AES Gener and its Restricted Subsidiaries minus, without duplication, the sum of cash or cash equivalents (i) held in accounts in the ordinary operation of the business, (ii) required to be shown as restricted cash or cash equivalents in accordance with Chilean GAAP on such balance sheet (or the notes thereto) or otherwise unavailable to AES Gener and its Restricted Subsidiaries for general use as a result of applicable law or agreement with a third party, and (iii) held or required to be held in an escrow account or otherwise legally segregated from the funds of AES Gener and its Restricted Subsidiaries.

''*Unrestricted Subsidiary*'' means:

(1) Chivor;

(2) any other Subsidiary of AES Gener that at the time of determination shall be designated an Unrestricted Subsidiary by the Board of Directors of AES Gener in the manner provided below; and

(3) any Subsidiary of an Unrestricted Subsidiary.

The Board of Directors of AES Gener may designate any Subsidiary of AES Gener (including any newly acquired or newly formed Subsidiary of AES Gener) to be an Unrestricted Subsidiary pursuant to clause (2) above unless such Subsidiary or any of its Subsidiaries owns any Capital Stock or Indebtedness of, or owns or holds any Lien on any property of, AES Gener or any other Subsidiary of AES Gener that is not a Subsidiary of the Subsidiary to be so designated; *provided*, *however*, that either:

(a) the Subsidiary to be so designated has total consolidated assets of US$1,000 or less; or

(b) if such Subsidiary has consolidated assets greater than US$1,000, then such designation would be permitted under ''—Restrictive Covenants—Limitation on Restricted Payments.''

The Board of Directors of AES Gener may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided*, *however*, that immediately after giving effect to such designation:

(i) AES Gener could Incur US$1.00 of additional Indebtedness under paragraph (1) of the covenant described under ''—Restrictive Covenants—Limitation on Indebtedness''; and

(ii) no Event of Default shall have occurred and be continuing.

Any such designation of a Subsidiary as a Restricted Subsidiary, and any such designation of a Subsidiary as an Unrestricted Subsidiary pursuant to clause (2) above, by the Board of Directors of AES Gener shall be evidenced to the Trustee by promptly filing with the Trustee a copy of the resolution of the Board of Directors of AES Gener giving effect to such designation and an Officers' Certificate certifying that such designation complied with the foregoing provisions.

''*U.S. Convertible Notes*'' means AES Gener's 6% senior convertible notes due 2005.

''*U.S. Government Obligations*'' means direct obligations (or certificates representing an ownership interest in such obligations) of the United States (including any agency or instrumentality thereof) for the payment of which the full faith and credit of the United States is pledged and that are not callable or redeemable at the issuer's option.

''*Value*'' shall mean, with respect to a Sale and Lease-Back Transaction, as of any particular time, the amount equal to the greater of: (1) the net proceeds of the sale or transfer of the property leased pursuant to such Sale and Lease-Back Transaction or (2) the fair value in the opinion of the Board of Directors of AES Gener or the relevant Restricted Subsidiary of such property at the time of entering into such Sale and Lease-Back Transaction, in either case divided first by the number of full years of the term of the lease and then multiplied by the number of full years of such term remaining at the time of determination, without regard to any renewal or extension options contained in the lease.

''*Voting Stock*'' of a Person means all classes of Capital Stock or other interests (including partnership interests) of such Person then outstanding and normally entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof.

TAXATION

Chilean Tax Considerations

The following is a general summary of the material consequences under Chilean tax law, as currently in effect, of an investment in the notes made by a Foreign Holder. The term "Foreign Holder" means (i) an individual not resident or domiciled in Chile (for purposes of Chilean taxation, (a) an individual is a resident of Chile if he or she has resided in Chile for more than six months in one calendar year, or a total of more than six months in two consecutive fiscal years or (b) an individual is domiciled in Chile if he or she resides in Chile with the purpose of staying in Chile (such purpose to be evidenced by circumstances such as the acceptance of employment within Chile or the relocation of one's family to Chile)) or (ii) a legal entity that is not organized under the laws of Chile, unless the notes are assigned to a branch or an agent representative or permanent establishment of such entity in Chile.

Payments of interest or premium, if any, made by us in respect of the notes to a Foreign Holder will generally be subject to a Chilean withholding tax, or the Chilean Interest Withholding Tax currently assessed at a rate of 4%. However, the same interests, or premiums that qualify for the referred 4% withholding tax rate are subject to a special additional tax equal to the difference between the withholding tax paid and a 35% rate when they are paid to related entities, on the part of our indebtedness considered to be excessive. Our indebtedness will be considered to be excessive ("Excessive Indebtedness") when in the commercial year in which the notes are issued we have an indebtedness with related entities qualifying for the 4% withholding tax rate that exceeds three times our net worth calculated for tax purposes. Consequently, such qualifying interests or premiums paid to related entities out of debt that exceeds the Excessive Indebtedness ratio will be subject to a 35% tax (4% withholding tax plus the difference between the withholding tax paid and a 35% rate).

Under the Excessive Indebtedness Rules, a lender or creditor, such as a holder of the notes, will be deemed to be related with the payor or debtor, if: (i) the lender or creditor is incorporated, domiciled or resident in a tax haven (qualified as such by the Chilean Ministry of Finance) at the time of granting the loan; or (ii) the lender or debtor, directly or indirectly, owns or participates in 10% or more of the capital or the profits of the other or if lender and debtor are subject to a common partner or shareholder which, directly or indirectly, owns or participates in 10% or more of the capital or the profits of both; or (iii) the debt is guaranteed directly or indirectly in cash or in any financial instruments or securities evidencing payment obligations (excluding any financial instruments or securities evidencing obligations of the borrower with any of its related entities) by a third party, for the amount effectively guaranteed. The debtor will be required to issue a sworn statement in this regard in the form set forth by the tax authorities.

As described above, we have agreed, subject to specific exceptions and limitations, to pay Additional Amounts to the Foreign Holders of the notes in respect of the Chilean Interest Withholding Tax in order that the interest or premium, if any, the Foreign Holder receives, net of the Chilean Interest Withholding Tax, equals the amount which would have been received by such Foreign Holder in the absence of such Chilean Interest Withholding Tax. See "Description of the Notes—Additional Amounts."

Under Chile's Income Tax Law and regulations thereunder, payments of principal made by us with respect to the notes to a Foreign Holder will not be subject to any Chilean taxes.

Any capital gains realized on the sale or other disposition by a Foreign Holder of the notes generally will not be subject to any Chilean income taxes provided that the sale or other disposition of such notes will be effected outside of Chile by a Foreign Holder. Any premium payable on redemption of the notes will be treated as interest and subject to the Chilean Interest Withholding Tax as described above.

A Foreign Holder will not be liable for estate, gift, inheritance or similar taxes with respect to the notes unless such notes (i) are located in Chile at the time of such Foreign Holder's death or (ii) were purchased or acquired with money obtained from Chilean sources.

The initial issuance of the notes is subject to stamp tax at a rate of 1.608% of the aggregate principal amount of the notes, which will be payable by us within five business days following that in which the notes are issued. If the stamp tax is not paid when due, Chilean Tax law imposes a penalty of up to three times the amount of the tax due, plus adjustments and 1.5% interest per each month or part thereof during which payment for such tax is not made. In addition, until such tax (and any penalty) is paid, Chilean courts will not enforce any action based on the notes.

United States Federal Income Tax Considerations

The following is a discussion of the material U.S. federal income tax consequences of owning and disposing of the notes. This discussion only applies to holders that purchase the notes at the initial issue price in this offering and that hold the notes as capital assets (*i.e.*, generally, for investment). This discussion does not address all of the tax consequences that may be relevant to a holder's particular circumstances and does not apply to a holder that is subject to special tax rules (*e.g.*, a bank, tax-exempt organization, insurance company, dealer in securities or foreign currency, partnership or other pass-through entity, U.S. expatriate, a holder whose functional currency is not the U.S. dollar, or a holder that holds the notes as part of a hedge, straddle, conversion, constructive sale or other risk reduction transaction).

This discussion is based on the U.S. Internal Revenue Code of 1986, as amended, (the "Code"), U.S. Treasury regulations, published rulings of the U.S. Internal Revenue Service (the "IRS") and judicial decisions, all as in effect on the date hereof and all of which are subject to change (possibly with retroactive effect) and different interpretations. This discussion does not address any state, local or non-U.S. tax laws, or any aspect of U.S. federal tax law other than income taxation.

For purposes of this discussion, a "U.S. Holder" is a beneficial owner of a note that is, for U.S. federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation created or organized in or under the laws of the United States, any state thereof, or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source, or (iv) a trust if a U.S. court is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have authority to control all substantial decisions of the trust (or if the trust has validly made an election to be treated as a domestic trust under applicable U.S. Treasury regulations). A "Non-U.S. Holder" is a beneficial owner of a note that is not a U.S. Holder. The U.S. federal income tax consequences for a partner in a partnership owning or disposing of the notes generally will depend on the status of the partner and the activities of the partnership. Partners in such partnerships should consult their own tax advisors.

This discussion is intended to provide general information only. Prospective investors are urged to consult their own tax advisors regarding the consequences of owning and disposing of the notes under U.S. federal income and other tax laws, including state, local and non-U.S. laws, and the possible effects of changes in such laws.

U.S. Holders

Payments of Interest

Interest (including any Additional Amounts) paid to a U.S. Holder in respect of a note generally will be includible in such holder's gross income as ordinary income at the time such interest is received or accrued, in accordance with such holder's method of accounting for U.S. federal income tax purposes. As a result of the inclusion of any amounts attributable to withheld taxes and Additional Amounts, the amount included in a U.S. Holder's gross income for U.S. federal income tax purposes with respect to a payment of interest may be greater than the amount of cash actually received (or receivable) by such holder.

We are obligated to pay Additional Interest on the notes under certain circumstances described under ''Description of the Notes—Registration Rights.'' We believe that the possible payment of Additional Interest should not cause the notes to be treated as having been issued with original issue discount for U.S. federal income tax purposes and that any Additional Interest received on the notes should be includible in the gross income of a U.S. Holder as ordinary income at the time such amounts are received or accrued, as described above, in accordance with the holder's method of accounting for U.S. federal income tax purposes. It is possible, however, that the IRS may take a different position, in which case the timing and amount of such income may be different. Prospective investors should consult their own tax advisors regarding the possible payment of Additional Interest and the tax consequences thereof.

Subject to certain limitations, a U.S. Holder generally will be entitled to a credit against such holder's U.S. federal income tax liability, or a deduction in computing such holder's U.S. federal taxable income, for any non-U.S. foreign income taxes withheld by us. For purposes of the U.S. foreign tax credit limitation, foreign source income is classified in one of several ''baskets,'' and the credit for non-U.S. taxes on income in any basket is limited to U.S. federal income tax allocable to that income. Interest generally will constitute foreign source income in the ''high withholding tax interest'' basket if the notes are subject to withholding tax at a rate of 5% or higher. If the notes are not subject to such a withholding tax, interest generally will be in the ''passive income'' basket or, in the hands of certain financial institutions, in the ''financial services income'' basket. In certain circumstances, a U.S. Holder may not be eligible to claim U.S. foreign tax credits (and may instead be allowed deductions) for non-U.S. foreign taxes imposed on interest if the notes are held under arrangements in which such holder's expected profit, after non-U.S. taxes, is insubstantial. The rules relating to U.S. foreign tax credits are extremely complex. U.S. Holders are urged to consult their own tax advisors regarding the availability of U.S. foreign tax credits in their particular circumstances.

Sales or Other Taxable Dispositions

A U.S. Holder generally will recognize gain or loss on the sale or other taxable disposition of a note equal to the difference (if any) between the amount realized on such sale or other taxable disposition (other than amounts attributable to accrued but unpaid interest, which will be taxable as ordinary interest income to the extent not previously included in such holder's gross income) and such holder's tax basis in the note. A U.S. Holder's tax basis in a note generally will equal the amount such holder paid for the note. Any gain or loss on the sale or other taxable disposition of a note generally will constitute capital gain or loss, and will be long-term capital gain or loss if the note was held by such holder for more than one year. Certain non-corporate U.S. Holders (including individuals) may qualify for preferential rates of U.S. federal income taxation in respect of long-term capital gains. The deduction of capital losses is subject to limitations under the Code. Any gain (or loss) realized by a U.S. Holder on a sale or other taxable disposition of the notes generally will be treated as U.S.-source income (or loss) for U.S. foreign tax credit purposes.

Non-U.S. Holders

Payments of Interest

A Non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax in respect of payments of interest (including any Additional Amounts) by us or our paying agent in respect of a note, unless the interest is effectively connected with such holder's conduct of a trade or business within the United States (and, if an income tax treaty applies, the interest is attributable to a permanent establishment maintained by such holder within the United States). If that exception applies, the Non-U.S. Holder generally will be subject to U.S. federal income tax in respect of such interest in the same manner as a U.S. Holder, as described above. A Non-U.S. Holder that is a corporation may, in certain circumstances, also be subject to an additional ''branch profits tax'' in respect of any such effectively connected interest income (currently at a 30% rate or, if applicable, a lower tax treaty rate).

Sales or Other Taxable Dispositions

A Non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax on any gain realized in connection with the sale or other taxable disposition of a note, unless (i) such gain is effectively connected with such holder's conduct of a trade or business within the United States (and, if an income tax treaty applies, the gain is attributable to a permanent establishment maintained by such holder within the United States), or (ii) such holder is an individual present in the United States for at least 183 days in the taxable year of such sale or other taxable disposition and certain other requirements are met. If the first exception applies then the Non-U.S. Holder generally will be subject to U.S. federal income tax in respect of such gain in the same manner as a U.S. Holder, as described above. A Non-U.S. Holder that is a corporation may, in certain circumstances, also be subject to an additional ''branch profits tax'' in respect of any such effectively connected gain (currently at a 30% rate or, if applicable, a lower tax treaty rate). If the second exception applies, the Non-U.S. Holder generally will be subject to U.S. federal income tax at a rate of 30% on the amount by which such holder's U.S-source capital gains exceed such holder's U.S.-source capital losses.

Information Reporting and Backup Withholding

In general, information reporting requirements may apply to payments of principal and interest on a note and to the proceeds of a sale or other disposition of a note. A ''backup withholding'' tax (currently at a rate of 28%) may apply to such payments or proceeds if the holder fails to provide a correct taxpayer identification number or to otherwise comply with the applicable backup withholding rules. Certain persons (including, among others, corporations and Non-U.S. Holders) that provide appropriate certification or otherwise qualify for exemption are not subject to the information reporting or backup withholding requirements. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a holder generally may be claimed as a credit against such holder's U.S. federal income tax liability provided that the required information is furnished to the IRS.

PLAN OF DISTRIBUTION

Subject to the terms and conditions of the purchase agreement, Deutsche Bank Securities Inc. (the ''initial purchaser'') has agreed to purchase from us US$400 million principal amount of notes at the initial offering price set forth on the cover page of this offering memorandum less discounts and commissions.

The purchase agreement provides that the obligations of the initial purchaser to purchase the notes offered hereby are subject to certain conditions precedent and that the initial purchaser will purchase all of the notes offered by this offering memorandum if any of these notes are purchased. After the initial offering, the initial purchaser may change the offering price and other selling terms.

We have agreed to indemnify the initial purchaser against some specified types of liabilities, including liabilities under the Securities Act, and to contribute to payments the initial purchaser may be required to make in respect of any of these liabilities. The notes have not been registered under the Securities Act. The initial purchaser has agreed that it will offer or sell the notes only (i) in the United States to qualified institutional buyers in reliance on Rule 144A under the Securities Act or (ii) in offshore transactions in reliance on Regulation S under the Securities Act. The notes being offered and sold pursuant to Regulation S may not be offered, sold or delivered in the United States or to, or for the account or benefit of, any U.S. person, unless the notes are registered under the Securities Act or an exemption from the registration requirements thereof is available. Terms used above have the meanings given to them by Regulation S and Rule 144A under the Securities Act. See ''Transfer Restrictions''.

Until the expiration of forty (40) days after the commencement of the offering, any offer or sale of notes within the United States by a broker-dealer may violate the registration requirements of the Securities Act, unless such offer or sale is made pursuant to Rule 144A under the Securities Act or another available exemption from the registration requirements thereof.

The notes are a new issue of securities with no established trading market. The notes will not be listed on any securities exchange or on any automated dealer quotation system. The notes are expected to be eligible for trading in the Private Offerings, Resale and Trading through Automatic Linkages (PORTAL) Market. The initial purchaser may make a market in the notes after completion of the offering, but will not be obligated to do so and may discontinue any market-making activities at any time without notice. No assurance can be given as to the liquidity of the trading market for the notes or that an active public market for the notes will develop. If an active public trading market for the notes does not develop, the market price and liquidity of the notes may be adversely affected.

In connection with the offering, the initial purchaser may purchase and sell the notes in the open market. These transactions may include short sales, purchases to cover positions created by short sales and stabilizing transactions.

Short sales involve the sale by the initial purchaser of a greater principal amount of notes than it is required to purchase in the offering. The initial purchaser may close out any short position by purchasing notes in the open market. A short position is more likely to be created if the initial purchaser is concerned that there may be downward pressure on the price of the notes in the open market prior to the completion of the offering.

Stabilizing transactions consist of various bids for or purchases of the notes made by the initial purchaser in the open market prior to the completion of the offering.

The initial purchaser may impose a penalty bid. This occurs when a particular underwriter repays to the initial purchaser a portion of the underwriting discount received by it because the initial purchaser has repurchased notes sold by or for the account of that underwriter in stabilizing or short covering transactions.

Purchases to cover a short position and stabilizing transactions may have the effect of preventing or slowing a decline in the market price of the notes. Additionally, these purchases, along with the imposition of the penalty bid, may stabilize, maintain or otherwise affect the market price of the notes. As a result, the price of the notes may be higher than the price that might otherwise exist in the open market. These transactions may be effected in the over-the-counter market or otherwise required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act until the time that our common stock offered hereby are no longer ''restricted securities'' within the meaning of Rule 144 under the Securities Act.

The initial purchaser and certain affiliates of the initial purchaser are providing advisory and investment banking services to us in connection with a concurrent series of transactions aimed at restructuring the scheduled maturities of our Yankee notes, U.S. convertible notes and Chilean convertible notes. The initial purchaser and such affiliates will receive customary fees for such services.

TRANSFER RESTRICTIONS

The notes are subject to restrictions on transfer as summarized below. By purchasing notes, you will be deemed to have made the following acknowledgements and representations to and agreements with us and the initial purchaser:

(1) You acknowledge that:

- the notes have not been registered under the Securities Act or any other securities laws and are being offered for resale in transactions that do not require registration under the Securities Act or any other securities laws; and
- unless so registered, the notes may not be offered, sold or otherwise transferred except under an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act of any other applicable securities laws, and in each case in compliance with the conditions for transfer set forth in paragraph (4) below.

(2) You represent that you are not an affiliate (as defined in Rule 144 under the Securities Act) of ours, that you are not acting on our behalf and that either:

- you are a qualified institutional buyer (as defined in Rule 144A under the Securities Act) and are purchasing the notes for your own account or for the account of another qualified institutional buyer, and you are aware that the initial purchaser is selling the notes to you in the reliance on Rule 144A; or
- you are not a U.S. person (as defined in Regulation S under the Securities Act) or purchasing for the account or benefit of a U.S. person, other than a distributor, and you are purchasing notes in an offshore transaction in accordance with Regulation S.

(3) You acknowledge that neither we nor the initial purchaser nor any person representing us or the initial purchaser has made any representation to you with respect to us or the offering of the notes, other than the information contained in this offering memorandum. You represent that you are relying only on this offering memorandum in making your investment decision with respect to the notes as you have deemed necessary in connection with your decision to purchase notes, including an opportunity to ask questions and request information from us.

(4) You represent that you are purchasing notes for your own account, or for one or more investor accounts for which you are acting as a fiduciary or agent, in each case not with a view to, or for offer or sale in connection with, any distribution of the notes in violation of the Securities Act, subject to any requirement of law that the disposition of your property or the property of that investor account or accounts be at all times within your or their control and subject to your or their ability to resell the notes pursuant to Rule 144A or any other available exemption from registration under the Securities Act. You agree, and each subsequent holder of the notes by its acceptance of the notes will agree, that the notes may be offered, sold or otherwise transferred only:

(a) to a person whom the seller reasonably believes is a qualified institutional buyer within the meaning of Rule 144A under the Securities Act purchasing for its own account or for the account of a qualified institutional buyer or buyers in a transaction meeting the requirements of Rule 144A;

(b) in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S under the Securities Act;

(c) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available); or

(d) pursuant to an effective registration statement under the Securities Act (provided that as a condition to registration of transfer of this Global Note as set forth above, we or the trustee may require delivery of any documents or other evidence that it, in its absolute discretion, deems necessary or appropriate to evidence compliance with such exemption), and, in each case, in accordance with all applicable securities laws of the states of the United States and other jurisdictions.

You also acknowledge that:

- the above restrictions on resale will apply from the issue date until the date that is two years (in the case of Rule 144A notes) or forty (40) days (in the case of Regulation S notes) after the later of the closing date and the last date that we or any of our affiliates was the owner of the notes or any predecessor of the notes (the ''Resale Restriction Period''), and will not apply after the applicable Resale Restriction Period ends; and
- each note will contain a legend substantially to the following effect:

  NEITHER THIS GLOBAL NOTE NOR ANY BENEFICIAL INTEREST HEREIN HAS BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1993 (THE ''SECURITIES ACT''). NEITHER THIS GLOBAL NOTE NOR ANY BENEFICIAL INTEREST HEREIN MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER OR BUYERS IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (2) IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE) OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION UNDER THE SECURITIES ACT (PROVIDED THAT AS A CONDITION TO REGISTRATION OF TRANSFER OF THIS GLOBAL NOTE AS SET FORTH ABOVE, AES GENER S.A. OR THE TRUSTEE MAY REQUIRE DELIVERY OF ANY DOCUMENTS OR OTHER EVIDENCE THAT IT, IN ITS ABSOLUTE DISCRETION, DEEMS NECESSARY OR APPROPRIATE TO EVIDENCE COMPLIANCE WITH SUCH EXEMPTION), AND, IN EACH CASE, IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND OTHER JURISDICTIONS. NOTES OWNED BY AN INVESTOR THAT IS NOT A QUALIFIED INSTITUTIONAL BUYER MAY NOT BE HELD IN BOOK-ENTRY FORM AND MAY NOT BE TRANSFERRED WITHOUT CERTIFICATION THAT THE TRANSFER COMPLIES WITH THE FOREGOING RESTRICTIONS, AS PROVIDED IN THE INDENTURE UNDER WHICH THE NOTES ARE ISSUED.

(5) You acknowledge that we, the initial purchaser and others will rely upon the truth and accuracy of the above acknowledgements, representations and agreements. You agree that if any of the acknowledgements, representations and agreements you are deemed to have made by your purchase of notes is no longer accurate, you will promptly notify us and the initial purchaser. If you are purchasing any notes as a fiduciary or agent for one or more investor accounts, you represent that you have sole investment discretion with respect to each of those accounts and that you have full power to make the above acknowledgements, representations and agreements on behalf of each account.

LEGAL MATTERS

Certain legal matters with respect to the issuance of the notes offered hereby will be passed upon for us by Shearman & Sterling LLP and for the initial purchaser by Milbank, Tweed, Hadley & McCloy LLP.

INDEPENDENT AUDITORS

The consolidated financial statements of AES Gener S.A. and subsidiaries as of December 31, 2003 and 2002 and for each of the three years in the period ended December 31, 2003 and the related financial statement schedules included in this offering memorandum have been audited by Deloitte & Touche, Sociedad de Auditores y Consultores Limitada, independent auditors, as stated in their report appearing therein (which report expresses an unqualified opinion and includes an explanatory paragraph referring to the application of U.S. GAAP and the restatements discussed in notes 37 I b) and a), explanatory paragraphs referring to the application of Chilean GAAP and the restatement discussed in Note 35 a) and the modification discussed in Note 35 b), and an explanatory paragraph referring to the translation of Chilean peso amounts into U.S. dollar amounts discussed in Note 1 w) and the translation of the financial statements into English).

LISTING AND GENERAL INFORMATION

1. The notes have been accepted for clearance through DTC, Euroclear and Clearstream, Luxembourg.

The CUSIP, Common Code and ISIN numbers are as follows:

	Restricted Global Note	Regulation S Global Note
CUSIP:	00105DAA3	P0607JAA6
Common Code:	018894181	018902010
ISIN:	US00105DAA37	USP0607JAA62

2. We have obtained all necessary consents, approvals and authorizations in connection with the issuance and performance of the notes. Resolutions of our board of directors, dated February 22, 2004, authorized the issuance of the notes.

3. Except as disclosed in this offering memorandum or in our annual report on Form 20-F/A, which is attached hereto, there are no pending actions, litigation, suits or proceedings against or affecting us or any of our subsidiaries or any of our respective properties, which, if determined adversely to us or any such subsidiary, would individually or in the aggregate have an adverse effect on our financial condition and that of our subsidiaries taken as a whole or would adversely affect our ability to perform our obligations under the notes or which are otherwise material in the context of the issue of the notes, and, to the best of our knowledge, no such actions, litigation, suits or proceedings are threatened. Pending actions, litigation, suits and proceedings are listed under ''Item 8. Financial Information—Consolidated Statements and Other Financial Information—Legal Proceedings'' in our annual report on Form 20-F/A.

4. As of April 28, 2004, we were involved in certain legal proceedings customary to the normal conduct of our business. The most important proceedings are summarized as follows:

- Norgener and its customer, Minera Escondida Limitada, or Escondida, settled an arbitration proceeding related to a dispute regarding the interpretation and performance of the terms of two power supply agreements entered into between Norgener and Escondida on June 30, 1993 and November 20, 1994, respectively. Escondida claimed nullity of the price adjustment clauses in both agreements, seeking termination of both agreements on the basis of a breach of contract by Norgener and alternatively requesting authorization to assign the agreements to a subsidiary. The arbitrator was appointed on October 25, 2002. Subsequently, on November 14, 2002, the parties agreed on the terms of the procedures to be followed, and the lawsuit was filed accordingly on December 9, 2002. On January 8, 2003, Norgener responded to the lawsuit and filed a counterclaim for damages caused as a result of Escondida's breach of contract with respect to certain obligations under the second agreement. Subsequently, in April 2003, the arbitrator issued an order to produce evidence establishing the facts stipulated to by the parties, and thereby initiated the evidence period. The arbitrator established a settlement period, during which, on February 23, 2004, Norgener and Escondida entered into several agreements that include the following terms: (i) a decrease in price for both power supply contracts currently in place effective July 2004 and an upfront compensation payment by Escondida to us of US$40 million, (ii) the amendment and extension of the current contracts for a total amount covering 172 MW until 2015 and (iii) the execution of a new contract beginning 2004 and expiring in 2015, which contract initially provides for 10 MW power supply and increases to 80 MW in 2010. We believe that these transactions will not change the net present value of the original contracts. The settlement agreements were subject to the completion of our note offering and tender offers and the approval by the board of directors of both parties, all of which has occurred.

- On March 11, 2004, we commenced arbitration proceedings against Coastal Itabo Ltd, or Coastal, our joint venture partner in our Dominican Republic investment, Empresa Generadora de Electricidad Itabo, S.A. or Itabo. In August 2003, Coastal accused us of violating certain electricity laws and regulations of the Dominican Republic and obtained from the Superintendence of Electricity a resolution alleging we violated limits on total ownership of electric generation capacity and proposing that we divest of some of our Dominican Republic assets. In October 2003, Coastal sent us a notice of defaults and disputes claiming that we materially breached our shareholders' agreement and reiterated its claims that we had violated electricity laws and regulations, all of which we fully and formally denied. Pursuant to the terms of our shareholders' agreement, we are challenging Coastal's claims in arbitration. We believe Coastal has no legitimate basis for its contract claims and no legal basis for its electricity law claims as the resolution and a subsequently issued ''Formulation of Charges'' of the Superintendence were rejected by a Dominican court. If Coastal were successful in its claims, we would be required to sell to Coastal our interest in Itabo at 75% of its current independently determined value. We have not accrued a provision for this contingency. We do not believe that the arbitration, even if an unfavorable decision results therefrom, will have a material adverse effect on our business or financial condition.

- The Public Emergency Law and supplementary regulations issued by the Argentine government in early 2002 converted into pesos, or pesified, all obligations and private contracts by Argentine persons entered into in U.S. dollars as of January 6, 2002, at the exchange rate of Arg$1.00 per U.S. dollar. They also established that such obligations and contracts are to be adjusted by the CER, published by the Argentine Central Bank. TermoAndes has made payments to gas suppliers and transportation service providers without adjustments by the CER, which has not been invoiced by the gas suppliers. During 2002, TermoAndes' gas and transportation service providers requested the re-dollarization of TermoAndes' gas supply and gas transport contracts by the regulatory authorities, citing decrees which state that the Public Emergency Law does not apply to gas export contracts or gas transportation for gas exports or electricity exports. TermoAndes responded to these requests by explaining that it is an Argentine generation company and that all gas purchased by the company is consumed in Argentina and is not intended for export. On August 20, 2003, Enargas, the regulator of the Argentine gas industry, issued a preliminary injunction in favor of TermoAndes ordering its natural gas transportation service provider, TGN, to supply the requested service and to invoice TermoAndes for such service in Argentine pesos. The injunction was appealed by TGN, but no further ruling has been issued by Enargas. On January 30, 2004, the consortium of gas suppliers composed of Tecpetrol S.A., Mobil Argentina S.A. and Compañía General de Combustibles S.A. (''the consortium'') presented a demand for arbitration at the International Chamber of Commerce requesting the re-dollarization of the gas price. TermoAndes filed a response, including a counter suit on March 10, 2004. The parties have each appointed one arbiter, and the third has not yet been selected by the two appointees. The consortium must respond to our counter suit by May 7, 2004.

- In December 1999, AES Gener S.A. filed an arbitration procedure for Ch$5,445 million against Hidroeléctrica Guardia Vieja S.A. and Hidroeléctrica Aconcagua S.A., or HGV-HASA, for their default in performance under an energy and capacity sales contract. As of December 31, 2003, the corresponding amount, including interest and readjustments, was Ch$8,728 million. The arbitrator accepted our claims and the defendants were ordered to perform under the contract. On December 14, 2001, the arbitrator issued a decision which was consistent with our filing and ordered the modification of the ''Sales Agreement of Electric Power and Capacity and Others'' between AES Gener S.A. and HGV-HASA, dated November 2, 1993. This decision, based on the amendments made to the agreement, ordered the retroactive payment of invoices exchanged between the parties from April 1998 through the date of definitive compliance with the decision, all in accordance with the rules established therein. The defendants filed an extraordinary claim and a nullity recourse appeal due to formal defects before the Santiago Appeals Court. The nullity recourse appeal is still pending. Based on the lower court's acceptance of our lawsuit in 2001, we recorded a portion of the gain contingency as income of Ch$2,940 million. We believe that the pending nullity recourse appeal will likely be rejected.

- On May 24, 2002, we were served with a lawsuit by Bankers Trust International Corporation (Delaware) Inc., or Bankers Trust, as trustee in the bankruptcy of Cordex Petroleums Inc., a company organized under the laws of Canada. The total amount sought in the lawsuit is US$8.7 million plus interest and legal fees. The lawsuit is based on our alleged collusion with the other defendant, Mr. Ralph Wilkerson, to breach contracts, incitement to breach contracts, fraud and incitement to infringe the fiduciary duties of Cordex Petroleums, Inc. The lawsuit, was filed in the Superior Court of Alberta, Judicial District of Calgary, Canada. On July 19, 2002, we submitted a motion claiming lack of jurisdiction of the Canadian Courts of Law. A hearing was originally set for February 6, 2003 but was suspended due to the plaintiff's delay in the presentation of an affidavit supporting its claim. In March 2003, the judge decided to accept the plaintiff's affidavit but only with respect to the amended and not the original claim. On April 14, 2003, the plaintiff filed an appeal requesting that the affidavit be accepted for both the original and the amended claim. The hearing for the appeal was held on March 14, 2004 and the judge ruled in favor of Bankers Trust. We believe that the jurisdiction motion should be resolved in our favor. We have not accrued a provision for the contingency.

- In December 2002, the CSEC formulated charges against all members of the Economic Load Dispatch Center for the SIC, or the CDEC-SIC, related to a system blackout that occurred in September 2002. On January 24, 2003, AES Gener S.A., Eléctrica Santiago and Guacolda submitted responses to the charges. On August 20, 2003, in addition to applying fines to those companies found to have direct responsibility for the blackout, the CSEC also fined all members of the CDEC-SIC for alleged lack of coordination among CDEC members. We were fined 1,500 Annual Tax Units, or approximately US$901,485 as of December 31, 2003, our subsidiary Eléctrica Santiago and our equity-method investee Guacolda were both fined 1,000 Annual Tax Units, or approximately US$600,990 as of December 31, 2003. We, Eléctrica Santiago and Guacolda all filed appeals before the CSEC but no ruling has been issued. AES Gener S.A, Eléctrica Santiago and Guacolda accrued a provision for this contingency in the amount of Ch$312 million (approximately US$500,000). Additionally, on February 21, 2003, the CSEC formulated charges against all members of the CDEC-SIC related to a system blackout that occurred on January 13, 2003. AES Gener S.A., Eléctrica Santiago and Guacolda submitted responses to the charges, and no fines have been applied by the CSEC to date. In April 14, 2004, the CSEC formulated charges against all members of the CDEC-SIC, related to a system blackout that occurred in November 7, 2003. The company, Eléctrica Santiago and Guacolda must submit their responses on or before May 3, 2004. The CSEC has not issued fines related to the November 2003 blackout to date.

- On April 14, 2004, the Ministry of Economy, Development and Reconstruction, or the Ministry issued Ministerial Resolution Nº 17, or MR-17 in response to a motion for reconsideration filed by Endesa, Colbún and AES Gener in November 2001 of a previous Ministerial Resolution Nº 119, or MR-119, which established a method for calculating the firm capacity transfers and corresponding payments for all of the power plants in the SIC for the years 2000, 2001, 2002 and 2003. Overall, MR-17 accepted Endesa's request to modify the firm capacity calculation methodology for hydroelectric plants with dam reservoirs, assuming that these plants can generate all of the energy from the reservoir during the five hours of highest daily demand throughout the annual peak period from May to September. As a result, the new methodology will assume that hydroelectric plants with dam reservoirs have higher firm capacity than that resulting from the application of the previous methodology, thereby reducing the participation of other plants in the firm capacity of the entire system. On April 22, 2004, we presented a motion for reconsideration of MR-17, requesting that the Ministry reinstate the previous firm capacity calculation methodology defined in MR-119. Given that these proceedings are typically lengthy, a ruling is not expected prior to implementation of MR-17, which is also to be applied retroactively for the 2000, 2001, 2002 and 2003 firm capacity periods. However, we have requested that the Ministry suspend the effects of MR-17 while appeals are pending. No ruling has been made to date, with regard to the petition for suspension. Under MR-17, the CDEC-SIC is required to calculate the revised firm capacity allotments for each plant by mid-July 2004. No further provisions related to the above dispute have been recorded.

- On March 29, 2003, the Ministry issued Ministerial Resolution Nº 106, or MR-106 in response to a dispute among the members of the CDEC-SING, with regard to the method for calculating the firm capacity transfers and corresponding payments for all of the power plants in the SING from 2000. This resolution ruled favorably on a request from Gasatacama Generación Limitada to reverse the previous firm capacity methodology approved by the Ministry and applied by the CDEC-SING. On April 6, 2004, Norgener submitted a motion to declare MR-106 void because it contravenes applicable laws. In response, the Ministry issued a ruling on April 26, 2004 suspending the application of MR-106 while the motion is pending.

5. Except as disclosed herein, since December 31, 2003, there has been no change (or any development or event involving a prospective change of which we are or might reasonably be expected to be aware), which is materially adverse to our financial condition and that of our subsidiaries taken as a whole.

6. For so long as the Notes are listed on the Luxembourg Stock Exchange, a paying agent will be maintained in Luxembourg.

7. For so long as any of the notes are outstanding and listed on the Luxembourg Stock Exchange, copies of the following items in English will be available free of charge from our listing agent, at its office at Deutsche Bank Luxembourg S.A., 2 Boulevard Konrad Adenauer, Luxembourg, Postal Code 1115, Luxembourg:

- our audited Chilean GAAP consolidated financial statements as of December 31, 2003, 2002 and 2001 and for the three years ended December 31, 2003; and

- any related notes to these items.

For as long as any of these notes are outstanding and listed on the Luxembourg Stock Exchange, copies of our most recent annual financial statements may be obtained from the

Luxembourg listing agent at its office listed above. We currently publish our unaudited financial information on a quarterly basis. We do not publish any non-consolidated financial information.

During the same period, the indenture, purchase agreement and registration rights agreement will be available for inspection at the offices of Deutsche Bank Luxembourg S.A., 2 Boulevard Konrad Adenauer, Luxembourg, Postal Code 1115, the paying agent in Luxembourg. The Luxembourg paying agent will also furnish you with copies of documents relating to the Exchange Offer upon request. We will, until the repayment of the notes, maintain a transfer agent in New York as well as in Luxembourg.

8. In connection with the application for the notes to be listed on the Luxembourg Stock Exchange, copies of our constitutive documents (together with certified English translations thereof) and a legal notice relating to the issue of the notes will be deposited prior to listing with Registre de Commerce et des Sociétés à Luxembourg, where they may be inspected and copies obtained upon request. Additionally, copies of these constitutive documents and all agreements prepared in connection with this issue are available at the office of Deutsche Bank Luxembourg S.A., the transfer agent in Luxembourg. Our corporate object, as stated in Article Four of our *estatutos,* or by-laws, is to exploit the generation, transmission, purchase, distribution and sale of electric or any other kind of energy; the purchase, extraction, exploitation, processing, distribution, commercialization and sale of solid, liquid and gaseous fuels; the sale and rendering of project engineering, maintenance and repair shops services; the execution and exploitation of civil, hydraulic or any other kind of infrastructure works; the rendering of port and pier services, the exploitation of piers, cargo terminals, warehouses, storage facilities and of any kind of ships, whether belonging to the company or to third parties, in any of their forms; to act as ship owner or agent in any of the forms provided by law; cargo transportation of any kind, whether national or international, maritime or by land, of a multi-purpose nature or not; to obtain, transfer, buy, lease, encumber and, in general, exploit in any manner the concessions provided by the General Law of Electrical Services, maritime concessions, public works concessions and water rights of any kind; to invest in real and personal property; and to organize and form companies of any nature, as subsidiaries, affiliates or not, the purposes of which are related to or linked with energy in any of its forms or to the supply of public services or the main consumption of which is electric energy, or the purpose of which is any of the aforementioned.

9. According to Chapter VI, Article 3, point A/II/2 of the rules and regulations of the Luxembourg Stock Exchange, the notes will be freely transferable and therefore no transaction made on the Luxembourg Stock Exchange will be cancelled.

10. We were constituted on June 19, 1981. We are registered in the Registry of Commerce of Santiago, Chile on page 13,107 number 7,274 of 1981, and our tax registration number is 94,272,000-9.

INDEX TO
AUDITED CONSOLIDATED FINANCIAL STATEMENTS

[Letterhead of Deloitte & Touche]

INDEPENDENT AUDITORS' REPORT
To the Shareholders of AES Gener S.A.:

We have audited the accompanying consolidated balance sheets of AES Gener S.A. (the "Company") as of December 31, 2003 and 2002, and the related consolidated statements of income and cash flows for each of the three years in the period ended December 31, 2003 (all expressed in thousands of Chilean pesos). Our audits also included the financial statement schedules listed in the Index at Item 18. These consolidated financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in Chile ("Chilean GAAP"). Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

As discussed in Note 35 a) to the consolidated financial statements, the consolidated balance sheet as of December 31, 2002 and the related consolidated statements of income and cash flows for each of the two years in the period ended December 31, 2002 included herein have been restated under Chilean GAAP.

As discussed in Note 35 b) of the consolidated financial statements, the Company modified its financial statements in Chilean GAAP for the year ended December 31, 2003 for the omission of disclosure of certain derivative instruments (treasury lock agreements) and their reduction in value from January 1, 2004 to the report date.

Chilean GAAP varies in certain significant respects from accounting principles generally accepted in the United States of America ("US GAAP"). The application of the latter would have affected the determination of net income for each of the three years in the period ended December 31, 2003 and the determination of shareholders' equity and financial position at December 31, 2003 and 2002, to the extent summarized in Note 37.

As discussed in Note 37 Ib) and a), respectively, to the consolidated financial statements, the reconciliation to US GAAP as of December 31, 2002 and for the two years then ended has been restated for the remeasurement effect relating to a change in the functional currency and as of December 31, 2003 and for the year then ended has been restated for the mark-to-market adjustment for certain derivative instruments.

Our audits also comprehended the translation of the Chilean peso amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1 w). The translation of the financial statement amounts into U.S. dollars and the translation of the financial statements into English have been made solely for the convenience of readers in the United States of America.

/s/ Deloitte & Touche, Sociedad de Auditores y Consultores, Limitada

January 23, 2004
(except for Notes 1w); 7, 24, 35, 36 and 37 I a and b), v), II a 1) b), f) and k), for which the date is March 12, 2004)

AES GENER S.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars)

	As of December 31,		
ASSETS	**2002 ThCh$ (As restated) note 35**	**2003 ThCh$**	**2003 ThUS$**
Current Assets			
Cash	4,562,737	3,413,411	5,748
Time deposits, including restricted cash of ThCh$3,117,426 in 2002, ThCh$4,411,604 in 2003 (Note 3)	22,763,614	10,131,263	17,062
Money market funds	5,056,585	4,789,841	8,066
Trade accounts receivable, net of allowance for doubtful accounts of ThCh$3,048,830 and ThCh$1,437,991, respectively (Note 13)	33,987,117	29,367,132	49,456
Miscellaneous accounts receivable	3,161,619	2,666,800	4,491
Accounts and notes receivable from related companies (Note 23)	2,564,043	177,716,242	299,286
Inventories (Note 4)	22,111,796	11,449,929	19,282
Recoverable taxes, net (Note 5)	4,555,959	776,008	1,307
Deferred taxes (Note 15)	733,123	1,218,440	2,052
Prepayments	6,729,461	2,373,731	3,998
Other current assets (Note 7)	16,811,181	47,507,952	80,007
Total current assets	**123,037,235**	**291,410,749**	**490,755**
Property, plant and equipment (Note 8)			
Land	8,497,760	8,018,338	13,503
Construction and infrastructure	817,701,318	735,586,788	1,238,779
Machinery and equipment	1,014,217,966	959,752,893	1,616,290
Other property, plant and equipment	11,542,843	8,116,417	13,669
Technical revaluation	42,213,625	42,213,625	71,091
Accumulated depreciation	(540,841,642)	(569,432,257)	(958,963)
Net property, plant and equipment	**1,353,331,870**	**1,184,255,804**	**1,994,369**
Other non-current assets			
Investments in related companies (Note 9)	122,551,825	117,336,935	197,603
Goodwill (Note 10)	9,394,718	8,307,248	13,990
Long-term accounts receivable (Note 13)	6,638,194	7,462,123	12,567
Long-term receivable from related companies (Note 23)	222,364,229	3,030,514	5,104
Intangibles (Note 11)	5,909,735	5,932,016	9,990
Accumulated amortization of intangibles (Note 11)	(4,123,833)	(4,319,893)	(7,275)
VAT account receivable	19,231,108	14,456,978	24,347
Other (Note 12)	44,842,473	29,173,269	49,130
Total other non-current assets	**426,808,449**	**181,379,190**	**305,456**
TOTAL ASSETS	**1,903,177,554**	**1,657,045,743**	**2,790,580**

The accompanying Notes 1 to 37 are an integral part of these consolidated financial statements.

AES GENER S.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars)

	As of December 31,		
LIABILITIES AND SHAREHOLDERS' EQUITY	**2002 ThCh$ (As restated note 35)**	**2003 ThCh$**	**2003 ThUS$**
Current Liabilities			
Short-term bank liabilities (Note 16)	12,391,617	4,217,444	7,102
Short-term portion of long-term bank liabilities (Note 16)	16,679,213	12,619,457	21,252
Bonds payable (Note 21)	41,490,179	31,795,165	53,545
Short-term portion of long-term liabilities, net (Note 18)	14,401,133	3,856,460	6,495
Dividends payable	148,679	113,715	192
Trade accounts and notes payable (Note 14)	40,192,847	38,115,648	64,189
Accounts and notes payable to related companies (Note 23)	1,325,954	1,203,087	2,026
Provisions (Note 19)	7,482,584	6,810,790	11,470
Withholding taxes	1,176,627	640,387	1,078
Income taxes	231,540	2,829,902	4,766
Unearned income	386,259	40,146	68
Total current liabilities	**135,906,632**	**102,242,201**	**172,183**
Long-Term Liabilities			
Long-term bank liabilities (Note 17)	239,949,234	169,589,268	285,600
Bonds payable (Note 21)	679,781,328	523,072,628	880,890
Notes payable (Note 18)	2,495,447	617,522	1,040
Provisions (Note 19)	21,498,865	21,743,863	36,618
Deferred taxes (Note 15)	4,000,343	9,056,636	15,252
Other (Note 18)	27,870,917	15,038,508	25,327
Total long-term liabilities	**975,596,134**	**739,118,425**	**1,244,727**
Contingencies and Commitments (Note 25)			
Minority Interest (Note 30)	**6,897,036**	**7,081,233**	**11,925**
Shareholders' Equity (Note 22)			
Paid-in capital; 7,981,108,657 shares authorized as of December 31, 2002 and 2003 and 5,672,752,777 shares issued and outstanding as of December 31, 2002 and 2003, respectively; no par value	660,615,361	660,615,361	1,112,522
Share premium	29,535,351	29,535,351	49,740
Other reserves	51,035,492	53,509,290	90,113
Future dividends reserve	4,877,585	5,292,019	8,912
Retained earnings	3,138,513	5,973,400	10,060
Net income for the year	35,575,450	53,678,463	90,398
Total Shareholders' Equity	**784,777,752**	**808,603,884**	**1,361,745**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,903,177,554**	**1,657,045,743**	**2,790,580**

The accompanying Notes 1 to 37 are an integral part of these consolidated financial statements.

AES GENER S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars)

	For the year ended December 31,			
	2001 ThCh$ (As restated note 35)	2002 ThCh$ (As restated note 35)	2003 ThCh$	2003 ThUS$
Operating results:				
Operating revenue (Note 27)	360,993,786	374,256,509	362,331,891	610,192
Operating expenses (Note 28)	(257,597,826)	(234,086,201)	(235,313,885)	(396,285)
Gross profit	**103,395,960**	**140,170,308**	**127,018,006**	**213,907**
Administration and sales costs (Note 28)	(30,323,940)	(21,120,596)	(17,064,745)	(28,738)
Operating Income	**73,072,020**	**119,049,712**	**109,953,261**	**185,169**
Non-operating results				
Financial income (Note 29)	17,602,118	36,315,179	22,793,521	38,386
Equity share in net income of related companies (Note 29)	8,541,384	1,799,119	9,835,946	16,564
Other non-operating income (Note 29)	79,719,583	6,801,868	2,874,234	4,840
Equity share in net loss of related companies (Note 29)	(7,973,438)	(2,184,180)	(18,901)	(32)
Amortization of goodwill (Note 10)	(1,144,957)	(995,061)	(753,016)	(1,268)
Financial expense (Note 29)	(74,299,432)	(73,441,943)	(54,855,274)	(92,380)
Other non-operating expenses (Note 29)	(65,412,340)	(30,157,396)	(15,774,621)	(26,566)
Price-level restatement (Note 1(b))	(25,705,634)	(18,106,797)	(13,606,300)	(22,914)
Non-operating loss, net	**(68,672,716)**	**(79,969,211)**	**(49,504,411)**	**(83,370)**
Income before income taxes and minority interest	**4,399,304**	**39,080,501**	**60,448,850**	**101,799**
Income taxes (Note 15)	(7,049,261)	(1,663,411)	(4,748,386)	(7,996)
Minority interest (Note 30)	(1,650,832)	(1,841,640)	(2,022,001)	(3,405)
Amortization of negative goodwill (Note 10)	2,209,345	—	—	—
Net income (Loss)	**(2,091,444)**	**35,575,450**	**53,678,463**	**90,398**

The accompanying Notes 1 to 37 are an integral part of these consolidated financial statements.

AES GENER S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars)

CONSOLIDATED STATEMENTS OF CASH FLOWS	For the year ended December 31, 2001 ThCh$ (As restated)	2002 ThCh$ (As restated)	2003 ThCh$	2003 ThUS$
Cash flow from operating activities				
Collection of accounts receivable	341,780,624	388,855,427	372,716,812	627,681
Financial income received	18,919,109	4,369,025	3,014,797	5,077
Dividends and other distributions received	9,653,302	691,528	—	—
Other income received	9,169,972	3,695,937	10,755,609	18,113
Payment to suppliers and personnel	(239,762,956)	(210,818,188)	(182,572,209)	(307,464)
Financial expenses	(69,847,626)	(73,824,503)	(46,992,909)	(79,139)
Payment for income taxes	(59,763)	(170,806)	(72,047)	(121)
Other expenses	(13,444,182)	(15,288,740)	(13,707,106)	(23,084)
VAT and other similar items paid	(31,855,067)	(23,494,735)	(23,462,674)	(39,513)
Net cash provided by operating activities	**24,553,413**	**74,014,945**	**119,680,273**	**201,550**
Cash flow from financing activities				
Proceeds from issuance of shares	—	7,045	—	—
Borrowings from Banks and others	115,518,112	23,187,333	—	—
Dividends paid	(154,377,184)	(3,020,718)	(31,356,233)	(52,806)
Repayment of loans	(112,531,617)	(87,311,473)	(65,197,506)	(109,797)
Repayment of bonds	(6,463,818)	(32,545,705)	(24,402,678)	(41,096)
Payment of costs associated with issuance of bonds	—	—	(220,722)	(372)
Other financing activities	—	(745,074)	(1,601,977)	(2,698)
Net cash used in financing activities	**(157,854,507)**	**(100,428,592)**	**(122,779,116)**	**(206,769)**
Cash flow from investing activities				
Sales of property, plant and equipment	226,603	2,719,146	627,179	1,056
Sales of permanent investments	300,830,184	5,009,073	11,676	20
Proceeds from other loans to related companies	30,004,894	—	28,405,994	47,838
Other investments revenues	33,295,833	—	9,627,307	16,213
Acquisition of fixed assets	(22,742,182)	(4,307,448)	(2,611,357)	(4,398)
Payment of capitalized interest	(658,260)	(610,649)	(194,485)	(328)
Permanent investments	(5,767,788)	(1,009,849)	(579,454)	(976)
Investments in Commercial paper	(26,873,309)	—	(5,418,568)	(9,125)
Other obligations to related companies	(178,092,467)	—	—	—
Other investing activities	(282,442)	(5,461,374)	(1,561,893)	(2,630)
Net cash provided by (used in) investing activities	**129,941,066**	**(3,661,101)**	**28,306,399**	**47,670**
Net increase (decrease) in cash and cash equivalents before the effects of price-level restatement	**(3,360,028)**	**(30,074,748)**	**25,207,556**	**42,451**
Price-level restatement of cash and cash equivalents	1,601,969	4,137,391	(8,401,824)	(14,149)
Net increase (decrease) in cash and cash equivalents	**(1,758,059)**	**(25,937,357)**	**16,805,732**	**28,302**
Cash and cash equivalents at beginning of year	68,048,593	66,290,533	40,353,176	67,958
Cash and cash equivalents at end of year	**66,290,534**	**40,353,176**	**57,158,908**	**96,260**

The accompanying Notes 1 to 37 are an integral part of these consolidated financial statements.

AES GENER S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars)

RECONCILIATION BETWEEN NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES AND NET INCOME FOR THE YEAR

	For the year ended December 31,			
	2001 ThCh$ (As restated note 35)	2002 ThCh$ (As restated note 35)	2003 ThCh$	2003 ThUS$
Net income (Loss)	**(2,091,444)**	**35,575,450**	**53,678,463**	**90,397**
(Gain) loss on sales of fixed assets	(225,176)	1,091,645	(623,973)	(1,051)
Gain on sale of investments	(72,415,897)	—	—	—
Loss on sale of investments	29,051,797	5,704,099	—	—
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation	46,951,162	50,070,542	45,980,590	77,434
Amortization of intangibles	7,539,870	257,639	917,466	1,545
Provisions and write-offs	16,546,541	5,591,039	9,225,670	15,537
Equity share in net income from investments in related companies	(8,541,384)	(1,799,119)	(9,835,946)	(16,564)
Equity share in net loss from investments in related companies	7,973,438	2,184,180	18,901	32
Amortization of goodwill	1,144,957	995,061	753,016	1,268
Amortization of negative goodwill	(2,209,345)	—	—	—
Net price-level restatement	25,705,634	18,106,797	13,606,300	22,914
Other credits to income that do not represent cash flow	(2,086,161)	(13,039,991)	(340,315)	(573)
Other debits to income that do not represent cash flow	8,120,253	4,213,298	2,138,547	3,601
Change in operating assets				
(Increase) decrease of accounts receivable	(814,260)	(1,698,294)	(2,331,303)	(3,926)
(Increase) decrease of inventories	(5,551,801)	4,341,235	10,591,787	17,837
(Increase) decrease of other assets	(915,175)	(34,462,165)	(10,072,509)	(16,963)
Change in operating liabilities				
Increase (decrease) of accounts payable to related companies	(27,191,183)	(13,834,522)	(2,898,286)	(4,881)
Increase of interest payable	2,726,615	(2,542,385)	5,634,888	9,490
Net increase of income taxes payable	2,546,907	8,315,734	708,795	1,194
Increase (decrease) of other accounts payable	(2,060,116)	1,193,142	730,887	1,231
Increase (decrease) of other accounts payables, net of VAT	(1,302,651)	1,909,920	(224,706)	(378)
Minority interest in net income	1,650,832	1,841,640	2,022,001	3,405
Net cash provided by operating activities	**24,553,413**	**74,014,945**	**119,680,273**	**201,550**

The accompanying Notes 1 to 37 are an integral part of these consolidated financial statements.

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Organization, Consolidation and Basis of Presentation

AES Gener S.A. (''Gener'') and its subsidiaries (collectively referred to as the ''Company'') are engaged in the generation and sale of electricity both within Chile and internationally, shipping and port services (until August 2001), the production of fuels (until July 2001), and engineering services and other services both internally and externally. AES Gener S.A. consolidates its financial statements with those of the companies detailed below, eliminating any intercompany transactions and balances between related companies:

	PERCENTAGE OF PARTICIPATION			
	2002	2003		
NAME OF COMPANY	TOTAL	DIRECT	INDIRECT	TOTAL
Petróleos, Asfalto y Combustible S.A.	97.90%	97.90%	0.00%	97.90%
Energía Verde S.A.	99.99%	99.99%	0.00%	99.99%
Norgener S.A.	99.99%	99.99%	0.00%	99.99%
Sociedad Eléctrica Santiago S.A.	90.00%	90.00%	0.00%	90.00%
New Caribbean Investment S.A.	50.01%	49.98%	0.03%	50.01%
Gener Colombia S.A.	100.00%	94.63%	5.37%	100.00%
Gener Internacional S.A.	100.00%	99.90%	0.10%	100.00%
Energy Trade and Finance Corporation (Cayman Islands)	100.00%	100.00%	0.00%	100.00%
Chivor S.A. E.S.P.	99.98%	0.00%	99.98%	99.98%
Gener Blue Water (Cayman Islands)	100.00%	0.00%	100.00%	100.00%
Inversiones Termoenergía Chile Ltda.	100.00%	0.00%	100.00%	100.00%
Gener Argentina S.A.	100.00%	99.99%	0.01%	100.00%
TermoAndes S.A.	100.00%	0.00%	100.00%	100.00%
InterAndes S.A.	100.00%	0.00%	100.00%	100.00%
Servicios de Asistencia Técnica S.A.	99.99%	99.99%	0.00%	99.99%
Genergía S.A.	99.99%	0.00%	99.99%	99.99%
Genergía Power Ltd. (Cayman Islands)	100.00%	0.00%	100.00%	100.00%

Sociedad Eléctrica Santiago S.A., a 90%-owned subsidiary by AES Gener S.A., is engaged principally in the generation of electricity.

Norgener S.A. (''Norgener'') is engaged principally in the generation of electricity.

TermoAndes S.A. is engaged principally in the generation of electricity.

InterAndes S.A. is engaged principally in the transmission of electricity.

Energía Verde S.A. (''Energía Verde'') is engaged principally in the generation of electricity for forest product factories.

Energy Trade and Finance Corporation (Cayman Islands) is a wholly-owned subsidiary established to facilitate Company financing.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Caribbean Investment N.A. is a subsidiary which provides administration services to Compañía Generadora de Electricidad Itabo in the Dominican Republic. AES Gener owns 49.98% of its subsidiary and Norgener, Energía Verde and Energy Trade and Finance Co. each own 0.01% on NCI equity, totaling a participation of 50.01%.

Gener Colombia S.A. is a wholly-owned subsidiary established to facilitate business in Colombia.

Chivor S.A. E.S.P. (Colombia) is engaged principally in the generation of electricity.

Inversiones Termoenergía de Chile Ltda. is a subsidiary wholly-owned by Gener Blue Water, which is a subsidiary wholly-owned by Energy Trade and Finance Co.

Genergía S.A. is a subsidiary wholly-owned by Nova Gas Andes Power Limited, which in turn is a subsidiary wholly-owned by Energy Trade and Finance Co. Genergía and Nova Gas Andes Power Limited were created as investment company vehicles.

Compañía Carbones del Cesar Ltda., a wholly-owned subsidiary, is engaged principally in coal production activities. As of December 31, 2003, a net loss was recorded as a provision at December, 31 2003 and was not consolidated in the financial statements of AES Gener S.A.

The financial statements of Compañía Carbones del Cesar Ltda., are not consolidated as this company is in the process of being sold.

Petróleos, Asfaltos y Combustibles S.A. (Ex Petróleos y Asfaltos Cordex S.A.) is engaged principally in the construction and operation of a fuel oil and asphalt terminal in the area of Puerto Ventanas, in the Fifth Region of Chile.

Gener International S.A. engages in investment activities and provides administrative services.

Gener Argentina S.A., an indirectly wholly-owned subsidiary, manages the Company's investments in Argentina.

Servicios de Asistencia Técnica S.A. provides engineering, quality-control, and administration services.

Presentation

These consolidated financial statements have been prepared on the basis of accounting principles generally accepted in Chile. For the convenience of readers outside Chile, the consolidated financial statements have been translated into English, certain reclassifications have been made and certain clarifying account descriptions have been included.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In certain cases generally accepted accounting principles require that assets or liabilities be recorded or disclosed at their fair values. The fair value is the amount at which an asset could be bought or sold or the amount at which a liability could be incurred or settled in a current transaction between willing parties, other than in a forced or liquidation sale. Where available, quoted market prices in active markets have been used as the basis for the measurement; however, where quoted market prices in active markets are not available, the Company has estimated such values based on the best information available, including using modeling and other valuation techniques.

b) Price-level restatement

The financial statements have been price-level restated in order to reflect the effect of changes in the purchasing power of the Chilean currency during each period. All non-monetary assets and liabilities and income statement accounts have been restated to reflect the changes in the Chilean consumer price index from the date they were acquired or incurred to the end of the period.

The purchasing power gains and losses have been included in net income within the account ''price-level restatement'' and reflect the effects of Chilean inflation on the value of monetary assets and liabilities held by the Company.

The restatements were calculated using the official consumer price index of the Chilean National Institute of Statistics (''CPI'') and based on the ''prior month rule'', in which inflation adjustments are based on the consumer price index at the close of the month preceding the close of the respective period or transaction. This index is considered by the business community, the accounting profession and the Chilean government to be the index which most closely complies with the technical requirement to reflect the variation in the general level of prices in the country and, consequently, is widely used for financial reporting purposes in Chile.

The values of the Chilean consumer price index are as follows:

	Index	Change over previous December 31
December 31, 2001	109.76	2.6%
December 31, 2002	112.86	2.8%
December 31, 2003	114.07	1.07%

The values of the Chilean consumer price index used for financial accounting price-level restatement purposes are as follows:

	Index	Change over previous November 30
November 30, 2001	110.10	3.1%
November 30, 2002	113.36	3.0%
November 30, 2003	114.44	1.0%

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The above-mentioned price-level restatements do not purport to represent appraisal or replacement values and are only intended to restate all non-monetary financial statement components in terms of local currency of a single purchasing power and to include in the net result for each period the gain or loss in purchasing power arising from the holding of monetary assets and liabilities exposed to the effects of inflation.

Assets and liabilities that are denominated in index-linked units of account are stated at the period-end values of their respective units of account. The principal index-linked unit used in Chile is the *Unidad de Fomento* (UF), which changes daily to reflect the changes in Chile's consumer price index. Many of the Company's financial investments are denominated in UFs. As the Company's indexed liabilities exceed its indexed assets, the increase in the index results in a net loss on indexation.

Values for the UF are as follows (historical pesos per UF):

	Ch$
December 31, 2001	16,262.66
December 31, 2002	16,744.12
December 31, 2003	16,920.00

Comparative financial statements:

For comparative purposes, the December 31, 2001, 2002 and 2003 consolidated financial statements, and the amounts disclosed in the related notes to the consolidated financial statements, have been restated in terms of Chilean pesos of December 31, 2003 purchasing power. This updating does not change the prior period's statements or information in any way except to update the amounts to constant Chilean pesos of similar purchasing power.

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Credit (Charge) to income for price-level restatement and foreign exchange gains and losses:

The credit or charge to income for price-level restatement in each of the periods consists of the restatements of non-monetary assets and liabilities and net losses due to foreign exchange differences as follows:

	Credit (charge) to income Year ended December 31,		
	2001 ThCh$	2002 ThCh$	2003 ThCh$
Property, plant and equipment	22,948,470	21,396,786	6,941,969
Other assets in local currency	20,839,350	19,330,435	5,828,349
Other assets in foreign currency	(13,792,748)	13,374,335	(24,118,964)
Liabilities in foreign currency	(15,397,830)	(29,703,043)	11,679,060
UF Indexed liabilities	(14,796,947)	(15,450,847)	(5,201,861)
Shareholders' equity	(24,414,232)	(21,697,041)	(7,782,746)
Net balance sheet effect reflected in income	(24,613,937)	(12,749,375)	(12,654,193)
Net price-level restatement of income statement accounts	(614,664)	(2,159,140)	(167,879)
Net losses due to foreign exchange differences	(477,033)	(3,198,282)	(784,228)
Charge to income	(25,705,634)	(18,106,797)	(13,606,300)

c) Foreign currency transactions and translation

In accordance with Technical Bulletin No 64 of the Chilean Association of Accountants and dispositions of Official Circular No. 368 of the SVS, permanent foreign investments established in countries defined by Technical Bulletin No 64 as being unstable, whose activities do not constitute an extension of the parent company's operations are controlled and measured in US dollars. Differences between the Chilean peso and the US dollar exchange rate variation and fluctuations in the Chilean Consumer Price Index (CPI) are accounted for as a charge or credit to the equity reserve account called ''Accumulated Foreign Currency Translation Adjustment''. Foreign Exchange differences on US dollar denominated liabilities that have been designated as a hedge of such investments are also included in the same equity account to the extent the hedge is effective. This rule corresponds to all US dollar functional currency subsidiaries (Chivor S.A. E.S.P,. Compañía Carbones del Cesar Ltda., TermoAndes S.A. InterAndes S.A., Gener Colombia S.A. and New Caribbean Investment S.A.).

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Balances denominated in foreign currencies or indices have been translated into Chilean pesos at the following rates, which are the Observed Exchange Rates, as reported by the Central Bank of Chile:

	As of December 31,		
	2001 Ch$/Unit	2002 Ch$/Unit	2003 Ch$/Unit
Observed Dollar (US$)	654.79	718.61	593.80
Argentine Pesos (Arg$)	385.17	216.45	202.32
Colombian Pesos (Col$)	0.29	0.25	0.21

To reduce its exposure to the volatility of foreign currencies, the Company enters into currency swap agreements to manage the Company's foreign currency exposure to US dollars. Foreign currency transaction gains (losses) of ThCh$4,610,486, ThCh$(649,699) and ThCh$(1,385,325) are included in the consolidated statements of income in 2001, 2002, and 2003, respectively.

d) Time deposits, money market funds and commercial paper

Time deposits and commercial paper for resale are shown at cost plus price-level restatement and accrued interest, which approximates the market value of these items. Money market funds are shown at the lower of cost plus indexation adjustments or market value.

Commercial paper is classified as other current assets. Such financial instruments include:

Pagaré Reajustable del Banco Central de Chile (Central Bank Adjustable Promissory Notes or "PRBC"), These notes are bearer, short and long-term debt securities with the principal denominated in UF.

Pagaré Reajustable del Banco Central de Chile con Pago en Cupones (Central Bank Adjustable Promissory Notes with Coupon Payments or "PRC"). These are long-term debt securities issued by the Central Bank of Chile. The principal is denominated in UF. PRCs are bearer financial instruments with equal consecutive semiannual principal and interest payments.

e) Allowance for doubtful accounts

The Company determines this allowance over the basis of an individual analysis of each client and its payment capacity.

f) Inventories

Inventories consist of raw materials, parts and accessories valued at their corresponding acquisition cost. The values shown do not exceed their estimated net realizable values and are reflected in income on the basis of weighted-average cost.

An allowance for inventory shrinkage is determined according to technical and environmental studies based on factors affecting the coal in stock.

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Other current assets

Other current assets mainly include Commercial paper and Colombian Fiduciary Rights related to the affiliate Chivor S.A. E.S.P. which are presented at cost plus accrued interest.

h) Property, plant and equipment

Property, plant and equipment is valued at cost plus price-level restatement. The carrying value of property, plant and equipment was adjusted on June 30, 1986 in accordance with the regulations of the Chilean Superintendence of Securities and Insurance. (See Note 8)

Depreciation is included in operating costs and includes depreciation for technical reappraisal of fixed assets. Depreciation has been calculated on a straight-line basis over the following useful lives, with the exception of the TermoAndes Power Plant, in which case depreciation is amortized on a usage basis, which uses the total estimated hours of service for the plant's useful life.

	Years
Hydroelectric dam	77
Construction and infrastructure	18-42
Machinery and equipment	15-31
Other property, plant and equipment	5-13
Technical revaluation	10

The Company capitalizes the direct costs of financing its construction-in progress, including indexation, foreign currency gains and losses, interest and other similar expenses. Similarly, income from deposits of funds identified for specific projects is recorded as a decrease in the cost of financing the related work in progress. The Company ceases capitalization of interest when the asset is in a position to be used for its intended purpose.

Repair and maintenance costs are charged against income while renewals and improvements are capitalized as additions to the related assets. Retirements, sales and disposals of assets are recorded by removing the cost and accumulated depreciation from the asset and accumulated depreciation accounts with any related gain or loss reflected in other non-operating income or expense.

i) Software

The Company has internally developed computer software as well as acquired software packages. The cost incurred in software development is charged to income and the cost paid to acquire software packages is included in ''other fixed assets'' and amortized over 36 months. All significant internally developed software was completed prior to 1997.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) Investments in related companies

Investments in companies that are 50%-or-less owned, over which the Company exercises significant influence, and investments in companies in the development stage are shown under Other Non-Current Assets and are accounted for using the equity method. The Company's proportionate share of net income and losses of related companies is recognized in non-operating results in the statement of income on an accrual basis, after eliminating any unrealized profits from transactions between related companies.

k) Goodwill and Negative Goodwill

According to Chilean Superintendence rule number 1.358 of December 1997, the excess of cost of an acquired enterprise over the net book value of the assets acquired and liabilities assumed (goodwill) or the excess of this net book value over the cost of the acquired enterprise (negative goodwill) are amortized over 20 years.

The Company has evaluated the recovery of its goodwill for impairment under the hierarchy of the regulation established in the Technical Bulletin No. 56 of Colegio de Contadores de Chile A. G. (Accountants Association of Chile). As a result of this evaluation, no impairment has been recorded.

l) Intangibles

The Company has classified certain assets as intangibles due to their nature and characteristics. These assets have resulted principally from the following:

The asset revaluation that was performed at the time of the division of the Company's predecessor into three independent companies in 1981, one of which being AES Gener S.A. This intangible asset, representing the price-level restated excess of the market value over the book value of the assets that were transferred to AES Gener S.A., is being amortized over a period of 30 years, beginning on January 1, 1982.

m) Income taxes

The Company has recorded provisions at each period-end for income taxes currently payable in accordance with current tax regulations. A detail of such provisions is shown in Note 15.

n) Deferred income taxes

Starting January 1, 2000, the Company recorded income taxes in accordance with Technical Bulletin No. 60 of the Chilean Association of Accountants, and with circular No. 1466 issued on January 27, 2000 by the SVS, recognizing by using the liability method, the deferred tax effects of all temporary differences between the financial and tax values of assets and liabilities and loss carry forwards. As a transitional provision, a contra asset or liability has been recorded offsetting the effects of the deferred tax assets and liabilities not recorded prior to January 1, 2000. Such

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

contra asset or liability is amortized to income over the estimated average reversal periods corresponding to the underlying temporary differences to which the deferred tax asset or liability relates.

o) Bonds payable

Bonds payable are shown at each period-end at their nominal value plus accrued interest and price-level restatement. The discount amount, the cost of obtaining such financing and other expenses directly related to the issuance of bonds at the time of their placement are presented in "Other Assets" and are amortized using the straight-line method over the contracted term of the bonds. The difference between the straight-line method and the effective interest rate method is not material.

p) Staff severance indemnities

The liability for long-term severance indemnities is accrued in accordance with agreements entered into with the employees. This liability is shown at the present value of the expected future payments. At December 31, 2003 and 2002, the staff severance indemnities provision is discounted at an interest rate of 8% and is limited to a service period of 31 years.

q) Vacation provision

The Company has recorded a provision for vacations on an accrual basis, in accordance with Technical Bulletin No. 47 of the Chilean Association of Accountants.

r) Post-retirement benefits

Beginning January 1, 1999, the Company has accounted for the total liabilities related to voluntary pension plans for retired employees (no active employee is entitled to this benefit when he or she retires) and other post-retirement benefits, as stipulated in collective bargaining agreements. Pension benefits include the payment of a complementary pension in addition to that provided by the Chilean social security system, which is payable for life to retired employees. In addition, these benefits include health services and electricity subsidies. This liability has been recorded at the actuarially determined projected benefit obligation, discounted at an annual rate of 8% at December 31, 2003 and includes the likelihood of such payments or benefits based on mortality (in the case of retired employees) and employee turnover. In the case of current employees, who are only entitled to medical benefits and the electricity subsidies, benefits are recognized based on an estimate of the proportion of such benefits earned as of the balance sheet date. The obligations for medical benefits and electricity subsidies have been determined considering a trend for future medical costs and the fixed electricity bonus granted to retired employees and to active employees after retirement.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

s) Revenue recognition

Revenues from the sales of electricity are recorded based on output delivery and capacity provided at rates as specified under contract terms or at prevailing market rates.

Operating income includes uninvoiced income from energy supplied but not billed at each period-end, which has been valued at contracted rates existing at each respective period-end. These amounts are included in current assets, as trade accounts receivable. The related cost of this energy has been included in operating costs. The Company recognized revenues from sales of inventory such as coal and gas upon delivery and revenues from shipping and engineering services upon performance of such services.

t) Research and development expenses

The costs of research, project development and special studies are charged to income in the year in which they are incurred, except for the cost of fixed assets once development has been approved. The costs of research and development charged to income were ThCh$163,555, ThCh$82,432 and ThCh$2,600 for the years ended December 31, 2001, 2002 and 2003, respectively.

u) Forward exchange and swap contracts

Unrealized gains or losses on forward exchange and swap agreements that are not both designated and effective as hedges are accounted for at market value basis with the effect of the changes in the fair value recorded in income. Net losses on derivatives designated and effective as hedges of assets and liabilities are charged to income. Gains and losses related to qualifying hedges of anticipated transactions and net gains of derivatives designated and effective as hedges of assets and liabilities are deferred and recognized in income in the same period in which the underlying items are settled. These contracts are recorded according to Technical Bulletin No. 57.

TermoAndes and InterAndes have a swap agreement with Deutsche Bank Securities and Bank BBV Securities in order to fix its variable interest rate (LIBOR) with a 180-day fixed rate. This hedging covers the 92% of the debt.

v) Statement of cash flow

The statements of cash flow have been prepared using the direct method in accordance with Technical Bulletin No. 50 of the Chilean Association of Accountants.

Cash and cash equivalents represent cash, time deposits, money market funds and Commercial paper that can be converted to cash within a term not exceeding 90 days from the acquisition date and without risk of material loss of value.

"Cash flow from operating activities" includes those cash flows related to the operations of the Company, interest paid, financial income collected and all other cash flows that are not defined as either investing or financing.

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

w) Convenience translation to U.S. dollars

The Company maintains its accounting records and prepares its financial statements in Chilean pesos. The United States dollar amounts disclosed in the accompanying financial statements are presented solely for the convenience of the reader at the December 31, 2003 observed exchange rate of Ch$593.8 per US$1.00. This translation should not be construed as representing that the Chilean peso amounts actually represent or have been, or could be, converted into United States dollars at such a rate or at any other rate.

2. CHANGES IN ACCOUNTING PRINCIPLES AND PRESENTATION

Staff Severance Indemnities

As of January 1, 2002, the Company changed the interest rate used for determining the present value of the provisions for staff severance indemnities and for pensions and post-retirement benefits, reducing it from 10% to 8%. The effect of this change at the beginning of 2002 amounted to ThCh$673,832, which was charged to deferred assets in accordance with Technical Bulletin No. 8 of the Chilean Association of Accountants and will be amortized over 10 years.

In the years 2001 and 2003 the Company did not have any changes in accounting principles.

3. TIME DEPOSITS

The detail of time deposits at December 31, 2002 and 2003 is as follows:

	As of December 31,		
	Average Interest rate	2002 ThCh$	2003 ThCh$
Time deposit in U.S. dollars (1)	1.00	3,117,426	4,411,604
JP Morgan	1.80	956,088	—
Banco BBVA	1.95	5,046,241	595,762
Bank Boston N.A.	1.32	—	297,793
Bank of America N.A.	0.84	—	1,908,874
Bank Boston N.A.	1.35	—	119,259
BBVA Banco Francés S.A.	1.00	—	213,591
Banco Crédito Inversiones	1.97	5,905,174	495,416
Banco Chile	1.61	5,693,676	—
Banco Santander A.G. Valores	1.75	2,045,009	—
Banco Scotiabank	2.00	—	2,088,964
Total		22,763,614	10,131,263

(1) Restricted cash, see Notes 25.4.a(iii)

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

4. INVENTORIES

Inventories have been valued in accordance with the policy described in Note 1(f).

The principal components at each year-end are as follows:

	2002 ThCh$	2003 ThCh$
Coal	13,753,189	6,710,976
Oil	277,542	243,369
Coal in transit	413,035	2,403,510
Imported gas in transit	3,282,402	82,383
Spare parts and materials	3,979,191	1,669,115
Others	406,437	340,576
Total	**22,111,796**	**11,449,929**

Coal is presented net of an allowance for shrinkages amounting to ThCh$213,969 and ThCh$150,914 at December 31, 2002 and 2003, respectively.

The inventory of materials is presented net of provisions of ThCh$1,243,000 as of December 31, 2003, which is part of a ThCh$ 3,736,000 provision for obsolescence recorded against materials in inventory, property, plant and equipment and other long term assets.

5. RECOVERABLE TAXES, NET

The detail of recoverable taxes is as follows:

	2002 ThCh$	2003 ThCh$
VAT credit surplus (Chile)	167,260	180,828
VAT credit surplus (Argentina)	3,449,018	36,315
Excess of income tax estimated monthly payments over the year's tax liability (Chile)	661,761	476,554
Excess of income tax estimated monthly payments over the year's tax liability (Argentina)	178,201	47,760
Excess of income tax estimated monthly payments over the year's tax liability (Colombia)	99,719	34,551
Total	**4,555,959**	**776,008**

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

6. COMMERCIAL PAPER

The detail of these financial instruments, which are included within other current assets, is as follows:

DATES							
INITIAL DATE	MATURITY DATE	COUNTER PARTY	ORIGINAL CURRENCY	INITIAL AMOUNTS	INTEREST RATE	FINAL AMOUNT	MARKET VALUE
						ThCh$	ThCh$
Dec. 29, 2003	Jan. 05, 2004	BBVA Corredores de Bolsa	Ch$	1,500,000	0.21	1,500,735	1,500,210
Dec. 24, 2003	Jan. 06, 2004	Banco de Chile	Ch$	611,000	0.21	611,556	611,299
Dec. 29, 2003	Jan. 06, 2004	Scotiabank Sud Americano	Ch$	1,000,000	0.21	1,000,560	1,000,140
Dec. 29, 2003	Jan. 07, 2004	Banco de Chile	Ch$	1,500,000	0.22	1,500,990	1,500,220
Dec. 29, 2003	Jan. 08, 2004	Valores Security C.B.	Ch$	1,500,000	0.28	1,501,400	1,500,280
Dec. 29, 2003	Jan. 12, 2004	Consorcio C.B.	Ch$	1,500,000	0.23	1,501,610	1,500,230
Dec. 29, 2003	Jan. 13, 2004	BCI C.B.	Ch$	1,646,000	0.24	1,647,975	1,646,263
Dec. 26, 2003	Jan. 05, 2004	Banco de Chile	UF	652,223	0.18	652,614	652,418
Dec. 26, 2003	Jan. 05, 2004	Banco de Chile	UF	30,777	0.18	30,796	30,787
Dec. 29, 2003	Jan. 05, 2004	BBVA BHIF	UF	26,288	0.24	26,303	26,292
Dec. 29, 2003	Jan. 05, 2004	BBVA BHIF	UF	1,159	0.24	1,159	1,159
Dec. 29, 2003	Jan. 05, 2004	BBVA BHIF	UF	239	0.24	239	239
Dec. 29, 2003	Jan. 05, 2004	BBVA BHIF	UF	418,169	0.24	418,403	418,236
Dec. 29, 2003	Jan. 05, 2004	BBVA BHIF	UF	10,396	0.24	10,401	10,397
Dec. 29, 2003	Jan. 05, 2004	BBVA BHIF	UF	10,288	0.24	10,294	10,290
Dec. 29, 2003	Jan. 05, 2004	BBVA BHIF	UF	93,878	0.24	93,930	93,893
Dec. 29, 2003	Jan. 05, 2004	BBVA BHIF	UF	466,584	0.24	466,845	466,659
Dec. 29, 2003	Jan. 05, 2004	BCI C.B.	UF	105,534	0.23	105,591	105,550
Dec. 29, 2003	Jan. 05, 2004	BCI C.B.	UF	125,729	0.23	125,797	125,748
Dec. 29, 2003	Jan. 05, 2004	BCI C.B.	UF	218,645	0.23	218,762	218,678
Dec. 29, 2003	Jan. 05, 2004	BCI C.B.	UF	162,764	0.23	162,851	162,789
Dec. 29, 2003	Jan. 05, 2004	BCI C.B.	UF	100,335	0.23	100,389	100,351
Dec. 29, 2003	Jan. 05, 2004	BCI C.B.	UF	1,993	0.23	1,994	1,993
Dec. 30, 2003	Jan. 06, 2004	BCI C.B.	UF	805,381	0.23	805,751	805,442
Dec. 30, 2003	Jan. 06, 2004	BCI C.B.	UF	72,619	0.23	72,653	72,625
Dec. 9, 2003	Jan. 12, 2004	Banco Estado	US$	593,800	2.20	595,034	594,598
Dec. 15, 2003	Jan. 12, 2004	BBVA	US$	2,434,580	2.00	2,438,367	2,436,744
Dec. 29, 2003	Jan. 19, 2004	Citibank N.A.	US$	2,493,960	2.30	2,497,306	2,494,279
Dec. 30, 2003	Jan. 07, 2004	BCI	US$	35,965	1.60	35,641	35,630
Dec. 22, 2003	Jan. 06, 2004	BCI	US$	7,134,840	2.00	7,130,944	7,129,163
Dec. 22, 2003	Jan. 06, 2004	Banco BBVA BHIF	US$	3,683,470	2.10	3,681,918	3,680,631
Dec. 22, 2003	Jan. 06, 2004	Banco BBVA BHIF	US$	3,061,927	2.10	3,060,637	3,059,567
Dec. 22, 2003	Jan. 06, 2004	Banco de Chile	US$	7,314,840	1.80	7,131,538	7,128,807
				39,313,383		39,140,983	39,121,607

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

7. OTHER CURRENT ASSETS

Other current assets at the end of each year are as follows:

	2002 ThCh$	2003 ThCh$ (As restated) note 35
Chivor trust accounts receivable (2)	7,807,336	8,542,881
Chivor trust investments	407,831	1,361,959
Commercial paper	8,234,403	9,258,643
Commercial paper (UF)	—	29,862,964
Swap TermoAndes and InterAndes	—	(1,427,889)
Rights Forwards	—	5,932,770
Obligation Forwards	—	(6,053,061)
Not carried out results Forwards	—	13,630
Treasury lock agreement rights (1)	—	985,242
Treasury lock agreement obligations (1)	—	(985,242)
Other Current Assets	361,611	16,055
Total	**16,811,181**	**47,507,952**

(1) On December 3 and December 12, 2003, the Company entered into two treasury lock agreements for a notional value of US$100 million each, at an average interest rate of 4.37%.

(2) Under the provisions of the credit agreement with a syndicate of banks led by Bank of America, Chivor S.A.E.S.P, a subsidiary of Energy Trade Finance Corp. (a subsidiary of Gener) located in Columbia, is required to hold in trust the proceeds of the collection of its energy and capacity sale invoices to guarantee the payment of the syndicated bank loan. Trust assets are invested in commercial paper in Columbia.

The trust restricts all Chivor's accounts receivable. A portion of accounts receivable estimated to cover Chivor's operating expenses is transferred to Chivor's unrestricted receivable account, and is included in the consolidated accounts receivable balance of Gener. The excess funds remaining in the trust are converted into U.S. dollars and are held in a U.S. dollar bank account in Columbia, classified as Chivor trust investments above.

8. PROPERTY, PLANT AND EQUIPMENT

a) Detail of fixed assets

Property, plant and equipment has been valued and its depreciation has been calculated in accordance with Note 1(h). The items comprising property, plant and equipment at each

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

8. PROPERTY, PLANT AND EQUIPMENT (Continued)

period-end include mainly the buildings, generating systems and transmission systems comprising the Company's power plants, as follows:

	Fixed Assets As of December 31,		Accumulated Depreciation As of December 31,	
	2002 ThCh$	2003 ThCh$	2002 ThCh$	2003 ThCh$
Land	8,497,760	8,018,338	—	—
Buildings	804,773,950	724,262,096	(182,907,241)	(180,446,732)
Transmission and generation system	995,530,056	939,512,695	(315,608,747)	(344,038,848)
Process and communication equipment	14,860,014	16,649,098	(9,080,483)	(9,670,334)
Furniture and others	3,827,896	3,591,100	(1,825,552)	(2,286,528)
Other fixed assets	11,542,843	8,116,417	(1,692,038)	(1,881,457)
Technical revaluation	42,213,625	42,213,625	(29,727,581)	(31,108,358)
Subtotal	1,881,246,144	1,742,363,369	(540,841,642)	(569,432,257)
Projects under development	12,927,368	11,324,692	—	—
Total fixed assets before depreciation	**1,894,173,512**	**1,753,688,061**	**(540,841,642)**	**(569,432,257)**
Total fixed assets net of depreciation	**1,353,331,870**	**1,184,255,804**	**—**	**—**

b) Technical revaluation and adjustment of book value

Property, plant and equipment includes net increases arising from the technical revaluation of certain assets performed during 1986, in accordance with regulations of the Superintendence of Securities and Insurance.

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

8. PROPERTY, PLANT AND EQUIPMENT (Continued)

The accumulated net effect of these revaluations as of each year-end is detailed below by class of asset:

• Technical Revaluation that increased the book value of fixed assets:

	Fixed Assets As of December 31,		Accumulated Depreciation As of December 31,	
	2002 ThCh$	2003 ThCh$	2002 ThCh$	2003 ThCh$
Transmission and generation System	42,207,445	42,207,445	(29,721,416)	(31,102,188)
Process and communication equipment	5,673	5,673	(5,658)	(5,663)
Furniture and others	507	507	(507)	(507)
Total technical revaluation (positive asset)	**42,213,625**	**42,213,625**	**(29,727,581)**	**(31,108,358)**

• Technical Revaluation that decreased the book value of fixed assets:

	Fixed Assets As of December 31,		Accumulated Depreciation As of December 31,	
	2002 ThCh$	2003 ThCh$	2002 ThCh$	2003 ThCh$
Land	(503,778)	(461,900)	—	—
Buildings	(116,690)	(107,244)	65,468	61,203
Total technical revaluation (negative asset)	**(620,468)**	**(569,144)**	**65,468**	**61,203**

The technical revaluation that decreased the value of land and buildings has been directly deducted from the book value of these fixed assets.

c) Details of other fixed assets are as follows:

	Fixed Assets As of December 31,		Accumulated Depreciation As of December 31,	
	2002 ThCh$	2003 ThCh$	2002 ThCh$	2003 ThCh$
Materials and parts	8,778,595	5,269,528	—	—
Leasing contracts	82,077	41,136	(42,871)	(37,708)
Others	2,682,171	2,805,753	(1,649,167)	(1,843,749)
Total	**11,542,843**	**8,116,417**	**(1,692,038)**	**(1,881,457)**

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

8. PROPERTY, PLANT AND EQUIPMENT (Continued)

d) Charges to depreciation for the period are as follows:

	As of December 31,		
	2001 ThCh$	2002 ThCh$	2003 ThCh$
Property, plant and equipment	45,247,566	48,360,224	44,650,717
Leasing contracts	17,103	22,804	17,118
Technical revaluation	1,686,493	1,687,514	1,312,755
Total	**46,951,162**	**50,070,542**	**45,980,590**

9. INVESTMENTS IN RELATED COMPANIES

a) Investments in related companies are accounted for in accordance with Note 1(k). The details are

				Percentage of Participation			Equity of The Company		Net income (loss) of the Company			Net income (loss) of Investment			Investment Value	
Company	Country	Currency	Number Of Shares	2001 %	2002 %	2003 %	2002 ThCh$	2003 ThCh$	2001 ThCh$	2002 ThCh$	2003 ThCh$	2001 ThCh$	2002 ThCh$	2003 ThCh$	2002 ThCh$	200 ThC
Central Puerto S.A. (2)	Argentina	Dollar	—	0.00	0.00	0.00	—	—	4,454,987	—	—	2,848,519	—		—	
C.G.E. Itabo S.A	R. Dominicana	Dollar	14,091,707	25.01	25.00	25.00	247,323,890	206,832,276	7,751,333	(7,332,534)	4,487,674	1,938,220	(1,833,500)	1,122,143	61,843,339	51,71
Hidroneuquén S.A. (1)(2)	Argentina	Dollar	—	0.00	0.00	0.00	—	—	429,036	—	—	214,518	—		—	
Empresa Eléctrica Guacolda S.A.	Chile	Ch$	64,779,500	50.00	50.00	50.00	82,389,314	98,189,570	(9,254,626)	1,636,604	15,800,256	(4,627,314)	818,302	7,900,128	41,194,657	49,09
Puerto Ventanas S.A.	Chile	Ch$	—	0.00	0.00	0.00	—	—	2,232,475	—	—	1,559,830	—		—	
Gasoducto Gasandes S.A. (1)	Argentina	Dollar	10,850,710	13.00	13.00	13.00	92,885,934	80,615,476	8,521,538	5,630,726	4,622,139	1,107,800	731,994	600,878	12,075,171	10,48
Agencias Universales S.A. (2)	Chile	Ch$	—	0.00	0.00	0.00	—	—	453,895	—	—	121,190	—		—	
Oilgener Inc. (3)	U.S.A.	Dollar	—	100.00	0.00	0.00	—	—	(903,119)	—	—	(903,119)	—		—	
Cía. Chilena de Navegación Interoceánica S.A. (2)	Chile	Ch$	—	0.00	0.00	0.00	—	—	(862,736)	—	—	(112,242)	—		—	
Gasoducto Gasandes S.A.	Chile	Ch$	22,464	13.00	13.00	13.00	37,483,711	31,849,036	(1,622,450)	299,028	1,182,256	(210,918)	38,874	153,693	4,872,882	4,14
Cía. Carbones del Cesar Ltda. (1).	Colombia	Dollar	9,080,008	100.00	99.00	99.00	4,039,134	3,354,530	—	—	—	—	—		4,039,055	3,35
Portuaria Cabo Froward S.A. (2)	Chile	Ch$	—	0.00	0.00	0.00	—	—	304,018	—	—	64,391	—		—	
Explotaciones Sanitarias S.A. (3)	Chile	Ch$	—	51.00	0.00	0.00	—	—	298,944	—	—	152,462			—	
Serv. Int. de Generación de E.Eléctrica S.A.(3)	Chile	Ch$	—	40.00	0.00	0.00	—	—	869,630	—	—	347,852	—		—	
Ecogener S.A. (3)	Chile	Ch$		51.00	0.00	0.00	—	—	305,893	—	—	156,006			—	
CDEC-SING Ltda.	Chile	Ch$	100,641,422	28.38	33.00	28.00	435,810	431,541	(31,741)	(26,080)	(1,420)	(10,581)	(8,693)	(406)	145,270	12
CDEC-SIC Ltda.	Chile	Ch$	62,769,168	18.75	15.00	15.00	455,244	357,777	(37,852)	(7,426)	(97,472)	(6,622)	(1,142)	(14,996)	70,037	5
Energen S.A. (1)(4)	Argentina	Dollar	11,999	100.00	99.00	99.00	—	—	(411,068)	(40,727)	(3,501)	(411,068)	(40,727)	(3,500)	—	
MEGA Inc.(2)	U.S.A	Dollar	—	0.00	0.00	0.00	—	—	451,267	—	—	(451,267)	—	—	—	
Oilgener Ltd. (1)(3)	Argentina	Dollar	11,000	100.00	0.00	0.00	—	—	(1,240,307)	—	—	(1,240,307)	—		—	
															124,240,411	118.96

1) These companies operate in countries considered unstable. The foreign exchange gains included in income that are attributable to the remeasuring of the financial statements of these companies into US Doll ThCh$784,227 for the years ended December 31, 2001, 2002 and 2003, respectively.

2) Sold during 2001

3) Sold during 2002

4) Not Consolidated subsidiary. The amounts of total assets, total liabilities and results of operations are immaterial.

Provisions recorded for investments held for sale are as follows:

	As of December	
Company	2002 ThCh$	20 ThC
Carbones del Cesar (1)	1,385,954	1,756

(1) An accrual for the anticipated loss on the sale of Carbones del Cesar was recorded in 2002. The Company continues to maintai for the sale is occurring.

Additional information concerning this item is as follows:

a) Authorization obtained for not consolidating the financial statements of those subsidiaries that are in the process of being sold.

The Superintendence of Securities and Insurance (''SVS''), in accordance with its communication No. 02385 of April 12, 2001, authorized AES Gener S.A. to not consolidate its results with those of its subsidiaries Oilgener Inc., Explotaciones Sanitarias S.A, Ecogener S.A. and Carbones del Cesar.

Finally, the SVC established through such communication that the investments in these subsidiaries must be presented under the item ''investment in related companies'' until they are sold or there is a purchase commitment.

The authorization requested from the SVC was based on the intention of AES Gener management to sell its interest in those subsidiaries and initiating the bid process over such investments. Note 34 shows the financial statements of the non-consolidated subsidiaries.

In 2002, Explotaciones Sanitarias S.A. and Ecogener S.A. were sold. In addition, the assets of the subsidiary Oilgener Inc. were sold in 2002.

b) The Merchant Energy Group of the Americas, Inc. (MEGA)

In June 2001, AES Gener S.A. sold its 50% interest in MEGA for ThUS$289. The net income after tax originated by this transaction amounted to ThCh$224,968 in 2001.

c) Compañía Carbones del César Ltda. (Colombia).

During 2002 and 2003, AES Gener S.A. made contributions of ThUS$176 and ThUS$75, respectively.

d) Puerto Ventanas S.A.

On July 26, 2001, AES Gener S.A. sold 53,190,000 shares of Puerto Ventanas S.A equivalent to 66.33% of its outstanding shares, for ThCh$40,023,270. In the same month the company sold its remaining 2,840,611 shares of Puerto Ventanas S.A. equivalent to 3.54% of the total outstanding shares for ThCh$2,137,447. The net income after tax originated by this transaction amounted to ThCh$8,768,982.

e) Compañía Chilena de Navegación Interoceánica S.A. (CCNI)

On February 9, 2001, AES Gener S.A informed Sociedades de Inversiones Paine S.A., Inversiones Tongoy S.A. and Inversiones Patagonia Ltda. of its decision to exercise its option over all the shares of Compañía Chilena de Navegación Interoceánica S.A.. On April 4, 2001, AES Gener S.A. bought, acquired and accepted the ownership of the 35,564,602 shares, which represents 13.01% of the outstanding shares of Compañía Chilena de Navegación Interoceánica S.A. The price of this transaction was paid through the compensating loan existing with the sellers.

On June 12, 2001, AES Gener sold 71,129,207 shares of Compañía Chilena de Navegación Interoceánica S.A. to Compañía Sud Americana de Vapores S.A., equivalent to 26.02% of the outstanding shares, for US$3,903,000. This transaction generated a net loss after tax amounting to ThCh$5,888,343.

f) Agencias Universales S.A. (Agunsa)

On June 14, 2001, AES Gener sold to Sudamericana Agencias Maritimas y Areas S.A. 228,311,092 shares of Agencias Universales S.A. equivalent to 26.70% of the outstanding shares for ThUS$10,060. Such transaction generated a net loss after tax amounting to ThCh$1,578,699.

g) Portuaria Cabo Froward S.A.

On August 27, 2001, AES Gener S.A. sold to Empresas Navieras S.A. 10,158,935 shares of Portuaria Cabo Froward S.A. equivalent to 8.97% of the outstanding shares, for ThCh$923,447.

On August 31, 2001, AES Gener S.A. sold to Inmobiliaria Dos Robles S.A. 2,623,458 shares of Portuaria Cabo Froward equivalent to 2.32% of the outstanding shares, for ThCh$238,472.

On August 31, 2001, AES Gener S.A sold to Puerto de Lirquén S.A. 11,200,000 shares of Portuaria Cabo Froward equivalent to 9.89% of the outstanding shares, for ThCh$1,018,080. These transactions generated a net loss after tax amounting to ThCh$341,290.

h) Hidroneuquén S.A. (Argentina)

On September 21, 2001, AES Gener S.A exercised its option to buy 53,306,844 shares of Hidroneuquén equivalent to 19.02% of the outstanding shares. Such transaction increased the Company's interest in Hidroneuquén to 43.28%. AES Gener S.A. paid ThUS$4,402 for such shares.

On September 21, 2001, AES Gener SA sold to Total Austral S.A. (Argentinean branch) 121,283,366 shares of Hidroneuquén S.A. equivalent to 43.28% of the outstanding shares, for ThUS$44,781.

Likewise, on that same date, Gener Argentina S.A., a subsidiary of AES Gener S.A., sold to Total Austral S.A. (Argentinean branch) 74,937,265 shares of Hidroneuquén S.A. equivalent to 26.74% of the outstanding shares, for ThUS$27,669 These transactions generated a net loss after tax amounting to ThCh$16,259,168.

i) Central Puerto S.A. (Argentina)

On July 27, 2001, AES Gener S.A. sold to Total Austral S.A. (Argentinean branch) 56,589,164 shares of Central Puerto S.A. equivalent to 63.94% of the outstanding shares, for ThUS$255,000. Such transaction generated a net income after taxes amounting to ThCh$52,784,531.

j) Oilgener Inc.

On November 5, 2002, AES Gener S.A. sold to Energy Holdings LLC its ownership rights over the assets of this company, as well as the rights of AES Gener S.A. over the contract with the Chilean State for the development of the Fell-Block area. These assets together with the investment in Oilgener Argentina Ltda. were sold for ThUS$500. Said operation generated a net loss after tax of ThCh$3,916,249 in 2002.

In 2003, the net book value of the investment was written-off for ThCh$1,501,059.

9. INVESTMENTS IN RELATED COMPANIES (Continued)

k) Explotaciones Sanitarias and Ecogener S.A.

On November 25, 2002, AES Gener S.A sold to Inversiones Residuos y Tratamientos S.A. 51,000 shares of Explotaciones Sanitarias and 663,918 shares of Ecogener equivalent to 51% and 50.61% respectively, of the outstanding shares of those companies. The remaining 0.39% interest in Ecogener S.A. (equivalent to 5,100 shares) was sold to Explotaciones Sanitarias S.A. The total amount obtained in the sale of these companies was ThCh$3,722,400, which generated a net loss after tax amounting to ThCh$1,231,243.

l) Information on investments overseas

The liabilities of AES Gener that have been specifically designated as foreign investment hedge instruments of U.S. dollar functional currency subsidiaries are as follows:

USA bond for US$200,000,000, repayment of capital due on January 15, 2006.

Convertible bond for US$476,638,900, repayment of capital due on March 1, 2005.

m) Unrealized gains

The unrealized gains correspond to services provided by AES Gener S.A. for the construction of the Empresa Eléctrica Guacolda S.A. plants. Such amount is part of the construction cost of the corresponding fixed assets and is amortized over the average useful life of each power plant.

n) Argentinean companies

AES Gener S.A. owns the following direct investments in Argentina:

Gener Argentina S.A. (100%) that consolidates TermoAndes S.A. (100%) and InterAndes S.A. (100%) and also owns an investment in Energen S.A. (100%) and Gasoducto Gasandes Argentina S.A. (13%), which have been valued according to the accounting standards of Technical Bulletin No. 64 issued by the Chilean Association of Accountants. Those investments represent 7.5% of total of consolidated assets of AES Gener S.A. as of December 31, 2003.

o) Investments in Selling Process

In accordance with the agreement adopted by the Board of Directors during its 437th session held on February 28, 2001, the Company was authorized to sell those subsidiaries that were not part of the electric business in Chile, including Empresa Generadora de Electricidad Itabo Inc., Compañía de Carbones del Cesar Ltda., Chivor S.A. E.S.P., Gasoducto Gasandes S.A. and Gasoducto Gasandes Argentina S.A. (Argentina). With the exception of Compañía de Carbones del Cesar Ltda, none of these companies are in the process of being sold.

p) SIGEN S.A.

On January 25, 2002, AES Gener S.A. sold to General Electric Internacional 400 shares of Servicios Integrales de Generación Eléctrica S.A., equivalent to 40% of the total outstanding shares, for ThCh$301,438, resulting in a net loss after tax of ThCh$672,382 in 2002.

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

9. INVESTMENTS IN RELATED COMPANIES (Continued)

q) Sociedad Eléctrica Santiago S.A.

On May 27, 2002, AES Gener S.A. increased its direct equity share participation in Sociedad Eléctrica Santiago S.A. by purchasing an additional 39% of the total outstanding shares that were previously owned by Sociedad Termoenergía Ltda and Genergía S.A. of 24% and 15% respectively.

r) Remittable earnings from overseas investments.

As of December 31, 2003, there were undistributed earnings from New Caribbean Investment S.A. of RD$59,697,306 (ThCh$2,026,425).

s) Valuation of investments

Based on Ordinance No. 150 issued by the SVS, a study of investments was performed that determined that the expected cash flows to be generated by those investments are enough to recover their book values. In the case of Compañía de Carbones del Cesar Ltda, which is undergoing a divesture process, a provision of ThCh$1,385,954 associated with the lower value that is expected to be received from the sale was established in 2002.

10. GOODWILL AND NEGATIVE GOODWILL

This note includes the difference between the acquisition cost and the proportional equity value of investments in related companies. The amortization of these values is recognized in income on a straight-line basis over a 20-year period, in accordance with Circular No. 1358 of the SVS. The details of goodwill and negative goodwill are as follows:

Company	Balances as of December 31, 2002	Amortization 2001	Amortization 2002	Amortization 2003	Balances as of December 31, 2003
	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$
a) Goodwill:					
Empresa Eléctrica Guacolda S.A.	626,033	56,911	56,913	56,912	569,121
Gasoducto Gasandes S.A.	1,330,578	102,352	102,352	102,352	1,228,226
Gasoducto Gasandes S.A. (Argentina)	2,325,800	167,909	178,907	146,371	1,756,450
Oilgener Ltd. (Argentina) (1)	—	159,048	—	—	—
Explotaciones Sanitarias S.A. (1)	—	261,315	216,071	—	—
Gener Blue Water (Islas Cayman)	1,068,245	52,174	55,571	61,927	1,068,245
Sociedad Eléctrica Santiago S.A.	3,214,401	341,594	341,595	341,595	2,872,806
Genergia Power Ltd. (Islas Cayman)	829,661	3,654	43,652	43,859	812,400
	9,394,718	**1,144,957**	**995,061**	**753,016**	**8,307,248**
b) Negative goodwill:					
Puerto Ventanas S.A. (1)	—	20,955	—	—	—
Central Puerto S.A. (Argentina) (1)	—	598,979	—	—	—
Hidroneuquén S.A. (Agentina) (1)	—	1,589,411	—	—	—
	—	**2,209,345**	—	—	—

(1) These companies were sold in 2001 and 2002.

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

11. INTANGIBLES

The details of intangibles are as follows:

	As of December 31,	
	2002	2003
	ThCh$	ThCh$
Revalued asset from the Company´s predecessor (1981)	5,889,447	5,889,448
Others	20,288	42,568
Total	5,909,735	5,932,016
Accumulated Amortization	(4,123,833)	(4,319,893)
Total Intangible net of Accumulated Amortization	1,785,902	1,612,123
Charge to net income	196,060	196,060

Amortization expense is included within ''Other non-operating expenses'' (Note 29).

12. OTHER LONG TERM ASSETS

The details of other long term assets are as follows:

	2002	2003
	ThCh$	ThCh$
Advances to suppliers (f)	4,878,619	4,168,859
Discount in bonds issuance (a)	1,948,559	1,675,209
Deferred expenses in issuance of bonds and others (b)	6,414,500	4,006,959
Materials (g)	1,395,642	243,444
Pension plans deferred assets (c)	1,289,481	1,479,426
Power supply to Fifth Region (d)	1,838,684	1,266,778
Time deposits (restricted cash, see Note 25.4.a(iii))	22,472,283	12,795,011
Deferred assets staff severance indemnities and pensions plans (c)	673,832	606,450
Deferred charges of bonds	—	220,972
Other deferred charges	3,930,873	2,710,161
Totals	**44,842,473**	**29,173,269**

a) Discount in bonds issuance corresponds to the difference between its par value and the issuance amount. These amounts are amortized over the life of the instrument.

b) Deferred expenses in the issuance of bonds and others correspond to expenses incurred in their issuance and legal expenses which are amortized over the maturity date of the bonds.

At December 31, 2003 this item includes ThCh$1,774,059 of direct costs incurred for the issuance and placement of convertible bonds made in 1998 and 1999.

The amortization of the year amounted to ThCh$5,591,925, ThCh$2,876,376 and ThCh$2,876,741 in 2001, 2002 and 2003, respectively, and is included within non operating expenses.

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

12. OTHER LONG TERM ASSETS (Continued)

c) Pension plan deferred assets: The total amount ThCh$1,064,405 as of December 31, 2003 includes ThCh$131,816 which is amortized over a 1 year period and ThCh$932,589 resulting from the transition obligation which is amortized over a 10 year period. The amortization was ThCh$220,943, ThCh$225,076, and ThCh$992,459 in 2001, 2002 and 2003, respectively.

Deferred asset amounts of ThCh$673,832 in 2002 allocated to staff severance indemnities and pensions plans resulted from changing the discount rate from 10% to 8% in 2002. These deferred assets are amortized over a 10 year period.

d) Power Supply to 5th Region corresponds to the prepayment made on the transportation contract that relates to energy transported from the SIC (Central Interconnected System) to the 5th Region. The prepayment is amortized over 10 years, starting May 1, 2000.

e) Long term time deposits correspond to the obligation of TermoAndes S.A. and InterAndes S.A. to make time deposits with JP Morgan on a monthly basis to guarantee the payment of negotiable liabilities.

f) The advances to suppliers at December 31, 2003 include ThCh$2,406,286 (ThCh$2,609,981 in 2002) of a loan issued by Gener Colombia S.A. to Carbones Colombianos del Cerrejón, with a 13.9433% annual effective interest rate, due monthly in 5 equal payments of US$1,025,399.45 from July 1, 2005.

g) Materials include specific equipment and material of low rotation, which are expected to be used in the long term.

13. SHORT-TERM AND LONG-TERM ACCOUNTS RECEIVABLE

The details of short-term and long-term accounts receivable are as follows:

	SHORT-TERM MATURITIES							LONG-TERM MATURITIES	
	Less than 90 Days		More than 90 Days Less than 1 Year			Total Current Assets			
	2002	2003	2002	2003	SubTotals	2002	2003	2002	2003
	ThCh$	ThCh$	ThCh$	ThCh$		ThCh$	ThCh$	ThCh$	ThCh$
Trade Account Receivable	25,119,499	27,672,281	8,962,693	3,132,842	30,805,123	33,987,117	29,367,132	—	—
Allowance for Doubtful Accounts	(3,048,830)	(1,437,991)	—	—	(1,437,991)	—	—	—	—
Notes Receivable	615,278	237,542	12,033	21,150	258,692	627,311	258,692	—	—
Sundry Accounts Receivable	1,998,833	1,557,139	535,475	850,969	2,408,108	2,534,308	2,408,108	6,638,194	7,462,123
						37,148,736	32,033,932	6,638,194	7,462,123

Long-term accounts receivable at December 31, 2002 and 2003 mainly include ThCh$5,863,541 and ThCh$7,455,173, respectively, of amounts paid under a take-or-pay contract for the transportation of gas, in excess of the gas received. In accordance with the terms of the contract, the minimum payments in excess of the gas received are applied to future purchases of gas and bear no interest. The balance at December 31, 2002 includes ThCh$746,584 of management fees due from Hidroeléctrica Piedra del Aguila, an Argentinean power Company that was related to AES Gener until September 2001, which bear no interest.

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

14. CURRENT LIABILITIES

The following liabilities, excluding bank liabilities, are due to within a year:

	As of December 31,	
	2002 ThCh$	2003 ThCh$
Short-term portion of long-term liabilities	14,401,133	3,856,460
Dividends payable	148,679	113,715
Bonds payable	41,490,179	31,795,165
Trade accounts and notes payable	40,192,847	38,115,648
Accounts and notes payable to related companies	1,325,954	1,203,087
Taxes, withholdings and other	9,277,010	10,321,225
Total	**106,835,802**	**85,405,300**

Accounts payable and other short-term liabilities mainly correspond to purchases of coal, energy and electricity power.

Average annual interest rates were as follows:

	As of December 31,	
	2002	2003
a) Average annual interest rate: UF obligations	7.50%	7.50%
b) Average annual interest rate: US$ obligations	6.32%	5.86%

15. INCOME TAXES

a) Taxes payable

As of December 31, 2003 and 2002, the Company did not record income taxes payable because at the end of both periods, a negative taxable base of the first category tax was determined, except for the subsidiary Energía Verde S.A., which recorded ThCh$173,467 since it had net income of ThCh$1,051,317.

b) Undistributed Dividend tax credits

As of December 31, 2002 and 2003, the Company and subsidiaries have no undistributed dividend tax credits.

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

15. INCOME TAXES (Continued)

c) Deferred taxes

The deferred tax assets and liabilities arising from accumulated temporary differences and the deferred tax complementary accounts are set out below:

	2002				2003			
	Deferred Asset		Deferred Liability		Deferred Asset		Deferred Liability	
	Short-term ThCh$	Long-term ThCh$ (As restated) note 35	Short-term ThCh$	Long-term ThCh$	Short-term ThCh$	Long-term ThCh$	Short-term ThCh$	Long-term ThCh$
Allowance for doubtful accounts	10,993	—	—	—	10,884	442,306	—	—
Vacation allowance	193,518	—	—	—	222,962	—	—	—
Accelerated depreciation	—	421,639	—	97,254,846	—	364,106	—	99,256,030
Staff severance indemnities	—	—	—	92,897	—	—	—	143,486
Amortization of Intangibles	—	42,689	—	300,155	—	—	—	—
Lease assets	—	—	—	—	—	—	—	387
Benefit of tax losses	—	—	—	607,789	—	—	—	—
Loss carryforward	—	42,585,191	—	—	—	47,051,224	—	—
Other	528,612	3,187,452	—	982,797	698,046	(5,804,110)	—	4,638,848
Coal allowance	—	—	—	—	25,655	—	—	—
Sale on investments in related companies	—	—	—	—	—	1,750,510	—	652,323
Lease, net	—	—	—	—	—	476	—	—
Allowance for supplies and inventories	—	—	—	—	231,880	—	—	—
Provision for retirement of machinery and equipment	—	—	—	—	29,013	211,310	—	—
Pension plans provision (Long-term)	—	—	—	—	—	143,792	—	—
Intangibles	—	—	—	—	—	—	—	266,824
Subtotal	**733,123**	**46,236,971**	**—**	**99,238,484**	**1,218,440**	**44,159,614**	**—**	**104,957,898**
Net Complementary Accounts	—	8,404,560	—	57,405,730	—	2,812,537	—	54,554,185
Total deferred taxes	**733,123**	**37,832,411**	**—**	**41,832,754**	**1,218,440**	**41,347,077**	**—**	**50,403,713**

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

15. INCOME TAXES (Continued)

These deferred taxes are presented on a net basis in the balance sheet.

	As of December 31,		
	2001 ThCh$ (As restated) note 35	2002 ThCh$ (As restated) note 35	2003 ThCh$
Current income tax	(3,045,423)	(989,380)	(826,710)
Adjustment to income taxes of prior periods	(1,137,333)	—	—
Deferred income tax	(8,777,341)	(7,188,566)	(7,066,175)
Benefit of tax losses	(3,851,738)	11,568,413	4,649,979
Amortization of complementary accounts	9,110,843	(5,053,573)	(1,505,480)
Other	651,731	(305)	—
Charge to income	(7,049,261)	(1,663,411)	(4,748,386)

d) Tax loss carryforwards

In accordance with the registry of the Fondos de Utilidad Tributaria, or FUT, as of December 31, 2003 and 2002, the company had tax loss carryforwards of ThCh$207,198,654 and ThCh$212,939,441 respectively, as follows:

	As of December 31,	
	2002 ThCh$ (As restated) note 35	2003 ThCh$
Chile	173,889,200	142,482,510(2)
Argentina	—	6,769,766(1)
Colombia	39,050,241	57,946,378(1)
Total	**212,939,441**	**207,198,654**

(1) Tax losses with a 5-year maturity term.

(2) Tax losses with an indefinite term.

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

16. SHORT-TERM BANK LIABILITIES

Short-term bank liabilities as of December 31, 2002 and 2003 are as follows:

	CURRENCY			
	US DOLLARS		TOTAL	
BANK	2002 ThCh$	2003 ThCh$	2002 ThCh$	2003 ThCh$
Short-Term				
ABN AMRO Colombia	11,612,738	2,396,773	11,612,738	2,396,773
BCI	467,328	1,092,402	467,328	1,092,402
Scotiabank	311,551	728,269	311,551	728,269
Total	**12,391,617**	**4,217,444**	**12,391,617**	**4,217,444**
Principal	**11,612,738**	**3,066,170**	**11,612,738**	**3,066,170**
Annual Average Interest rate	5.32%	4.21%		

Short-term portion of long-Term bank liabilities	2002 ThCh$	2003 ThCh$	2002 ThCh$	2003 ThCh$
Bank of America	13,820,178	11,282,200	13,820,178	11,282,200
BBVA Banco Francés	974,570	—	974,570	—
Swap (Bco. Francés y Deutsche)	1,755,087	1,337,257	1,755,087	1,337,257
ABN AMRO Colombia	129,378	—	129,378	—
Total	**16,679,213**	**12,619,457**	**16,679,213**	**12,619,457**
Principal	**15,575,266**	**12,619,457**	**15,575,266**	**12,619,457**
Annual Average interest rate	8.25%	5.15%		

17. LONG-TERM BANK LIABILITIES

The detail of this item is as follows:

	2002			Repayment 2003			
Bank	Currency	Total Long Term ThCh$	1-2 years ThCh$	2-3 years ThCh$	3-5 years ThCh$	Total Long-Term ThCh$	Average Annual Interest Rate%
ABN AMRO Bank	US$	2,903,184	—	—	—	—	—
Bank of America	US$	218,873,790	17,728,573	139,390,907	—	157,119,480	4.64%
BBVA-Banco Francés S.A.	Arg$	753,167	—	—	—	—	—
Scotiabank	US$	6,967,644	4,987,915	—	—	4,987,915	3.08%
Banco Crédito Inversiones	US$	10,451,449	7,481,873	—	—	7,481,873	3.08%
Total		**239,949,234**	**30,198,361**	**139,390,907**	**—**	**169,589,268**	**—**

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

18. LONG-TERM LIABILITIES (EXCLUDING BANK LIABILITIES)

Bank	Type of Currency	Balances as of December 31, 2002 Long-Term portion ThCh$	Balances as of December 31, 2002 Short-term portion ThCh$	Balances as of December 31, 2002 Total ThCh$	Balances as of December 31, 2003 Long-term portion ThCh$	Balances as of December 31, 2003 Short-term portion ThCh$	Balances as of December 31, 2003 Total ThCh$
Bonds payable	UF	18,365,955	285,538	18,651,493	18,375,120	285,680	18,660,800
Bonds payable	US$	41,733,276	691,269	42,424,545	34,143,500	565,552	34,709,052
Bonds payable in foreign countries	US$	273,739,443	33,575,407	307,314,849	187,525,829	25,298,921	212,824,750
Convertible bonds	US$	345,942,654	6,937,965	352,880,620	283,028,179	5,645,012	288,673,191
Subtotal		679,781,328	41,490,179	721,271,507	523,072,628	31,795,165	554,867,793
Notes payable (a)	US$	2,495,447	—	2,495,447	617,522	—	617,522
Subtotal		2,495,447	—	2,495,447	617,522	—	617,522
Provision for staff severance indemnities	Ch$	679,521	197,424	876,945	1,097,263	33,654	1,130,917
Provision for post-retirement pension Plan	Ch$	4,406,496	666,603	5,073,099	4,725,744	709,349	5,435,093
Provision for staff severance indemnities	Col$	2,154,343	—	2,154,343	2,274,933	—	2,274,933
Other provisions	Ch$	1,333,287	6,587,573	7,920,860	409,304	5,347,076	5,756,380
Other provisions	Col$	290,376	30,984	321,360	277,316	720,711	998,027
Provisions for the conversion of convertible bonds	US$	12,634,842	—	12,634,842	12,959,303	—	12,959,303
Subtotal		21,498,865	7,482,584	28,981,449	21,743,863	6,810,790	28,554,653
Deferred taxes	Col$				(8,290,222)		(8,290,222)
Deferred taxes	Ch$	3,378,313	—	3,378,313	20,077,447	—	20,077,447
Deferred taxes	Arg$	622,030	—	622,030	(2,730,589)	—	(2,730,589)
Deferred customs duties	US$	3,335,791	8,226,364	11,562,155	700,601	2,439,206	3,139,807
Other long-term liabilities(a)(b)	US$	24,535,126	6,174,769	30,709,895	14,337,907	1,417,254	15,755,161
Subtotal		31,871,260	14,401,133	46,272,393	24,095,144	3,856,460	27,951,604
Total		**735,646,900**	**63,373,896**	**799,020,796**	**569,529,157**	**42,462,415**	**611,991,572**

a. Notes payables include obligations with Morgan Stanley Group Inc. amounting to ThCh$5,117,173 in 2002 and ThCh$1,105,693 in 2003, which bear an annual interest rate of 5.35%.

b. Other long term liabilities include a ThCh$14,337,907 loan given to Norgener by its supplier Mitsubishi to finance the construction of the thermoelectric plant Tocopilla, which bears an annual interest rate of 8.17%. The short-term portion of these liabilities is included in trade accounts and notes payable.

The balances reflected in the caption short-term portion of long-term liabilities are the following:

	2002 ThCh$	2003 ThCh$
Notes payable	6,174,769	1,417,254
Deferred customs duties	8,226,363	2,439,206
Total	**14,401,132**	**3,856,460**

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

19. PROVISIONS

a) Provisions as of each year-end are as follows:

	2002 ThCh$	2003 ThCh$
Current liabilities		
Staff Severance indemnities	197,424	33,654
Vacation and other employee benefits	1,393,072	1,615,704
Pensions and post-retirement benefits (2)	666,603	709,349
Argentina's tax (5)	1,246,612	5,523
Loss on sale of Oilgener Inc. and Carbones del Cesar	2,960,682	1,756,164
Other provisions (3)	1,018,191	2,690,396
Total	**7,482,584**	**6,810,790**
Long-term liabilities		
Staff Severance indemnities	969,897	1,374,579
Pension and post-retirement benefits	2,154,343	2,274,933
Complementary pension plan(2)	4,406,496	4,725,744
Conversion of convertible Bonds (1)	12,634,842	12,959,303
Other provisions (4)	1,333,287	409,304
Total	**21,498,865**	**21,743,863**

(1) The provision for conversion of convertible bonds charged to income in 2001, 2002 and 2003 amounted to ThCh$3,733,339, ThCh$4,044,352 and ThCh$449,559, respectively, and is included in ''Non operating expenses''. See Note 29.

(2) The provision for pensions and post-retirement benefits charged to income in 2001, 2002 and 2003 amounted to ThCh$748,145, ThCh$547,136 and ThCh$1,390,662, respectively, and is included in ''Non operating expenses''. See Note 29.

(3) Other provisions include maintenance cost incurred for services already received of ThCh$99,448 and ThCh$1,076,841 in 2002 and 2003 respectively; provision for energy purchases of ThCh$244,247 and ThCh$261,948 in 2002 and 2003, respectively; and the provision for legal contingencies of ThCh$269,701 and ThCh$517,660 in 2002 and 2003, respectively and external services of ThCh$ 448,898 in 2003.

(4) Other provisions include the provision for tax sanction on Chivor S.A. E.S.P. of ThCh$870,955 in 2002 and provision for revenues tax of Gener Argentina of ThCh$453,957 and ThCh$ 402,219 in 2002 and 2003, respectively.

(5) The provision for Argentina's tax relates to a reserve for a tax receivable from the Argentinian taxing authority. The receivable was substantially collected in 2003 and the provision was reversed.

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

19. PROVISIONS (Continued)

b) Other provisions

Other provisions, that are presented as a reduction of the corresponding assets at each year-end, are as follows:

	2002 ThCh$	2003 ThCh$
Allowance for fixed assets	432,956	218,513
Allowance for supplies and inventories	—	3,736,000
Allowance for doubtful accounts	3,048,830	1,437,991
Allowance for shrinkage of coal inventory	213,969	150,914
Total	**3,695,755**	**5,543,418**

c) Write-offs

At December 31, 2002 and 2003, fixed assets amounting to ThCh$1,355,874 and ThCh$303,121 were written off, respectively (see Note 29). These amounts are included in other non-operating expenses and represent the net book value of fixed assets retired from service that will mainly be sold as scrap. Of the write-offs made in 2002, ThCh$1,226,798 correspond to the Company, ThCh$6,013 to its Chilean subsidiary Sociedad Eléctrica Santiago S.A. and ThCh$123,062 to the Colombian subsidiary Chivor.

20. STAFF SEVERANCE INDEMNITIES

	As of December 31,	
	2002 ThCh$	2003 ThCh$
a) Balance of Provision		
Short-term provision:		
GENER	197,424	33,654
Total short-term	197,424	33,654
Long-term provision:		
GENER	679,521	1,097,263
CHIVOR	2,444,719	2,552,249
Total long-term	3,124,240	3,649,512
b) Charge to income		
Staff severance indemnities	496,665	192,333
Pensions plans (Chivor)	654,522	74,210
c) Payments		
Staff severance indemnities	(665,411)	(35,214)
Pensions plans (Chivor)	(187,504)	(82,752)
Employee contributions	—	31,400
d) Deferred actuarial loss	88,696	(8,870)
e) Foreign exchange effect	38,595	223,283

Staff severance indemnities is discounted at an interest rate of 8% year in 2002 and 2003 and is based on a limited service period of 31 years.

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

21. BONDS

a) The terms and conditions of the bonds issued and outstanding as of December 31, 2003 and December 31, 2002 as applicable are as follows:

	First Foreign Issuance	First Issuance Convertible Bonds	ESSA Bonds US$	ESSA Bonds UF	Gener Argentina S.A. US$
Issue date	January 23, 1996	December 24, 1998	September 29, 1999	September 29, 1999	July 30, 1998
Securities issued	Bearer Bonds	Bearer Convertible Bonds denominated in US$	Bearer bonds denominated in US$	Bearer bonds denominated in UF	Medium Term Notes denominated in US$
Amount of issuance	US$200,000,000	US$500,000,000	US$60,000,000	UF1,388,000	US$257,000,000
		Series LA1	**Series A1**	**Series B1**	**10 Series**
		7,416 bonds of US$100 each	500 bonds of US$ 10,000 each	198 bonds of UF 1,000 each	Total value of US$210,000,000
		Series LA2	**Series A2**	**Series B2**	**5 Series**
		2,717 bonds of US$1,000 each	550 bonds of US$100,000 each	119 bonds of UF 10,000 each	Total value of US$47,000,000
		Series LA3			
		3,517 bonds of US$5,000 each			
		Series LA4			
		1,139 bonds of US$100,000 each			
		Series LA5			
		565 bonds of US$500,000 each			
		Series M			
		US$82,500,000			
Basis for readjustment	US$ Variation	US$ Variation	US$ Variation	UF Variation	US$ Variation
Amortization term	10 years	6.2 years	10 years (5 years grace period and 5 years for principal repayment)	25 years (6 years grace period and 19 years for principal repayment)	9 years (4 years grace period and 5 years for principal repayment)
Principal payments	Repayment of principal on January 15, 2006	Repayment of principal on March 1, 2005	10 semiannual payments starting on April 15, 2005	38 semiannual payments starting on April 15. 2005	11 semiannual payments starting on December 31, 2002
Nominal annual interest rate	6.50%	6.00%	8.00%	7.50%	LIBOR + 1.125% up to December 31, 2002 LIBOR + 1.5% to December 31, 2005 LIBOR + 1.875 to December 31, 2007
Interest payments	Semiannually on January 15 and July 15 each year, starting on July 15, 1996	Semiannually on March 1 and September 1 of each year, starting on March 1, 1999	Semiannually on April 15 and October 15 of each year, starting on April 15, 2000	Semiannually on April 15 and October 15 of each year, starting on April 15, 2000	Seminanually on June 30 and December 31 from June 30, 2000

(Restated for general price-level changes and expressed in thousands of constant Ch
pesos as of December 31, 2003 and thousands of US dollars, except as indicatec

21. Bonds (Continued)

b) The details of the outstanding bonds at December 31, 2002 and 2003 are as follows:

Number of the Instrument	Series	Amount of Issuance	Basis for Readjustment	Nominal annual Interest rate %	Scheduled Maturity	Interest payments	Terms Amortization payments	
Bonds Short-Term								
N.A.	Unit	200,000,000	US	6.50	1/15/2006	Semiannually	Repayment of principal due	
208	LA1	659,900	US	6.00	3/1/2005	Semiannually	Repayment of principal due	
208	LA2	2,591,000	US	6.00	3/1/2005	Semiannually	Repayment of principal due	
208	LA3	15,705,000	US	6.00	3/1/2005	Semiannually	Repayment of principal due	
208	LA4	110,800,000	US	6.00	3/1/2005	Semiannually	Repayment of principal due	
208	LA5	273,000,000	US	6.00	3/1/2005	Semiannually	Repayment of principal due	
N.A.	M	73,883,000	US	6.00	3/1/2005	Semiannually	Repayment of principal due	
214	A	57,500,000	US	8.00	10/15/2009	Semiannually	Semiannually	
214	B	1,086,000	UF	7.50	10/15/2024	Semiannually	Semiannually	
N.A.		210,000,000	US	6.36	12/31/2007	Semiannually	Semiannually	2
N.A.		47,000,000	US	6.36	12/31/2007	Semiannually	Semiannually	
Total Short-Term								4
Bonds Long-Term								
N.A.	Unit	200,000,000	US	6.50	1/15/2006	Semiannually	Repayment of principal due	14
208	LA1	659,900	US	6.00	3/1/2005	Semiannually	Repayment of principal due	
208	LA2	2,591,000	US	6.00	3/1/2005	Semiannually	Repayment of principal due	
208	LA3	15,705,000	US	6.00	3/1/2005	Semiannually	Repayment of principal due	1
208	LA4	110,800,000	US	6.00	3/1/2005	Semiannually	Repayment of principal due	8
208	LA5	273,000,000	US	6.00	3/1/2005	Semiannually	Repayment of principal due	19
N.A.	M	73,883,000	US	6.00	3/1/2005	Semiannually	Repayment of principal due	5
214	A	57,500,000	US	8.00	10/15/2009	Semiannually	Semiannually	4
214	B	1,086,000	UF	7.50	10/15/2024	Semiannually	Semiannually	1
N.A.		210,000,000	US	6.36	12/31/2007	Semiannually	Semiannually	10
N.A.		47,000,000	US	6.36	12/31/2007	Semiannually	Semiannually	2
Total Long Term								67

21. BONDS (Continued)

SHORT AND LONG TERM OBLIGATIONS WITH THE PUBLIC

a) The Company has issued six series of bonds, four of which are not outstanding as of December 31, 2003 and were used to finance the construction of Alfalfal Hydroelectrical Power Station.

The fourth bond issuance series, (JA and KA series) placed on March 8, 1991 was used to finance the purchase of the fourth to seventh floors along with parking and storage space of the Las Americas building in Santiago. On January 2002, the company pre-paid all its existing debt of issuance No. 136, which was originally due on January 2012. The redemption did not result in an extraordinary gain or loss on the early extinguishment of debt.

The first foreign bond issuance on January 23, 1996 was used to finance part of the capital investment program.

In 1998, the company issued its first convertible bonds amounting to 500 million dollars from which US$499,943,600 (equivalent to ThCh$362,857,115) (99.99%) were placed. The funds were used to refinance existing debt. These bonds pay an annual interest of 6% and are due on March 2005. As of December 31, 2003, a total of US$23,304,700 has been converted into shares. The conversion price was determined on the basis of the average market stock price, expressed in US dollars, plus 15%. Such average market stock price was computed for the 10 days preceding the twenty second day before the bonds were offered first to the shareholders for a limited amount of time. Under no circumstances can the conversion price be lower than US$0.211 (21.1 cent of a US Dollar). The conversion price at the time of bonds issuance was US$0.2712 (27.12 cents of a US Dollar) and at December 31, 2003 is US$0.2205 (22.05 cents of a US dollar). The parent company has made a provision for the eventual conversion to shares of bonds amounting to ThCh$12,959,303 which will be paid to holders who have not converted their bonds to shares by March 1, 2005. This provision is accrued over the period from the date of debt issuance to the expiration date for converting the bonds.

During 1999, Sociedad Eléctrica Santiago S.A. completed its first bonds issuance for the aggregate principal amount of US$100 million (series A and B). US$60 million in A series bonds and UF1,388,000 in B series bonds, from which as of December 31, 2003, 96% of the A series bonds had been placed, totaling US$57.5 million and 78.2% of the B series bonds had been placed totaling UF1,086,000. The issuance proceeds were used to finance the prepayment of General Electric debt related to the construction of its power plant, Nueva Renca and other short-term debts.

On July 30, 1998, the National Commission of Securities, through Resolution No. 12337, authorized TermoAndes S.A. and InterAndes S.A. to issue through a public tender offer negotiable obligations and to create a Global Program without re-issuance in order to issue secured and non-convertible negotiable obligations for up to US$250,000,000 and US$50,000,000, respectively.

As of December 31, 2003, TermoAndes S.A. had issued ten series of bonds under such program amounting to US$210,000,000. In December 2003, it made the second principal payment amounting to US$17,325,000.

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

21. BONDS (Continued)

As of December 31, 2002, InterAndes S.A. has issued five series of bonds under such program amounting to US$47,000,000. In December 2003, it made the second principal payment amounting to US$3,887,500.

TermoAndes S.A. and InterAndes S.A. hedged their variable rate obligations with a fixed 180-day Libor rate, which applies to an average of 92% of the debt. The hedge is effective from January 10, 1998 until September 30, 2007. Through this hedge, TermoAndes S.A. and InterAndes S.A. pay a fixed rate and receive a variable rate.

The placement discounts and the bond issuance expenses are shown under other long-term assets (Note 12).

The company has accrued ThCh$12,634,842 at December 31, 2002 and ThCh$12,959,303 at December 31, 2003 for the eventual premium to be paid to holders of convertible bonds who would have not converted their bonds into shares before March 1, 2005.

Accrued interest as of December 31, 2002 and 2003 amounted to ThCh$12,247,854 and ThCh$10,664,069 respectively and are included under short-term obligations with the public.

b) The scheduled maturities of bonds payable are as follows:

	2002 ThCh$	2003 ThCh$
2003	41,490,179	—
2004	29,672,359	31,795,165
2005	384,391,703	311,297,880
2006	184,999,383	148,049,664
2007	45,897,374	31,931,440
2008	8,521,133	7,003,264
2009	8,557,863	7,040,014
2010	247,941	248,064
2011	284,673	284,814
2012	321,404	321,565
2013	358,136	358,315
2014	394,868	395,065
2015	431,600	431,815
2016	468,332	468,566
2017	505,064	505,316
2018	541,795	542,066
2019	606,077	606,379
2020	679,540	679,879
2021	918,298	918,756
2022	1,652,935	1,653,761
2023	4,040,510	4,042,526
2024	6,290,340	6,293,479
Total	**721,271,507**	**554,867,793**

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

21. BONDS (Continued)

c) The deferred expenses for the bonds issuance as of December 31, 2002 and 2003 are as follows:

	2002 ThCh$	2003 ThCh$
Legal fees	455,817	342,854
Financial fees	4,520,917	2,953,528
Commissions	1,539,632	891,455
Taxes	3,068,142	1,758,475
Other expenses	20,965	18,634
Total	**9,605,473**	**5,964,946**

22. SHAREHOLDERS' EQUITY

a) The movement in the shareholders' equity during each year is as follows:

	Paid-in Capital ThCh$	Share Premium Account ThCh$	Other Reserves ThCh$	Future Dividends Reserve ThCh$	Retained Earnings ThCh$	Interim Dividends ThCh$	Subsidiary Development Stage Deficit ThCh$	Net Income For the Year ThCh$
2001								
Balance as of January 1	615,928,605	27,536,497	105,890,721	26,080,533	60,255,290	(2,877,218)	(670,262)	2,206,586
Distribution of earnings from last year	—	—	—	—	(1,340,894)	2,877,218	670,262	(2,206,586)
Issuance of shares, due to conversion of bonds	1,488	1,046	—	—	—	—	—	—
Capitalization of reserves	—	—	(67,448,654)	67,448,654	—	—	—	—
Subsidiary start-up accumulated deficit	—	—	—	—	—	—	(118,387)	
Dividend Payments	—	—	—	(86,024,114)	(58,914,396)	—	—	—
Other reserves	—	—	(2,536,857)	—	—	—	—	—
Currency translation adjustment	—	—	10,873,328	—	—	—	—	—
Price-level restatement	19,093,805	853,643	1,191,704	1,436,994	892,307	—	—	—
Net income for the period	—	—	—	—	—	—	—	(2,010,423)
Total	**635,023,898**	**28,391,186**	**47,970,242**	**8,942,067**	**892,307**	**—**	**(118,387)**	**(2,010,423)**
Balances at Dec. 31, 2001	**660,615,361**	**29,535,351**	**49,903,443**	**9,302,432**	**928,267**	**—**	**(123,158)**	**(2,091,444)**
2002								
Balances as of January 1	635,023,898	28,391,186	47,970,242	8,942,067	892,307	—	(118,387)	(2,010,423)
Distribution of earnings from last year	—	—	—	(4,253,434)	2,124,624	—	118,387	2,010,423
Currency translation adjustment	—	—	1,120,841	—	—	—	—	—
Price-level restatement	19,050,717	851,736	1,439,107	140,659	90,508	—	—	—
Net income for the period	—	—	—	—	—	—	—	35,223,218
Total	**654,074,615**	**29,242,922**	**50,530,190**	**4,829,292**	**3,107,439**	**—**	**—**	**35,223,218**
Balances Dec. 31, 2002	**660,615,361**	**29,535,351**	**51,035,492**	**4,877,585**	**3,138,513**	**—**	**—**	**35,575,450**
2003								
Balances as of January 1	654,074,615	29,242,922	50,530,190	4,829,292	3,107,439	—	—	**35,223,218**
Distribution of earnings from last year	—	—	2,636,863	29,779,536	2,806,819	—	—	**(35,223,218)**
Final dividends	—	—	—	(29,779,536)	—	—	—	—
Currency translation adjustment	—	—	(144,607)	—	—	—	—	—
Price-level restatement	6,540,746	292,429	486,844	462,727	59,142	—	—	—
Net income for the period	—	—	—	—	—	—	—	53,678,463
Total Balances at Dec. 31, 2003	**660,615,361**	**29,535,351**	**53,509,290**	**5,292,019**	**5,973,400**	**—**	**—**	**53,678,463**

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

22. SHAREHOLDERS' EQUITY (Continued)

b) Paid-in Capital

At the Extraordinary General Shareholders Meeting held on September 14, 1998, the shareholders agreed to increase the authorized capital to ThCh$237,500,000 by issuing 2,375,000,000 shares of common stock for the purpose of supporting the conversion of convertible bonds into company shares (Note 21). Such shares were issued in November 13, 1998, according to its inscription in the Securities registry. As of December 31, 2003, US$23,304,700 in bonds have been converted into shares, which represents 85,932,258 shares.

At the Extraordinary Shareholders Assembly held on November 21, 2003, the shareholders agreed to increase the capital amounting to $50,484,000,000 pesos through the issuance of 466,839,282 common shares, which implies that each shareholder per share owned shall have access to subscribe for 0.082295016256 shares of the new issuance in order to keep the same percentage of equity share. The value of the common shares issued shall be paid in cash and shall be issued, subscribed and paid within the maximum term due on March 31, 2004.

c) Dividend Payments

The following shows a detail of final dividends paid as of December 31, 2002 and 2003 against the profits of 2001 and 2002, and against reserve for future dividends and retained earnings, as well as the interim dividends declared against 2001 and 2002 profits:

Date of payment	Dividend share Per ThCh$	Total Dividend in Historical Chilean pesos ThCh$	Total Dividend in constant Chilean pesos as of December 31, ThCh$
2001			
Final dividends against reserves and retained earnings:			
July 2001	5.95	33,752,804	35,639,737
September 2001	0.50	111,185,706	116,707,488
2002			
There were no dividends paid during 2002	—	—	—
2003			
Final dividends against reserves and retained earnings:			
May 2003	1.57	8,933,860	8,880,257
July 2003	3.67	20,845,676	20,803,985

d) Dividends Policy

The dividends distribution policy for the year 2003, which was approved at the General Ordinary Shareholders Meeting held on April 29, 2003 establishes a minimum distribution of 30% of the net income for the year.

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

22. SHAREHOLDERS' EQUITY (Continued)

e) Accumulated Foreign Currency Translation Adjustment

	2001 ThCh$		2002 ThCh$		2003 ThCh$	
	Year	Accumulated	Year	Accumulated	Year	Accumulated
Price-level restatement	—	(741,360)	—	(1,387,925)	—	(1,619,398)
Merchant Energy Group of the Americas MEGA (USA)	14,183	—	—	—	—	—
Reversal of acumulative translation adjustment	(365,627)	—	—	—	—	—
Reversal of foreign exchange hedge MEGA	829,452	—	—	—	—	—
Central Puerto S.A. (Argentina)	13,914,151	—	—	—	—	—
Reversal of acumulative translation adjustment	(23,923,574)	—	—	—	—	—
Reversal of foreign exchange hedge Central Puerto	18,683,863	—	—	—	—	—
Compañía Carbones del Cesar Ltda. (Colombia)	356,501	815,229	240,484	1,031,969	(737,735)	284,016
Energy Trade & Finance Corporation	20,743,752	49,740,362	13,949,461	63,689,824	(43,324,069)	21,365,754
Gener Argentina S.A.	2,666,504	17,675,330	5,623,561	22,784,076	(19,746,767)	2,811,724
Gasoducto Gasandes (Argentina) S.A.	1,263,275	2,179,941	810,915	2,967,742	(2,619,016)	319,341
Inversión OilGener Inc. (U.S.A.)	431,486	1,056,042	—	—	—	—
Compañía General de Electricidad Itabo S.A. (Dominican Republic)	5,995,771	7,894,887	3,910,283	11,575,223	(11,249,792)	210,825
Other investments	817,784	(195,753)	77,898	96,701	(55,688)	40,056
Reversal of cumulative translation adjustment Hidroneuquén S.A.	(831,022)	—	—	—	—	—
Reversal of accumulative translation adjustment Oilgener Inc.	—	—	(1,025,283)	—	—	—
Reversal of accumulative translation hedge adjustment Hidroneuquén S.A.	15,787,265	—	—	—	—	—
Net foreign investments hedge	(45,072,240)	164,951,436	(22,455,269)	(86,152,318)	76,588,460	(8,951,633)
Total year	11,311,524	—	1,132,050	—	(144,607)	—
Total accumulated	—	13,473,242	—	14,605,292	—	14,460,685

f) Other Reserves

The detail of other reserves is as follows:

	As of December 31,		
	2001 ThCh$	2002 ThCh$	2003 ThCh$
Accumulated foreign currency translation adjustment	13,473,242	14,605,292	14,460,685
Fixed assets technical revaluation reserve	42,611,805	42,611,804	42,611,804
Variations in the equity of subsidiaries	(6,181,604)	(6,181,604)	(3,563,199)
Total	49,903,443	51,035,492	53,509,290

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

22. SHAREHOLDERS' EQUITY (Continued)

Variations in the equity of subsidiaries includes ThCh$2,636,863, that corresponds to the correction of a mathematical error in the calculation of the depreciation of certain fixed assets of the Colombian subsidiary Chivor, related to the three-year period ended December 31, 1999.

In April 2003, the Shareholders Assembly approved such amount and it was reclassified under ''Future Dividend Reserves''.

23. RELATED COMPANY TRANSACTIONS

Balances with related companies relate to transactions completed within the normal course of business in accordance with current legislation. All receivables and payables arising from related party transactions are settled in cash. The details of those balances are as follows:

a) Accounts receivable

	Short-term As of December 31,		Long-term As of December 31,	
Companies	**2002 ThCh$**	**2003 ThCh$**	**2002 ThCh$**	**2003 ThCh$**
Empresa Eléctrica Guacolda S.A.	8,723	58,502	—	—
Gasoducto Gasandes S.A.	135,643	253,529	1,606,878	2,073,710
Gasoducto Gasandes (Argentina) S.A.	579,736	490,817	3,044,926	956,804
C.G.E. Itabo S.A. (Dominican Republic)	1,806,209	2,337,313	—	—
Inversiones Cachagua Ltda.	—	174,565,714	217,712,425	—
Energen S.A.	33,721	10,367	—	—
Coastal Itabo Ltd. (Dominican Republic)	11	—	—	—
Totals	**2,564,043**	**177,716,242**	**222,364,229**	**3,030,514**

On February 28, 2001, AES Gener S.A. signed a mercantile account agreement with Inversiones Cachagua Limitada, whose balance in current account is adjusted in US dollars and accrues interest at 30-day LIBOR plus spread. This balance is due on February 28, 2004.

On May 15, 2003, Inversiones Cachagua Ltda pledged its shares owned in favor of AES Gener S.A. in order to guarantee the timely and complete payment of the balance resulting from the mercantile account and it obliged itself not to place any lien, divest, use, hold acts or subscribe any contracts over the shares pledged. This pledge also included an extension of their rights to receive dividends which will be applied to the receivable balance. Additionally, on May 15, 2003 the interest rate was modified to 10% annually.

The account receivable of Gasoducto Gasandes S.A. and Gasoducto Gasandes Argentina S.A. represent a down payment of gas transport due to Sociedad Eléctrica Santiago S.A. Such down payment accrues interest at a rate of 15% per year and is payable in monthly installments from 2002.

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

23. RELATED COMPANY TRANSACTIONS (Continued)

b) Accounts Payable

	Short-term As of December 31,		Long-term As of December 31,	
Companies	2002 ThCh$	2003 ThCh$	2002 ThCh$	2003 ThCh$
Gasoducto Gasandes (Argentina) S.A.	176,529	169,219	—	—
Gener Blue Water	123,272	100,853	—	—
Coastal Itabo Ltda (Dominican Republic)	—	3,193	—	—
Cordex Petroleum Inc.	518,027	572,485	—	—
The AES Corporation	508,126	357,337	—	—
Totals	**1,325,954**	**1,203,087**	**—**	**—**

c) Related company transactions

The details of the transactions between related companies in 2001, 2002 and 2003 are as follows:

			(Charge) Credit to income For the year of December, 31		
Companies	Nature of the Relationship	Transactions	2001 ThCh$	2002 ThCh$	2003 ThCh$
Explotaciones Sanitarias S.A.	Ex-Affiliate	Other services	220	—	—
Empresa Eléctrica Guacolda S.A.	Affiliate	Other services	(1,940,562)	(1,204,777)	(1,063,557)
Empresa Eléctrica Guacolda S.A.	Affiliate	Other services	—	4,866,657	6,446,585
Empresa Eléctrica Guacolda S.A.	Affiliate	Other services	—	—	(280,045)
Inversiones Cachagua Ltda.	Main shareholder	Interest on loans	6,924,761	32,088,938	19,152,590
Inversiones Cachagua Ltda.	Main shareholder	Price level restatement	4,136,804	4,890,366	1,771,291
Inversiones Cachagua Ltda.	Main shareholder	Foreign exchange gain (loss)	(5,044,504)	10,997,842	(32,535,526)
Inversiones Cachagua Ltda.	Main shareholder	Funds transfer	—	228,593	—
CDEC - SIC Ltda.	Affiliate	Administrative and coordination services	(130,747)	(366,562)	(186,696)
CDEC - SIC Ltda.	Affiliate	Administrative and coordination services	—	—	(87,955)
CDEC - SING Ltda.	Affiliate	Other services	(269,126)	(138,265)	(171,026)
CDEC - SING Ltda.	Affiliate	Other services	—	—	(146,140)
Servicios Integrales de Generación Eléctrica S.A.	Ex-Affiliate	Operating maintenance and other services	(5,724,415)	—	—

AES GENER S.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements (Continued)

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

23. RELATED COMPANY TRANSACTIONS (Continued)

Companies	Nature of the Relationship	Transactions	(Charge) Credit to income For the year of December, 31 2001 ThCh$	2002 ThCh$	2003 ThCh$
C.G.E. ITABO S.A.	Affiliate	Technical assistance and other services	3,030,338	—	—
SCL Terminal Aéreo Santiago S.A.	Partners in common	Other services	113,387	—	—
Hidroeléctrica Piedra del Águila S.A.	Affiliate	Interest	4,510,807	—	—
Hidroeléctrica Piedra del Águila S.A.	Affiliate	Technical assistance	250,901	—	—
Gasoducto Gasandes S.A.	Affiliate	Transport of gas and commissions	(1,550,915)	(1,675,805)	(2,046,215)
Gasoducto Gasandes S.A.	Affiliate	Transport of gas and commissions	—	—	175,250
Gasoducto Gasandes (Argentina) S.A.	Affiliate	Transport of gas and commissions	(4,072,953)	—	(346,323)
Gasoducto Gasandes (Argentina) S.A.	Affiliate	Transport of gas and commissions	—	(4,371,558)	(4,074,914)
Gasoducto Gasandes (Argentina) S.A.	Affiliate	Transport of gas and commissions	—	—	219,645
AES CORP.	Holding company	Other services	—	(183,099)	—
AES CORP.	Holding company	Transfers of funds	—	(68,329,565)	(34,114,209)
René Cortázar y Cía. Ltda .	Director in common	Other services	(25,618)	(8,307)	—
Centro de Estudios e Investigación Financiera S.A.	Director in common	Other services	(28,126)	(8,304)	—
Oscar Guillermo Garretón y Cía. Ltda.	Director in common	Other services	(32,207)	—	—
Estudio Jurídico Claro y Cía.	Director in common	Other services	(47,848)	(21,798)	(78,171)
Itabo S.A.	Affiliate	Professional fees	—	—	2,436,801
Jeffery Safford	Director	Work contract	—	(75,170)	—
Robert Morgan	Director	Work contract	—	(92,714)	—
René Cortazar	Director	Professional fees	—	(24,146)	(29,174)
Daniel Yarur	Director	Professional fees	—	(25,556)	(29,174)
José Joaquín Brunner R.	Director	Professional fees	(12,432)	(15,959)	(3,551)
Andrés Sanfuentes Vergara	Director	Professional fees	(17,755)	(15,949)	(3,551)
Gabriel del Real C.	Director	Professional fees	(10,653)	(15,961)	(14,226)
Sergio de la Cuadra	Director	Professional fees	(2,678)	—	—
Eugenio Ortega	Director	Professional fees	(1,785)	—	—
Pedro Lizana Greve	Director	Professional fees	(26,645)	(26,596)	(5,327)
Andres Gluski	Director	Work contract	—	(107,827)	—

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

24. DERIVATIVES CONTRACTS (As restated—note 35)

The details of derivatives outstanding as of December 31, 2003 are as follows:

Agreements Descriptions

Kind of derivative	Kind of agreement	Amount of agreement ThCh$	Due Date	Specific Item	Position Sale/ Purchase	Item hedged	Amount of item hedged ThCh$	Net income effect Realized ThCh$	Net income effect Unrealized loss ThCh$
FR	CCTE	1,194,900	1Q/2004	US $	Purchase	Revenues	1,194,900	—	(13,130)
FR	CCTE	1,188,700	1Q/2004	US $	Purchase	Revenues	1,188,700	—	(500)
FR	CCPE	593,800	1Q/2004	US $	Purchase	Loans	593,800	(179,000)	—
FR	CCPE	593,800	1Q/2004	US $	Purchase	Loans	593,800	—	—
FR	CCPE	593,800	2Q/2004	US $	Purchase	Loans	593,800	—	—
FR	CCPE	593,800	2Q/2004	US $	Purchase	Loans	593,800	—	—
FR	CCPE	593,800	3Q/2004	US $	Purchase	Loans	593,800	—	—
FR	CCPE	593,800	3Q/2004	US $	Purchase	Loans	593,800	—	—
S	CCTE	12,184,488	3Q/2007	USD-LIBOR-BBA	Purchase	Notes in U.S. Dollars	139,009,994	—	(7,737,327)
S	CCTE	2,726,998	3Q/2007	USD-LIBOR-BBA	Purchase	Notes in U.S. Dollars	31,111,682	—	(1,731,683)
S	CCTE	59,380,000	1Q/2004	Treasury lock	Purchase	Bond Payable	59,380,000		(881,034)
S	CCTE	59,380,000	1Q/2004	Treasury lock	Purchase	Bond Payable	59,380,000		(104,208)

FR	=	Forward
S	=	Swap
CCTE	=	Hedge of a forecasted transaction
CCPE	=	Hedge of an existing balance
Item hedged	=	Revenues of the distribution of energy and capacity to customers in Chile, based on contracts in force at sales prices established by the tariff regulations of the Ministry of Economy, Development and Reconstruction. The reason for hedging these revenues is that the cost of sales are mainly in US Dollars.

25. CONTINGENCIES AND COMMITMENTS

1) OTHER GUARANTEES GRANTED

The Company has the following commitments, guarantees, and contingencies:

1. Commitments with financial entities and others

Financial Institutions:

The credit agreements executed by AES Gener with a variety of financial institutions impose certain financial covenants during the term of these agreements, which are usual for this kind of financing. The Company informs such institutions regarding its compliance with its debt covenants, in accordance with each agreement's terms and conditions.

25. CONTINGENCIES AND COMMITMENTS (Continued)

Convertible Bonds issued in Chile and the United States for US$500 million:

The main financial covenants contained in the convertible bonds issuance contracts are:

- AES Gener may not incur indebtedness in excess of the amount approved at the annual shareholders' meeting.
- AES Gener must have insurance to reasonably protect its assets.
- AES Gener or any of its subsidiaries may grant guarantees only if such secured debt plus the aggregate principal amount of all other secured debt of the Company does not exceed 10% of the total that results from the difference between consolidated assets and consolidated liabilities, in accordance with the latest consolidated balance sheet submitted to the Superintendency of Securities and Insurance.
- Nevertheless, it may always grant collateral for new bond issuances, providing they are at least proportionally equivalent to those of the existing convertible bondholders.
- If AES Gener or any of its subsidiaries is in default of its debt payments in an aggregate principal amount exceeding 1.5% of total consolidated assets, the bondholders may request immediate payment of such obligation.

United States Bonds issued forUS$200 million:

- AES Gener or any of its subsidiaries may grant guarantees only if the guarantees do not exceed 10% of consolidated net tangible assets, defined as total consolidated assets less total current liabilities.
- If AES Gener or any of its subsidiaries, except Chivor, is in default in the payment of any aggregate principal amount exceeding ThCh$8,907,000 (ThUS$15,000), the bond holders may request immediate payment of such obligation.

Financial Institutions and Bank Obligations:

(i) AES Gener is guarantor under a credit agreement executed between ABN AMRO Bank N.V. and Energy Trade and Finance Corporation, and as such it is committed to:

- not sell assets, except for those permitted in the credit agreement.
- not distribute dividends in excess of the minimum required by law.

Pursuant to such credit agreement with ABN AMRO Bank N.V., Inversiones Cachagua Limitada must not withdraw from the Company any amount received as dividends during the term of the credit agreement.

- If the guarantor, or any of its subsidiaries, except for Chivor, or the principal debtor is in default of debt payments by an amount exceeding ThCh$5,938,000 (ThUS$10,000), the bank may request the immediate payment of such obligation.

25. CONTINGENCIES AND COMMITMENTS (Continued)

The outstanding amount of debt under this credit agreement as of December 31, 2003 was ThCh$2,375,200 (ThUS$4,000).

(ii) In accordance with the credit agreement between AES Gener and Bank of America with respect to the purchase of negotiable obligations of TermoAndes and InterAndes, AES Gener is prohibited from:

- entering into any transaction specifically prohibited in the agreement, and
- distributing dividends in excess of the minimum required by law.

(iii) Additionally, there is an Agreement on Fiduciary Assignment in Guarantee entered into by the Colombian subsidiary Chivor that guarantees the liabilities of Chivor with Bank of America N.T. & S.A. related to the original loan of ThCh$237,500,000 (ThUS$400,000) granted to finance the payment for the Chivor Hydroelectric Plant. The outstanding amount of debt under this agreement as of December 31, 2003, was ThCh$168,401,680 (ThUS$283,600).

(iv) AES Gener, as part of its refinancing process for its subsidiary Chivor guaranteed the payment of up to ThCh$29,690,000 (ThUS$50,000) to Energy Trade and Finance Corporation. Such guarantee will only be enforceable if Energy Trade and Finance Corporation does not pay such amount to Chivor's creditors, should Chivor be out of compliance with its debt payment schedule on certain dates. The first date defined is March 31, 2004.

As of December 31, 2003, all restrictions or covenants related to obligations with financial institutions or public bonds were met.

2. Third-Party Guarantees

(i) AES Gener is guarantor of the timely payment of 15% of the principal and interest related to the loan granted to related companies Gasoducto GasAndes S.A. and Gasoducto GasAndes Argentina S.A. by the bank Bilbao Vizcaya Argentaria (España) S.A. The Company provided the guarantee in December 2003 for the purpose of assuring the creditors of the payment of Gasandes obligations. The amount guaranteed by the Company totals ThCh$2,850,240 (ThUS$4,800). The Company would be required to perform under the guarantee if Gasandes Argentina fails in the payment of principal as required under the credit agreement. The maximum potential amount of future payments that the Company could be required to make under the guarantee under such circumstances would be ThCh$2,850,240. The guarantee matures in March 2006, together with the credit agreement that amounts to ThCh$19,001,600 (ThUS$32,000). At December 31, 2003, the Company has not recorded a liability for its potential obligation to perform under the guarantee.

Also, the Company pledged its shares in the Chilean company Gasoducto GasAndes in favor of the lenders, for the same term as the credit agreement, which amounts to ThCh$80,756,802 (ThUS$136,000) ending in 2011. There are no recourse provisions that would enable the Company to recover from third parties any amounts that might be paid under the guarantee.

25. CONTINGENCIES AND COMMITMENTS (Continued)

There are also no assets held as collateral that the Company could obtain and liquidate to recover amounts that might be paid under the guarantee.

(ii) The Company has a natural gas purchase agreement with Consorcio Sierra Chata, operated by Petrolera Santa Fe, which contains a take-or-pay (minimum consumption) clause with a monthly commitment equal to an average of 75% of the volume contracted. It also includes a 36-month term from the transaction date to take possession of the remaining gas paid for but not consumed. The amount of gas paid for but not consumed was equal to ThCh$291,555 (ThUS$491) as of December 31, 2003 and is accounted for as stock in transit. The annual minimum payments contracted are ThCh$14,251,200 (ThUS$24,000) due in December 2013. These terms are applicable to the natural gas sale agreement entered into between our subsidiary Sociedad Eléctrica Santiago S.A. (Eléctrica Santiago) and Consorcio Sierra Chata.

(iii) Sociedad Eléctrica Santiago has gas transportation agreements with Transportadora de Gas del Norte S.A., Gasoducto GasAndes (Argentina) S.A. y Gasoducto GasAndes S.A., which contain two guarantees:

a) a basic guarantee to ensure compliance with all of the company's obligations for an amount equal to one year of firm natural gas transportation service; and

b) should the guarantee in a) not be complied with, Eléctrica Santiago would be required to deposit funds as a guarantee to ensure compliance with the commitment to invest in a project that uses natural gas. To the extent that Eléctrica Santiago maintains its investment grade rating, no further action is required.

(iv) The gas transportation agreements among AES Gener, Gasoducto GasAndes S.A. and Gasoducto GasAndes (Argentina) S.A. include two contractual guarantees: a) a basic guarantee to ensure compliance with its obligations for an amount equal to one year of firm natural gas transportation service and b) an additional guarantee to ensure compliance with the commitment to invest in a project that uses natural gas. As long as AES Gener maintains an investment grade rating, no action is required. After the loss of AES Gener's investment grade rating, GasAndes requested the company to perform under both guarantees, as per the agreement. The parties negotiated a new agreement signed on October 17, 2003 pursuant to which contractual guarantees valid until January 2004 were provided by AES Gener equal to ThCh$293,403 (ThUS$494) and ThCh$593,280 (ThUS$999) for Gasoducto GasAndes S.A. and Gasoducto GasAndes (Argentina) S.A., respectively, which would not require bank deposits securing such guarantees unless the company did not pay its monthly invoicing. On December 9, 2003, AES Gener exercised its option to assign all its rights on this contract to Sociedad Electrica Santiago S.A. We anticipate that the assignment will be executed during January 2004.

AES Gener was the guarantor of the obligation between Energy Trade and Finance Corporation and Nova Gas international Holding Ltd. for ThCh$2,969,000 (ThUS$5,000) as a result of the acquisition of 100% of the shares of Genergía S.A. The maturity date of this

25. CONTINGENCIES AND COMMITMENTS (Continued)

agreement was April 1, 2003, and the guarantee was released when the obligation was completely repaid.

3. Guarantees to Subsidiaries

(i) AES Gener is guarantor of the obligation of Energy Trade and Finance Corporation to ABN AMRO under a credit agreement for ThCh$14,251,200 (ThUS$24,000). The Company would be required to perform under the guarantee if Energy Trade fails in the payment of the principal as required under the credit agreement. As of December 31, 2003, the maximum potential amount of future payments that the Company could be required to make under the guarantee under such circumstances was ThCh$2,375,000, however, since this credit was completely repaid in January 2004, there is no potential amount that could be required. The Company provided the guarantee in July 2002 for the purpose of securing the creditors with Energy Trade's obligations under credit agreement. The outstanding amount of debt under the agreement as of December 31, 2003, wasThCh$2,375,200 (ThUS$4,000). At December 31, 2003, the Company has not recorded a liability for its potential obligation to perform under the guarantee.

(ii) On June 12, 2000, Energy Trade and Finance Corporation signed an agreement with Morgan Stanley by which it transferred to the latter the risks related to its SSP15 energy option contract (Spark Spread Position of AES Gener's former subsidiary, M.E.G.A.) and all of the related hedge agreements. Energy Trade and Finance Corporation is still responsible for payment on this energy option contract, however under the terms of the agreement. The amount owed for such liability at December 31, 2003 was ThCh$842,040 (US$1,418,053). The amount owed is to be paid off by March 2004.

(iii) Our subsidiary Energía Verde S.A. (Energía Verde) has a syndicated loan for ThCh$14,845,000 (ThUS$25,000) with Banco Crédito Inversiones and Banco Scotiabank Sud Americano. AES Gener provided as collateral for this loan its shares in Energía Verde. The Company would be required to perform under the guarantee if Energía Verde fails in the payment of the principal as required under the credit agreement. The maximum potential amount of future payments that the Company could be required to make under the guarantee under such circumstances would be ThCh$14,251,200. The Company provided the guarantee in November 2002 for the purpose of securing the creditors with the obligations of Energía Verde's obligations under the local bank loan described. This loan matures in November 2006. The outstanding amount of debt under this syndicated loan as of December 31, 2003, was ThCh$14,251,200 (ThUS$24,000). At December 31, 2003, the Company has not recorded a liability for its potential obligation to perform under the guarantee. There are no recourse provisions that would enable the Company to recover from third parties any amounts that might be paid under the guarantee. There are also no assets held as collateral that the Company could obtain and liquidate to recover amounts that might be paid under the guarantee.

(iv) As part of the financing granted to subsidiaries TermoAndes S.A. and InterAndes S.A., Gener Argentina S.A., pledged 100% of its shares in these companies in favor of Banco

25. CONTINGENCIES AND COMMITMENTS (Continued)

Francés-Uruguay. The Company would be required to perform under the guarantee if TermoAndes and InterAndes fail in the payment of the principal as required under the credit agreement. The maximum potential amount of future payments that the Company could be required to make under the guarantee under such circumstances would be ThCh$89,896,926. The Company provided the guarantee in September 1998 for the purpose of securing the creditors with the payments of principal under the credit agreement granted by the banks. This financing is due in December 2007. The outstanding amount of debt, without considering Gener's portion of the notes, as of December 31, 2003, was ThCh$89,896,926 (ThUS$151,393). At December 31, 2003, the Company has not recorded a liability for its potential obligation to perform under the guarantee. There are no recourse provisions that would enable the Company to recover from third parties any amounts that might be paid under the guarantee. There are also no assets held as collateral that the Company could obtain and liquidate to recover amounts that might be paid under the guarantee.

2) TRIALS AND BAILS

a. Disputes in the CDEC-SIC

There was a dispute between the companies that are members of the CDEC-SIC with regard to capacity transfer estimates in the CDEC-SIC. A final decision for the 2000, 2001, 2002 and 2003 payments related to these estimates is pending resolution, since payments have only been preliminary, as is usual for this type of operation. On November 2, 2001, the dispute was resolved through Resolution No. 119/2001 from the Ministry of Economy, Development and Reconstruction. During the implementation stage of the Resolution No. 119/2001, by members of the CDEC-SIC, the unanimous approval required was not achieved, thus, the Minister of Economy submitted another dispute for resolution in April 2002. Additionally, Colbún and Endesa have submitted a motion against Resolution No. 119/2001 and the response from the Minister is still pending.

Nevertheless, the CDEC-SIC's Board of Directors unanimously agreed to provisionally pay the capacity transfer charges corresponding to years 2000, 2001, 2002 and 2003 utilizing the calculation procedure established in Resolution No. 119/2001, while awaiting resolution of the dispute and its related motions.

As the Company is normally a purchaser within the system, provisions of ThCh$8,599,567 and ThCh$7,208,943 as of December 31, 2003 and 2002 were recorded under the methodology required by the resolutions mentioned in the preceding paragraph which were reversed as payments were made. The Company is unable to estimate the effects of any retroactive change in the methodology of calculation which might be applied, due to lack of guidance from the appropriate authorities and/or historical precedents. Therefore, no further provisions related to the above dispute have been recorded.

25. CONTINGENCIES AND COMMITMENTS (Continued)

b. Disputes in the CDEC-SING

The Company took a different position from some of the generation companies that are members of the CDEC-SING, such as Electroandina and Nopel, related to the method of calculating and valuing energy and capacity transfers within the CDEC-SING.

Energy transfers in the CDEC-SING from August 1999 were paid provisionally, as there were differences between the generators with respect to the prices utilized to value such transfers. The Minister has resolved the conflict through the issuance of Resolutions No. 39 dated May 22, 2000, No. 59 dated September 2000, No. 72 dated November 16, 2000 and No. 74 dated November 17, 2000. However, there is a dispute with respect to the application of such resolutions by the Directorate of Operations. Additionally, because the previous resolutions were complex and contradictory, the Directorate of Operations has not yet been able to calculate the final energy transfers.

Nevertheless, the CDEC-SING's Board of Directors reached an agreement on December 26, 2002, which resolved the dispute with regard to the valuation of energy transfers between March 1999 and March 2000 and established final values that did not result in payments to/from AES Gener.

As for capacity transfers in 2000 and the subsequent years, a new dispute arose that was resolved with Resolution No. 163 dated December 28, 2001, which presented a new method for calculating firm capacity. This resolution instructed the CDEC-SING to calculate firm capacity and definitive transfers of peak capacity for the years indicated. However, the companies have submitted new motions against this resolution and at the same time, a new dispute arose between the members of the CDEC-SING with respect to the application by the Director of Operations authority of certain aspects of the methodology provided by the authority. Based on this, the reconciliation payments between companies based on the new procedure continue to be provisional.

In February 2003 the reconciliation payment process for transfers of peak capacity for the year 2002 was performed on a provisional basis. The Company is unable to estimate the effects of any retroactive change in the methology of the calculation which might be applied, due to the lack of guidance from the appropriate authorities and/or historical precedents. Therefore, the Company has not recognized any gain or loss contingency for this matter.

25. CONTINGENCIES AND COMMITMENTS (Continued)

c. Legal Proceedings

c.1 Junta de Vigilancia de Río Maipo vs. AES Gener

AES Gener was sued by the Junta de Vigilancia of Río Maipo (security committee), which filed a lawsuit in the 2nd Civil Court of Santiago (case number 1062-01) for an alleged debt of ThCh$215,461 as of December 31, 2003, related to the payment of installments that were allegedly owed to such committee. AES Gener has opposed the lawsuit, since it deems that it should not have to make any payment, because it does not make use of any of the security committee's facilities. The plaintiff has garnished approximately ThCh$39,690 of cash of AES Gener, which is classified as restricted cash. The Company firmly believes it should not be forced to pay the aforementioned amounts, since they have been imposed arbitrarily, unilaterally and without reason. The Company accrued a provision for this contingency in the amount of ThCh$215,461.

c.2 Justo Gallardo vs. Gener S.A.

The Company has been sued for monetary compensation by a neighbor of the Renca plant, who claims to have suffered certain damages due to the operation of the power plant. He is claiming the payment of ThCh$120,000 in a lawsuit filed in the 28th Civil Court of Santiago (case number 4070-99). The lawsuit was rejected in the lower court and it is currently in the appeals court, awaiting final judgment.

AES Gener estimates that the appeal will be rejected since the lawsuit does not have any grounds. There is no connection between the alleged facts and the damages caused, there is no responsibility by the Company as to the facts or the damages and the alleged rights have become unenforceable under the statute of limitations.

The Company has not accrued a provision for the contingency.

c.3 Bankers Trust International Corporation (Delaware) Inc. vs. AES Gener and Ralph Wilkerson

On May 24, 2002, the Company was served with a lawsuit filed by Bankers Trust International Corporation (Delaware), as trustee in the bankruptcy of Cordex Petroleums Inc., a company chartered under the laws of Canada. The total amount of the lawsuit is ThCh$5,154,827 (ThUS$8,681) plus interest and legal fees. The lawsuit is based on alleged collusion between the Company and the other defendant, Mr. Ralph Wilkerson, to breach contracts, incitement to breach contracts, fraud and incitement to infringe the fiduciary duties of Cordex Petroleums, Inc. The lawsuit, case No 0101-05135, was filed in the Superior Court of Alberta, Judicial District of Calgary, Canada. On July 19, 2002, the Company submitted a motion claiming lack of jurisdiction of the Canadian Courts of Law. A hearing was originally set for February 6, 2003, but it was suspended due to the plaintiff's delay in the presentation of an affidavit supporting its claim. In March 2003, the judge decided to accept the plaintiff's affidavit only for the purpose of amending its claim. On April 14, 2003, the plaintiff filed an appeal. The judge ruled that the hearing should take place on March 14, 2004. Afterwards, the judge will have to rule on the

25. CONTINGENCIES AND COMMITMENTS (Continued)

Company's jurisdiction motion. In the Company's opinion, the jurisdiction motion should be resolved in the Company's favor.

The Company has not accrued a provision for the contingency.

c.4 Minera Escondida Limitada vs. Norgener S.A.

Norgener S.A. (''Norgener'') and its customer, Minera Escondida Limitada (''Escondida'') are involved in an arbitration lawsuit related to a dispute regarding the interpretation and execution of the terms of two power supply agreements between Norgener and Escondida dated June 30, 1993 and November 20, 1994, respectively. The arbitrator—Mr. Manuel Correa Ossa—was appointed on October 25, 2002. Subsequently, on November 14, 2002 the parties agreed on the procedures to be followed, and accordingly the lawsuit was filed on December 9, 2002. Escondida claims nullity of the price adjustment clauses in both agreements, seeks termination of both agreements based on breach of contract by Norgener and requests authorization to assign the agreements to a subsidiary. On January 8, 2003, Norgener responded to the lawsuit and filed a lawsuit against Escondida for the damages caused as a result of the breach of contract by Escondida with respect to certain obligations under the second agreement.

Subsequently, in April 2003, at the end of the discussion period, the arbitrator issued an order to produce evidence, establishing the facts, which are determined to be true by the parties, and thereby initiated the trial period. The aforementioned order was contested by both parties, although the arbitrator maintained this information and established a settlement period, which remains effective to date. During the settlement period, the parties have held meetings and exchanged preliminary offers and counteroffers. A preliminary agreement was reached on December 5, 2003 that will have to be confirmed by each party's Board of Directors. If there is no confirmation by that, the arbitrator will issue a resolution and the trial period will be initiated. The preliminary agreement consists of (i) a decrease in price for both contracts from July 2004 to be received by the Company as an upfront cash payment, (ii) the extension of the current contracts and (iii) the execution of a new contract for 2004 to 2015.

No provision has been recorded for this contingency, as the Company believes that, if no agreement is reached, it will obtain a favorable decision from the arbitrator.

Were the arbitrator to find in favor of the claims of Escondida and declare the contract with Norgener null and void, Norgener may not receive revenue from Escondida from the date of such judgment forward. Norgener's revenue for the year 2003 related to this contract was approximately ThCh$52,558,266.

c.5 Hidroeléctrica Guardia Vieja - Hidroeléctrica Aconcagua vs. AES Gener

In December 1999, AES Gener filed a lawsuit against Hidroeléctrica Guardia Vieja S.A. and Hidroeléctrica Aconcagua S.A. for a contractual performance default related to an energy and capacity sales contract. The arbitrator accepted the Company's claims and the defendants were ordered to fulfill the contract.

25. CONTINGENCIES AND COMMITMENTS (Continued)

On December 14, 2001, arbitrator César Parada issued a decision in lower court, which, consistent with AES Gener's filing, ordered the modification of the "Sales Agreement of Electric Power and Capacity and Others" between AES Gener and the companies Hidroeléctrica Guardia Vieja and Hidroeléctrica Aconcagua S.A. dated November 2, 1993.

Such decision, according to the amendments introduced in the agreement, ordered the re-liquidation of the invoices exchanged between the parties from April 1998 until the definitive compliance date with the decision, in accordance with the rules established therein.

AES Gener's demand under the lawsuit was for ThCh$5,444,617. On December 31, 2003, the corresponding amount, including interest and readjustments, was ThCh$8,727,916. This amount represents a gain contingency.

The defendants, HGV-HASA, filed an extraordinary claim and a nullity recourse appeal due to format defects before the Santiago Appeals Court. The nullity recourse appeal due to format defects is still pending.

Based on the arbitrator's acceptance of the lawsuit filed by AES Gener, the Company recorded into income in 2001 a portion of the gain contingency equal to ThCh$2,940,374. The remaining balance of the gain contingency has not been recorded. The Company believes that the nullity recourse appeal due to format defects that is still pending, due to its extraordinary features, will likely be rejected as it has no grounds.

c.6 Superintendence of Electricity and Fuels ("CSEC") vs. AES Gener

In an ordinary notice dated December 6, 2002, the CSEC brought charges against AES Gener and related companies for alleged infractions in electric coordination as member of the Dispatch Center, related to the blackout which occurred on September 23, 2002 in the SIC. On January 24, 2003 AES Gener refuted the claim before the CSEC.

On August 20, 2003, the CSEC fined all CDEC-SIC members as a result of the blackout, alleging responsibility based on their status as a CDEC member. The Company was fined ThCh$535,302, subsidiary Eléctrica Santiago was fined ThCh$356,868 and Empresa Eléctrica Guacolda S.A. was fined ThCh$356,868.

AES Gener and its related companies filed a recourse motion before the CSEC on August 29, 2003, which has not been resolved to date. Once a decision is issued, the Company may appeal claiming illegality before the Appeals Court of Santiago, subject to a prior deposit of 25% of the fine applied. It is estimated that the CSEC will issue a decision during the first quarter of 2004 and the legal proceedings are expected to last approximately two years. The company accrued a provision for this contingency in the amount of ThCh$312,260. The range of loss is between ThCh$0 and the amount of the fines noted in the preceding paragraph.

25. CONTINGENCIES AND COMMITMENTS (Continued)

c.7 CSEC vs. AES Gener and Related Companies

On February 21, 2003, the CSEC brought charges against the Company and the other CDEC-SIC members, due to the blackout of January 13, 2003. The Company promptly answered those charges, and a resolution by the CSEC is still pending.

In our opinion, the charges formulated by the CSEC against AES Gener are unlawful; nevertheless, it is impossible to assess the outcome.

3) FINANCIAL COVENANTS

a. The Company, as guarantor of the credit agreement that ABN AMRO Bank N.V. granted to Energy Trade and Finance Corporation, must comply with the following financial covenants calculated based on the consolidated financial statements:

   (i) Indebtedness level less than 1.75 times the equity plus minority interest (measured quarterly).

   (ii) Interest expense coverage ratio higher than 2.4 times (measured over twelve months).

   (iii) Total debt less than 8.5 times EBITDA (measured over twelve months).

   As of December 31, 2003, AES Gener was in compliance with the covenants set forth in the credit agreement.

b. The Company, as part of the renegotiation of the Purchase Agreement between AES Gener and Bank of America N.A. related to the purchase by AES Gener of Bank of America's portion of InterAndes and TermoAndes Bonds with an original maturity date of December 2007, must comply with the following financial covenants calculated based on the consolidated financial statements:

   (i) Indebtedness level less than 1.65 times equity plus minority interest (measured quarterly).

   (ii) Interest expense coverage ratio higher than 1.8 times (measured over twelve months).

   (iii) Total debt less than 7.8 times EBITDA (measured over twelve months).

   As of December 31, 2003, AES Gener was in compliance with the covenants set forth in the credit agreement.

c. Under the guarantee issued by the Company for the ETFC obligations under Support Agreement signed pursuant to Chivor's credit agreement, the ratio of the Company's total consolidated liabilities to its consolidated shareholders' equity (including minority interests), all calculated in accordance with Chilean GAAP, as of the last day of its fiscal quarters must not exceed 1.75 to 1.00. As of December 2003, Gener was in compliance with the financial covenant defined in the contract.

25. CONTINGENCIES AND COMMITMENTS (Continued)

4) OTHER CONTINGENCIES

a. Contingencies related to Argentine subsidiaries TermoAndes and InterAndes:

(i) *Power Supply Agreement*

AES Gener is party to a contract under which it is obligated to buy 100% of the energy and capacity produced by its wholly-owned subsidiary TermoAndes. Such contract establishes a minimum monthly payment that covers, among other aspects, the debt service for ThCh$152,606,600 (ThUS$257,000) corresponding to the bonds issued by TermoAndes and InterAndes. The payment of such bonds is guaranteed with the assets of TermoAndes and InterAndes and the power supply agreement executed by AES Gener and TermoAndes.

(ii) *Put Agreement with Bank of America*

Originally, ThCh$48,692 (ThUS$82,000) of the bonds corresponding to the debt of TermoAndes and InterAndes were subject to an option which allowed Bank of America to require AES Gener to purchase the bonds it held in advance at the par value plus accrued interests. Although the term to execute such option was from October 31, 2002 to January 31, 2003, the Company and Bank of America agreed to renegotiate the agreement prior to the initiation of this period.

AES Gener and Bank of America entered into a Purchase Agreement by which the Company committed to make partial purchases of the bonds held by Bank of America, completely eliminating the debt owed to Bank of America by September 2004. AES Gener has already purchased ThCh$26,132.239 (ThUS$44,008) in negotiable obligations from Bank of America. As a result of the debt payments made by TermoAndes and InterAndes, Bank of America has received additional payments of ThCh$8,911,319 (ThUS$15,007), thus the debt owed to Bank of America as of December 31, 2003 amounted to ThCh$13,648,043 (ThUS$22,984).

(iii) *Trust Agreement between TermoAndes, InterAndes, Deutsche Bank and Banco Francés*

On September 4, 1998, TermoAndes S.A. and InterAndes signed a trust agreement (the ''Trust Agreement'') with Deutsche Bank AG, New York Branch (''Deutsche Bank'') and Banco Francés Uruguay S.A. under which the receivables collected by TermoAndes and InterAndes are initially transferred to the bank accounts opened in such banks, which are exclusively controlled by Deutsche Bank or Banco Francés Uruguay S.A., depending on the account.

While the amounts owed by TermoAndes S.A and InterAndes related to the issuance of the July 30, 1998 Medium Term Notes (''Negotiable Obligations'') and to the Bank of America credit agreement to finance the Value Added Tax remain unpaid, TermoAndes and InterAndes may only use the amounts deposited in the accounts in accordance with the terms of the Agreement.

Moreover, TermoAndes and InterAndes assigned, transferred and granted a first degree guarantee right to Deutsche Bank for a) all rights that TermoAndes and InterAndes have over the accounts controlled by Deutsche Bank; b) all rights that TermoAndes and InterAndes have over the amounts either credited or deposited in such accounts; and c) all rights that TermoAndes

25. CONTINGENCIES AND COMMITMENTS (Continued)

and InterAndes have over the proceeds from insurance and expropriation, as well as the proceeds from civil liability or delayed start-up or business interruption insurance that the company must maintain.

If funds held in the accounts exceed the amount needed for the next payment of interest and principal, TermoAndes and InterAndes may use the excess funds for general business purposes. On December 31, 2003 deposits in TermoAndes' and InterAndes' accounts amounted to ChTh$17,206,615, which were invested in common investment funds. Such funds are shown as restricted in the Company's balance sheet under the ''Time Deposits'' category of current assets in the amount of ChTh$4,411,604 and under the ''Others'' category of other long term assets in the amount of ChTh$12,795,011.

(iv) *Assets with Restricted Availability*

In order to guarantee the repayment of the obligations resulting from the financing agreements of the Value Added Tax and the Negotiable Obligations, among others, TermoAndes S.A. and InterAndes S.A. have agreed as follows:

- A trust assignment of all of the rights of TermoAndes S.A. and InterAndes S.A. under the contracts or documents in which they are involved to Banco Francés Uruguay S.A.
- A mortgage of the lands where the generation plant is located and the real estate attached to the plant, also in favor of Banco Francés Uruguay S.A.
- The assignment, transference and granting of a first degree guarantee right to Deutsche Bank for a) all the rights of the company in the accounts controlled by Deutsche Bank, b) all the rights of the company over the amounts credited or deposited in said accounts, c) all the rights of the company over the product of the insurance and the product of the expropriation, as well, as over the product of the civil liability insurance or delays in the commissioning or business interruption of the company.

In addition, the subsidiary Gener Argentina S.A.—parent company of TermoAndes and InterAndes—pledged the shares to guarantee the fulfillment of the aforementioned obligation.

(v) *Potential Events of Default under the Negotiable Obligations*

During 2002, InterAndes requested that Deutsche Bank release certain funds existing in an account controlled by Deutsche Bank, which in accordance with the terms of the contract qualified for release. Deutsche Bank responded indicating certain potential events of default under the terms and conditions of the Trust Agreement and as such refused to release such funds.

The Potential Events of Default mentioned by Deutsche Bank are as follows:
i) non-compliance with respect to the insurance that InterAndes must keep during the term of the referenced financing; ii) non-compliance with respect to the insurance that TermoAndes must keep during the term of the financing and (iii) non-compliance with respect to the validity and

25. CONTINGENCIES AND COMMITMENTS (Continued)

effect of the guarantees granted by TermoAndes since, due to the suspension of the mortgage foreclosures set forth in Law 25,563, the mortgage granted by TermoAndes to the bank creditors for the Salta Plant could not be executed, affecting the rights of such creditors.

On June 19, 2002, the company requested from Deutsche Bank and the other bank creditors a waiver to the aforementioned potential events of default. With respect to the non-compliance related to the insurance requirements, a letter from AON—the Company's insurance broker—was attached which stated: i) that the insurance policies required in the Trust Agreement were not commercially available in the international insurance market, and ii) that certain endorsements required in the Trust Agreement were not valid under Argentinean law. The waiver was not granted.

According to the Trust Agreement, before and during a Potential Event of Default, Deutsche Bank, as loan administrator, may execute all the rights it is legally and contractually entitled to, including the following: i) acceleration of the payments owed under TermoAndes' Negotiable Obligations to make them immediately payable, with two days of prior notification; ii) possession of the Salta Plant and perform all of the necessary acts for its operation and maintenance; iii) set off any outstanding debt by TermoAndes with any cash existing in the trust accounts, and iv) exercise any other right allowed under other related agreements.

To date, the creditors have not exercised any of the aforementioned rights. According to the Company's legal counsel, since the potential events of default do not relate to TermoAndes' failure to pay any principal or interest due under the Negotiable Obligations or any breach of contract by AES Gener S.A under the Power Purchase Agreement (''PPA''), there are reasons to believe that it is not in the creditors´ interest to exercise such rights.

Additionally, in the event of default, according to the Trust Agreement, Deutsche Bank, as TermoAndes' Depositary Bank, may directly pay TermoAndes' operating expenses in accordance with the instructions by the TermoAndes' Collateral Agent. On October 17, 2002, Deutsche Bank sent a letter to the Company informing it that it would request instructions from the other creditors to decide whether or not to exercise such right. Additionally, the same letter requested the opinion of TermoAndes on whether to proceed in such a manner.

TermoAndes replied to such letter explaining the reasons why it would not be convenient to proceed in this manner. The main argument of such reply was the fact that TermoAndes considered that the event of default would cease shortly. At present, Deutsche Bank has neither exercised this right nor has it replied to the letter sent by TermoAndes.

TermoAndes and InterAndes are currently working with their insurance advisors to solve the insurance issues and are also holding conversations with Deutsche Bank to modify the financing terms with respect to those endorsements which would be invalid under Argentinian law.

As a consequence of these actions, in the TermoAndes and InterAndes insurance policy renewed in November 1, 2003, a series of endorsements required by the financing were included. These endorsements have been accepted by the insurance companies. The Company believes that the inclusion of these endorsements cures the event of default previously declared,

25. CONTINGENCIES AND COMMITMENTS (Continued)

but to date the Company has not received confirmation by Deutsche Bank that the default has been cured. According to the opinion of the Company's legal counsel, the legal and factual reasons used by TermoAndes are sufficiently strong and will result in the near-term declaration of the debt default null and void.

(vi) *Natural Gas Purchase Agreement*

On August 4, 1997, TermoAndes S.A. entered into a gas supply agreement with the consortium integrated by Mobil Argentina S.A. (formerly, Ampolex Argentina S.A.), Compañía General de Combustibles S.A., Ledesma S.A., Tecpetrol S.A. and YPF S.A. (the Consortium) for a ten year term from January 31, 1999. This agreement includes monthly minimum gas purchase conditions under a take or pay clause (the minimum purchase amount must be paid equally at the end of the calendar year even if the minimum purchase amount is not requested), calculated over the base contracted capacity to be delivered by the producers.

According to the gas supply agreement, TermoAndes may request from the vendors the application of the most favorable terms that they have agreed with third parties in gas sale contracts aimed at its exportation to the I and II regions of the north of Chile, the generation of electricity in such region and/or the consumption in a thermal plant installed in the province of Salta that exports electricity to such regions.

Considering the agreement, TermoAndes has requested from the producers the exhibition of the contracts signed with third parties. The producers have not shown such contracts arguing confidentiality. Based of that non-fulfillment, the company has rejected the payment of the take or pay invoices received from Repsol YPF S.A. on August 21, 2003 that correspond to the years 2001, ThCh$3,740,940 (ThUS$6,300) and 2002, ThCh$2,850,240 (ThUS$4,800).

Those invoices have been rejected because:

a) the currency in which they were issued

b) the volumes invoiced

c) the prior breach of contract of the counter party with respect to its obligations under clause 15 of the contract.

The latter would be admissible by virtue of the non-fulfillment of the obligations of the Producers, under the most favored nation clause by virtue of which TermoAndes is entitled to: i) access the gas supply agreements subscribed between the producers and third parties for the I and II regions of the north of Chile or power plant of the province of Salta and ii) opt for the most favorable conditions they may contain.

The price established in the gas supply agreement was originally set in USA dollars and is currently paid in pesos at the parity of 1 US Dollar = 1 Argentinian Peso by TermoAndes without any provision over the amounts actually paid. Regardless, the Consortium claims the payment in US dollars from TermoAndes and has submitted a claim before the Secretariat of Energy based on an extensive interpretation of Decrees 689/02 and 1491/02, which provides for the dollarization of the gas and energy export contracts respectively. The claim request from

25. CONTINGENCIES AND COMMITMENTS (Continued)

TermoAndes the payment in dollars. TermoAndes has rejected the claim with the corresponding writs. At the same time, TermoAndes has been negotiating with the producers within the framework of the provisions set forth in the Emergency Act, which negotiations have not been successful so far.

Although the Emergency Act provided that the pesified contracts were adjusted by the CER, the producers have not billed or claimed such concept. If the producers do this, and based on the same regulation, TermoAndes could argue the no application of the CER because the gas value in the Argentinean market today is lower than the result of adjusting the pesified contract price times the CER.

The legal advisors of the Company believe that the position of TermoAndes is correct according to the current legislation in force. As of December 31, 2003, TermoAndes has recorded ThCh$7,455,173 under ''accounts payable'' in current liabilities and a credit for the same amount under ''long term accounts receivable''.

(vii) *Natural Gas Firm Transport Service*

TermoAndes and Transportadora de Gas del Norte S.A. (''TGN'') agreed on a natural gas firm transport service for seventeen years starting on January 15, 1999. TGN is obligated to transport 2,800,000 cubic meters of natural gas a day from Chango Norte to Estación Torzalito.

No guarantees under the contract are necessary if the Company or its shareholders maintain an Investment Grade Rating, defined as BBB or higher. In the event both TermoAndes and its shareholders lose the Investment Grade Rating, it must provide constitute a bank guarantee for an amount equal to the amount due for a year of service. The current rating of the Negotiable Obligations issued by TermoAndes and InterAndes is BBB+ (Arg) by Fitch and BBB- by Moody's; so, TermoAndes has not be forced to provide said guarantee.

The contract price is established by a regulated tariff and an additional contribution. The tariff to be applied to the natural gas firm transport service shall be subject to modifications arising from the tariff schemes approved by the ENARGAS. The additional contribution established by the gas transport contract was originally set in US dollars and is currently paid in Pesos by TermoAndes. Without detriment of that, TGN claims from TermoAndes the payment in US dollars and it has submitted a complaint before the ENARGAS based on an extensive interpretation of Decrees 689/02 and 1491/02 that establish the dollarization of the electricity and gas export contracts, respectively. TermoAndes S.A. has rejected this claim with the corresponding arguments.

On August 20, 2003, ENARGAS resolved in favor of TermoAndes and it ordered TGN to render the gas transport service between Campo Duran and Torzalito billing the charges of the original transport contract (STF No. 52) in Argentinean Pesos (Ar$) while the dispute is finally solved. Said preventive resolution has been appealed by TGN.

The memorandum of the Legal and Technical Department of ENARGAS issued prior to the resolution left TermoAndes in an extremely favorable position not only with respect to the

25. CONTINGENCIES AND COMMITMENTS (Continued)

dispute about the transport service but it also gave the Company valid arguments for the existing disputes with the gas producers.

While the resolution at issue is still in force, TermoAndes will continue paying in Argentinean pesos without having to pay any extra amount for the distance between Campo Durán and Chango Norte (STI No. 43).

At the same time, TermoAndes is still negotiating with TGN within the framework established by the Emergency Act, which has not been successful so far.

b) Contingencies associated with subsidiary Chivor in Colombia

(i) *Syndicated Loan with Bank of America and others*

As part of the syndicated credit agreement with Bank of America NT & SA, Chivor executed a trust agreement with Lloyds Trust SA whereby it assigned to a special trust vehicle its rights pursuant to energy sales agreements and other income, however earned. The purpose of this trust is to guarantee the payment of Chivor's obligations under its credit agreement (the ''Credit Agreement'') and management by Lloyds Trust of said funds.

Additionally, pursuant to the Credit Agreement, Chivor has certain restrictions concerning the payment of dividends, transactions with affiliates and purchases and sale of certain assets. Such restrictions are customary in these types of agreements.

In accordance with the provisions set forth in the First Amendment to the Credit Agreement, Chivor agreed to exercise its legal ownership rights over the property deeds of the land plots where the La Esmeralda dam and facilities of the Chivor power plant are located. For this purpose, the properties were classified in two categories: the first, considered ''necessary'' for the plant's operation, comprised a total of 12 land plots which are legally owned by Chivor. The other category is named ''other properties''; Chivor legally owns some of said plots, but merely exercises possession rights over others. Pursuant to Colombian Law, legal ownership can be acquired through long-term possession; as a result, legal procedures for acquiring legal ownership of such plots of land are ongoing. However, these processes do not have any effect whatsoever on the financial statements of the Company. The Company expects to perfect its ownership in such plots.

Other collateral under the Credit Agreement includes (i) Chivor´s assets, (ii) a pledge over Chivor's shares owned by Energy Trade and Finance Corp., and (iii) an offshore trust agreement whereby an offshore trustee controls Chivor's monies held offshore.

(ii) *Refinancing of syndicated loan*

On December 28, 2001, the Company sent to Bank of America a notice of default according to sections 7.1(f)(i); 7.1(f)(vii) and 11.5 of the Credit Agreement between Chivor and Bank of America.

25. CONTINGENCIES AND COMMITMENTS (Continued)

On July 6, 2002, Chivor initiated a prepackaged voluntary process under chapter 11 of the US bankrupty law, in the court of the Southern District of New York, United States of America. The only and exclusive purpose of such process was to refinance the external indebtedness agreement with Bank of America.

The restructuring plan submitted to the court was approved by Judge Burton Lifland on August 13, 2002 and it was effective on the 27th of the same month, once all the predecessor conditions of the second amendment of the syndicated credit agreement were met.

The conditions of the refinanced credit agreement included a term extension until 2006, LIBOR rate plus an incremental spread as the interest rate adjusted at the refinancing anniversary and incentives to participate in capital markets, among others.

The guarantee structure of the Credit Agreement remained the same. The borrowings under the refinanced credit agreement are guaranteed by Chivor´s assets, its offices, a total pledge of Chivor shares and two mercantile trust agreements, with administration and payment sources performed by a local and a foreign trust entity.

(iii) *Trials*

In the civil court of Guateque, five extra-contractual civil liability lawsuits were filed against Chivor for the construction of the tunnel for the deviation of the Negro and Rucio rivers to the Quebrada Trabajos. The claim of the plaintiffs is ThCh$123,306 (Col$600,000,000, ThUS$208) for the alleged damages caused in their properties.

As of December 31, 2003, a provision for ThCh$123,306 (ThUS$208) is recorded.

(iv) *Presumptive Income*

The DIAN (Colombian IRS) has required Chivor to pay presumptive income tax for the year 1999. As of December 31, 2003, unpaid income tax amounted to ThCh$2,062,912. The Company accrued for such unpaid tax and penalty interest.

Chivor has objected to DIAN's decision and, if necessary, is prepared to submit the issue before the Administrative Courts. Chivor has indicated, among other legal and factual arguments, that a previous decision issued by the Director of the DIAN in 1995 determined that electricity generators were not subject to presumptive income and such concept should prevail over that used by the DIAN for its decision.

As of December 31, 2003, the Company has recorded a provision of ThCh$1,187,600 (ThUS$2,000).

In January 2004, the DIAN decided in favor of Chivor.

(v) *Restrictions to dividend payments*

As mentioned above, Chivor may not distribute dividends nor pay any amounts whatsoever to affiliates; however, some specific exceptions apply.

25. CONTINGENCIES AND COMMITMENTS (Continued)

c) Contingencies and Covenants related to Eléctrica Santiago

(i) *Deferred Customs Duties*

The Company has recorded an offset to its customs duties payable of approximately 11% of the capital and interest related to deferred customs duties that originated from importing capital goods related to the construction of the Nueva Renca Plant, based on the provisions set forth in Law No. 18,634 that empowers the Customs National Service to credit the duties owed if the production associated with such goods is being exported. As of December 31, 2003 and 2002, current obligations for deferred customs duties net of such benefit indicated in Law No. 18,634 amounted to ThCh$1,157,156 and ThCh$1,242,763. respectively.

(ii) *Other Contingencies*

CSEC and Sociedad Eléctrica Santiago S.A.

1) CSEC charged Sociedad Eléctrica Santiago S.A. a fine equivalent to ThCh$5,948 (200 UTA (Chilean Tributary Annual Unit)) for alleged breaches to its obligations to preserve the security and continuity of the service.

On May 5, 2000, Sociedad Eléctrica Santiago S.A. provided a response was provided to the CSEC, based on the Article 18A of the Law No. 18,410 arguing that the referred fine was without effect. No decision has been resolved by the CSEC yet.

In the Company´s opinion, the charges assessed by the CSEC and fuels to Sociedad Electrica Santiago S.A. are inadmissible.

2) On January 12, 2000, the CSEC charged Sociedad Eléctrica Santiago S.A., for not providing the discounts that resulted from electrical energy deficits during the periods in which Rationing No. 287 was effective.

On January 28, 2000, Sociedad Eléctrica Santiago S.A., responded to the charges formulated by the CSEC, but no reply has been received to date.

In the event that these charges are rejected, Sociedad Eléctrica Santiago S.A. could be punished with a fine to Fiscal Benefit, possible of administrative replacement and/or claim to the Appeals Court of Santiago.

In the Company's opinion, the charges presented by the CSEC against Sociedad Eléctrica Santiago are inadmissible.

25. CONTINGENCIES AND COMMITMENTS (Continued)

The Regional Commission of Environment of the Metropolitan Region and Sociedad Eléctrica Santiago S.A.

The Regional Environmental Commission for the Metropolitan Region imposed a penalty of ThCh$10,409 (350 UTM) for the eventual infringement of Resolution No. 007/96 on environmental qualification. Sociedad Eléctrica Santiago has presented a legal complaint in order to contest such sanction and it has asked the judge to withdraw the penalty since the infringement situation has not occurred. The Company has not accrued a provision for the contingency.

Other Contingences

In October 2003, General Electric issued an invoice to Electrica Santiago related to costs associated with the repair of the Nueva Renca Plant gas turbine. Electrica Santiago contested the invoice because the Company claims that its insurance policy with insurer Cruz del Sur covers the related repair costs. No determination has been made by the insurance company as to whether the repairs were covered under the policy.

The Company has recorded a provision of ThCh$890,700 (ThUS$1,500) related to this contingency.

Financial Covenants

Sociedad Eléctrica Santiago must quarterly meet the following financial covenants established in the bond issuance agreement, inscribed in the Securities Registry under number 214, calculated based on its stand-alone financial statements:

1. Lien Free Assets in excess of 125% of unsecured current liabilities.
2. Indebtedness less than or equal to 1.75 times equity plus minority interest.
3. Minimum equity no less than Unidades de Fomento ''UF'' 2 million (ThCh$33,840,000).
4. Essential assets representing more than 40% of total assets may not be sold in a single or several transactions without previous authorization of the bond holders.

As of December 31, 2003, Sociedad Eléctrica Santiago was in compliance with the covenants set forth above.

d) Contingencies and Covenants related to Energía Verde

d.1 *Sawdust Pile Agreement*

The mutual supply agreement executed with Forestal Copihue S.A. in June 1994 establishes care and protection obligations for the sawdust pile to be used at the Constitución Plant by Energía Verde. This commitment is evidenced through insurance policies and the on-site supervision of personnel of the company.

Additionally, it is established that the sawdust pile is the property of Forestal Copihue S.A. and it is only deposited in favor of Energía Verde, which implies that said sawdust pile is not an asset of the latter. No provision has been recorded for the ultimate restoration of this property as such cost has been determined to be insignificant.

25. CONTINGENCIES AND COMMITMENTS (Continued)

d.2 *Deferred Customs Duties*

As of December 31, 2003 there is a current liability for customs duties subject to deferred payment totaling ThCh$182,227 (ThCh$219,931 in 2002), which originated from importing capital goods for the construction of the thermoelectric power plants in Constitución, Laja, Nacimiento and San Francisco de Mostazal. This liability will be maintained until it is offset by credits granted for exporting production resulting from the use of the imported capital goods, in accordance with Law No. 18,634.

d.3 *Bank Loan*

As of December 31, 2003, Energía Verde has a syndicated loan with Banco de Crédito e Inversions and Banco Scotiabank Sudamericano. The power plants located in Laja, Constitución and San Francisco de Mostazal were pledged as collateral for such loan.

d.4 *Guarantees granted*

Energía Verde pledged, in favor of Banco de Crédito e Inversiones and Banco Scotiabank Sudamericano, its assets, such as boilers, turbines, generators, conveyor belts, cooling water towers, water treatment systems, fans, electric and control systems located in the following plants: (i) Planta Termoeléctrica Constitución, VII Region, (ii) Planta Termoeléctrica Laja, located in Camino a Laja Km. 1.5, in Cabrero, VIII Region, (iii) Planta Térmica San Francisco de Mostazal, located in Longitudinal Sur Km. 63, San Francisco de Mostazal, VI Region.

e) Contingencies and Covenants related to Norgener

e.1 *Deferred Customs Duties*

As of December 31, 2003, there is a current liability for customs duties of ThCh$192,267 (ThCh$1,907,993 in 2002) which will be offset by credits granted for exporting production resulting from the use of the imported capital goods.

e.2 *Mitsubishi credit—Banco de Chile*

In order to guarantee 50% of the financing of the construction of the thermoelectric plant Tocopilla (see note 18 b), Norgener gave Mitsubishi a stand-by letter of credit issued with Banco de Chile for up to US$50 million. To guarantee the amount of the stand-by letter of credit, Norgener pledged unit 2 in favor of Banco de Chile. The value of the guarantee as of December 31, 2003 is ThCh$10,391,500 (ThUS$17,500).

e.3 *Financial Restrictions*

Norgener must meet the following financial covenants established in the guaranty agreement, calculated based on its stand alone financial statements:

i. Ratio between Current Assets and Current Liabilities: 1.0 or more.

ii. Interest Expense Coverage Ratio: 2.0 or more.

iii. Ratio between Total Liabilities Less Equity to Tangible Net Worth: 1.3 or less.

As of December 31, 2003, Norgener was in compliance with the covenants set forth above.

25. CONTINGENCIES AND COMMITMENTS (Continued)

f) Other

As a result of restrictions imposed by the CDEC-SING for supply security reasons, the combined cycle TermoAndes has limited its dispatch to a fraction of its generation capacity. In the future, the eventual release of these restrictions will allow a higher dispatch, but it could be limited by the excess energy in the north of Chile. As a consequence, TermoAndes, Interandes and the transmission facilities of AES Gener in the north of Chile and those related to energy imports from Argentina have been negatively affected. The investments in Colombia, mainly Chivor, have been affected by regulatory changes that have reduced their revenues, as well as limitations in the electricity price and a low growth of the electricity demand.

Summary of Lawsuits and Contingencies

The Company does not believe that the outcome of all claims and lawsuits will have a material adverse effect on the Company´s financial position or results of operations.

5) CHANGE IN THE MONETARY REGIME AND DEVALUATION OF THE ARGENTINEAN PESO

The Argentine Republic is facing a delicate economic scenario, with a high level of external indebtedness, a financial system in crisis, and an economic recession that has lasted for four years. This situation has generated a large decrease in the demand for products and services and an increase in the unemployment level. Moreover, the Argentine government's capabilities to meet its obligations and its potential for obtaining borrowings are affected by these circumstances.

To address this crisis, from early December 2001, the national authorities implemented several monetary and exchange control measures that included restrictions of free availability of the funds deposited in banks and restrictions on transferring money overseas. Starting in January 2002, the Argentine government issued laws, decrees and regulations that implemented a profound change in the economic model in effect at the time. Since the approval of Law No. 25,561 (the Public Emergency and Exchange Regime Reform Law), by which power was granted to the executive branch of government to approve additional monetary, financial and exchange measures, diverse regulations have been dictated to attempt to overcome the economic crisis. The main aspects of such measures and the social and economic impact are summarized as follows:

a. Implementation of exchange rate flotation, which led to a significant devaluation during the first months of 2002; the "pesofication" of certain current assets and liabilities maintained in foreign currency and the consequential domestic price increases.
b. The pesofication of certain private agreements entered into on January 6, 2002 at an exchange rate of AR$1.00 per US$1.00 and subsequent adjustment by the CER (Reference Stabilization Coefficient published by the Central Bank of Argentina).
c. The adjustment terms in U.S. dollars, for other foreign currencies and other index mechanisms were declared null and void, including contracts with the public administration. Prices and tariffs were converted at one AR$ to one US$. The government was also authorized to renegotiate dollar-denominated contracts.
d. Restriction on the free availability of funds deposited in financial institutions.

25. CONTINGENCIES AND COMMITMENTS (Continued)

e. Suspension of the termination of labor agreements without justification and a penalty equal to the payment of double severance pay established under labor legislation, in case employment is terminated.

Additionally, the Energy Department implemented three Resolutions, which modified the Mercado Eléctrico Mayorista or Electric Wholesale Market's (MEM) operating conditions. These Resolutions are: (a) Res. SE 2/02—pesofication of the obligations denominated in foreign currency set forth in the Procedures for Programming, Charge Dispatches, and Price Calculation (The Procedures); (b) Res. SE240/03—established ceiling for the Spot Market; and (c) Res. SE 406/03, which changes collection conditions corresponding to credits associated with electric energy provisions. Not withstanding, given Central Salta is not connected to the MEM, these measures will not affect TermoAndes.

The future events in Argentina's economic crisis may require the modification of some measures or the issuance of additional regulations by the government.

As for the natural gas and firm transportation and supply agreements subscribed by TermoAndes, they were timely agreed in U.S. dollars and are currently paid in Argentinean pesos by TermoAndes without any provision being made in excess of the amounts effectively paid. Although the Public Emergency Law provided for the pesofied contracts to be adjusted according to the CER, TermoAndes' suppliers have not invoiced nor claimed such concept to date. If this occurs, based on the same law, TermoAndes could argue against applying the CER because the value of gas in the Argentinean market today is lower than that resulting from adjusting the price of the pesofied contract with the CER. Notwithstanding, both gas suppliers and the gas transportation company have issued administrative complaints by which they intend to maintain prices and tariffs in U.S. dollars. Their argument is an extensive interpretation of Decrees 689/02 and 1491/02 which established the dollarization of the gas and electricity export agreements. In both cases, TermoAndes has rejected such position with the corresponding arguments. Additionally, TermoAndes has negotiated with the suppliers under the emergency laws, however to date, these negotiations have not been successful. No adjustments have been recorded to account for any liability related to payment of this obligation in any currency other than Argentina pesos as, in the opinion of management's counsel, it is unlikely that the company will be required to pay these obligations in US dollars.

On August 20, 2003, ENARGAS (Ente Nacional Regulador de Gas or the Argentine Gas Regulatory Agency) resolved an argument in favor of TermoAndes, requiring transportation service provider, Transportadora Gas del Norte, to deliver gas transportation service between Campo Duran and Torzalito, invoicing the corresponding charges under the original transportation agreement (STF Nª 52) in Argentine pesos (Ar$). TermoAndes, prior to and after the favorable ruling, is recording its obligations in Argentine pesos.

The memorandum issued by the Legal and Technical Department of ENARGAS, which precedes the resolution extremely favors TermoAndes not only with respect to the dispute about transport, but also with valid arguments for the disputes with the gas producers. See further discussion at note 25 a (vi).

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

25. CONTINGENCIES AND COMMITMENTS (Continued)

6) TAKE-OR-PAY CONTRACTS

To assure a long-term supply of natural gas through 2005, 2013 and 2022, the company and some of its subsidiaries have entered into take-or-pay contracts with natural gas suppliers and transportation, that require the payment of certain minimum amounts of gas whether it is consumed or not. The minimum payments required to be made, whether or not the Company and its subsidiaries are able to take delivery of the gas, are as follows:

	ThUS$	ThCh$
2004	59,649	35,419,576
2005	78,410	46,559,858
2006	80,854	48,011,105
2007	83,986	49,870,887
2008	85,980	51,054,924
Thereafter	541,703	321,663,241
Total	930,582	552,579,591

26. FOREIGN CURRENCY

A summary of the assets and liabilities in foreign currency is as follows:

Assets

		December 31,	
	Currency	2002 ThCh$	2003 ThCh$
Current Assets			
Cash	US$	1,713,315	2,345,612
Cash	Other currency	2,849,422	1,067,799
Time deposits	US$	22,763,614	9,917,672
Time deposits	US$	—	213,591
Marketable securities	US$	11,133	4,356,255
Marketable securities	Other currency	5,045,452	433,586
Trade account receivable	US$	3,673,974	454,923
Trade account receivable	Other currency	30,313,143	28,912,209
Miscellaneous accounts receivable	US$	595,199	95,549
Miscellaneous accounts receivable	Other currency	2,566,420	2,571,251
Accounts and notes receivable from related companies	US$	(21,183,032)	177,657,740
Accounts and notes receivable from related companies	Other currency	23,747,075	58,502
Inventories	US$	14,782,404	8,289,378
Inventories	Other currency	7,329,392	3,160,551
Recoverable taxes	US$	6,467	6,403
Recoverable taxes	Other currency	4,549,492	769,605
Deferred taxes	Other	733,123	1,218,440
Prepayments	US$	5,079,613	2,324,623

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

26. FOREIGN CURRENCY (Continued)

	Currency	December 31, 2002 ThCh$	December 31, 2003 ThCh$
Prepayments	Other currency	1,649,848	49,108
Other current assets	US$	8,215,167	16,386,174
Other current assets	Other currency	8,596,014	31,121,778
Total current assets		**123,037,235**	**291,410,749**
Fixed Asset			
Land	Other currency	6,109,468	6,057,325
Land	US$	2,388,292	1,961,013
Constructions and infrastructure	Other currency	374,808,601	375,512,669
Constructions and infrastructure	US$	442,892,717	360,074,119
Machinery and equipment	US$	276,088,764	232,020,357
Machinery and equipment	Other currency	738,129,202	727,732,536
Other fixed assets	US$	3,066,795	2,509,055
Other fixed assets	Other currency	50,689,673	47,820,987
Depreciation	US$	(73,299,886)	(76,842,936)
Depreciation	Other currency	(467,541,756)	(492,589,321)
Total fixed asset		**1,353,331,870**	**1,184,255,804**
Other noncurrent assets			
Investments in related companies	US$	90,042,909	62,819,109
Investments in related companies	Other currency	32,508,916	54,517,826
Goodwill	US$	5,554,284	4,865,320
Goodwill	Other currency	3,840,434	3,441,928
Long-term receivable	US$	6,610,851	1,753
Long-term receivable	Other currency	27,343	7,460,370
Long-term receivable related companies	US$	222,364,229	3,030,514
Intangible	Other currency	5,909,735	5,932,016
Accumulated amortization of intangibles	Other currency	(4,123,833)	(4,319,893)
VAT Account receivable	Other currency	19,231,108	14,456,977
Others	US$	33,340,436	21,010,721
Others	Other currency	11,502,037	8,162,549
Total other noncurrent assets		**426,808,449**	**181,379,190**
General Total		**1,903,177,554**	**1,657,045,743**

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

26. FOREIGN CURRENCY (Continued)

CURRENT LIABILITIES

		Less than 90 days				More than 90 days and less than 1 year			
		December 31, 2002		December 31, 2003		December 31, 2002		December 31, 2003	
	Currency	Amount ThCh$	Average interest rate	Amount ThCh$	Average interest rate	Amount ThCh$	Average interest rate	Amount ThCh$	Average interest rate
Short-term bank liabilities	US$	—	—	21,573	5.36%	12,391,617	—	4,195,871	4.38%
Short-term portion of long-term bank liabilities	US$	129,377	—	—	—	—	—	11,282,200	4.73%
Short-term portion of long-term bank liabilities	Other currency	16,549,836	—	—	—	—	—	1,337,257	6.36%
Bonds payable	US$	11,271,048	—	9,190,063	6.15%	691,269	—	22,319,422	5.16%
Bonds payable	Other currency	—	—	—	—	29,527,862	—	285,680	7.50%
Short-term portion of long-term liabilities	US$	5,893,742	11.40%	2,853,677	9.97%	4,094,639	—	999,983	9.77%
Short-term portion of long-term liabilities	Other currency(1)	352,949	—	2,800	15.36%	4,059,803	—	—	—
Dividends payable	US$	475	—	337	—	—	—	—	—
Dividends payable	Other currency	148,204	—	113,378	—	—	—	—	—
Accounts payable	US$	7,856,644	8.17%	7,661,483	8.17%	7,235,902	8.17%	2,867,581	8.17%
Accounts payable	Other currency	19,159,158	—	20,131,411	—	5,940,307	—	7,455,173	—
Sundry accounts receivables	US$	583	—	—	—	—	—	—	—
Sundry accounts receivables	Other currency	253	—	—	—	—	—	—	—
Accounts and notes payable to related companies	US$	176,529	—	524,304	—	—	—	—	—
Accounts and notes payable to related companies	Other currency	1,149,425	—	678,783	—	—	—	—	—
Provision	Other currency	1,700,253	—	2,102,699	—	5,782,331	—	4,708,091	—
Withholding taxes	US$	997,679	—	19,238	—	—	—	—	—
Withholding taxes	Other currency	178,948	—	615,986	—	—	—	5,163	—
Income taxes	US$	—	—	669,286	—	—	—	—	—
Income taxes	Other currency	231,540	—	870,821	—	—	—	1,289,795	—
Unearned income	Other currency	386,259	—	40,146	—	—	—	—	—
Totals current liabilities		**66,182,902**		**45,495,985**		**69,723,730**		**56,746,216**	

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

26. FOREIGN CURRENCY (Continued)

LONG TERM LIABILITIES

2002		From 1 to 3 years		From 3 to 5 years		From 5 to 10 years		More than 10 years	
	Currency	Amount ThCh$	Average interest rate	Amount ThCh$	Average interest rate	Amount ThCh$	Average interest rate	Amount ThCh$	Average interest rate
Bank liabilities	US$	230,123,630	3.29%	9,072,437	3.29%	—	—	—	—
Bank liabilities	Other currency	753,167	—	—	—	—	—	—	—
Bonds	US$	445,456,558	6.07%	199,265,505	8.00%	16,693,310	8.00%	—	—
Bonds	Other currency	—	—	238,757	7.5%	1,239,702	7.5%	16,887,496	7.5%
Long-term notes payable	US$	2,483,663	—	—	—	—	—	—	
Long-term notes payable	Other currency	11,784	18.87%	—	—	—	—	—	—
Provisions	US$	3,324,048	—	—	—	—	—	—	—
Provisions	Other currency	18,151,375	—	—	—	—	—	23,442	—
Deferred tax	Other currency	—	—	4,000,343	—	—	—	—	—
Other long-term liabilities	US$	17,308,053	10.39%	10,562,864	9.64%	—	—	—	—
Total		**717,612,278**		**223,139,906**		**17,933,012**		**16,910,938**	

2003		From 1 to 3 years		From 3 to 5 years		From 5 to 10 years		More than 10 years	
	Currency	Amount ThCh$	Average interest rate	Amount ThCh$	Average interest Rate	Amount ThCh$	Average interest rate	Amount ThCh$	Average interest rate
Bank liabilities	US$	169,589,268	4.54%	—	—	—	—	—	—
Bonds	US$	459,239,010	5.90%	38,629,799	4.77%	6,828,699	8.00%	—	—
Bonds	Other currency	101,063	7.50%	312,377	7.50%	1,424,072	7.50%	16,537,608	7.5%
Long-term notes payable	US$	617,522	6.50%	—	—	—	—	—	—
Provisions	US	$12,966,388	—	—	—	2,552,249	—	—	—
Provisions	Other currency	—	—	402,218	—	5,784,542	—	—	—
Deferred tax	Other currency	3,744,250	—	5,312,386	—	—	—	38,466	—
Other long-term liabilities	US$	15,038,508	—	—	—	—	—	—	—
Total		**661,296,009**		**44,656,780**		**16,589,562**		**16,576,074**	

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

27. OPERATING REVENUE

Operating revenue is generated primarily from the sale of electrical energy and capacity on the domestic market, and is detailed as follows:

Customers	2001 ThCh$	2002 ThCh$	2003 ThCh$
Sales to Chilectra S.A.	82,281,465	84,183,133	87,048,622
Sales to Chilquinta S.A.	33,920,661	35,922,335	34,508,574
Sales to Minera Escondida	54,014,672	54,586,797	52,574,599
Sales to CDEC	4,840,982	19,428,736	15,439,734
Sales to Interconexión Eléctrica S.A. ISA (Colombia)	25,522,643	28,135,233	29,447,446
Sales to Colombian customers	35,310,865	46,488,366	39,222,625
ACG Frequency regulation service	10,863,202	6,991,410	9,993,878
Sales to other customers	70,664,692	61,628,034	63,119,340
Sales of fuel, technical advice and others	43,574,604	36,892,465	30,977,073
Total	**360,993,786**	**374,256,509**	**362,331,891**

The distribution of energy and capacity to customers in Chile is based on the contracts in force for the period and the sales prices are those established by the tariff regulations of the Ministry of Economy, Development and Reconstruction.

In Chile, Argentina and Colombia, the contracts with non-regulated customers are defined through negotiation with the counter parties. In addition, sales in the spot market are defined by the current market prices in the respective countries.

Operating revenue includes energy, capacity, transmission and other services supplied and not billed amounting to ThCh$30,481,960 in 2001, ThCh$23,017,467 in 2002 and ThCh$26,069,766 in 2003. These amounts are included in Trade accounts receivable at December 31st, of each year.

Sales of energy and capacity to other customers are related to Hidroeléctrica Guardia Vieja S.A., Pilmaiquén S.A., Compañía Minera Disputada Las Condes S.A., Cemento Polpaico S.A. and others.

The companies that sold electricity in the Argentinean Market and contracted Argentine customers (Central Puerto and Hidroneuquén) were sold in 2001.

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

28. OPERATING EXPENSES

These items are detailed as follows:

	Year ended December 31,		
	2001 ThCh$	2002 ThCh$	2003 ThCh$
Variable costs			
Purchases of energy	68,214,047	64,108,554	73,008,494
Purchases of capacity	17,906,053	13,909,923	12,775,176
Use of transmission system	14,732,211	12,203,086	11,971,601
Fuel consumption	52,235,639	35,972,026	44,096,191
Costs of fuel sales	26,049,254	27,021,533	17,959,663
Costs of technical consultants and others	14,616,634	9,521,877	6,685,555
Total variable costs	**193,753,838**	**162,736,999**	**166,496,680**
Fixed Costs			
Energy production	16,917,525	21,284,003	22,836,665
Depreciation	46,926,463	50,065,199	45,980,540
Total fixed costs	**63,843,988**	**71,349,202**	**68,817,205**
Total Operating costs	**257,597,826**	**234,086,201**	**235,313,885**
Total administration and sales costs	**30,323,940**	**21,120,596**	**17,064,745**
Total	**287,921,766**	**255,206,797**	**252,378,630**

Administration and sales costs

	Year ended December 31,		
	2001 ThCh$	2002 ThCh$	2003 ThCh$
Salaries and employee benefits	6,276,024	4,997,969	5,115,675
Staff Severance indemnities	7,925,305	363,524	192,369
Depreciation	24,699	5,343	2,196
External services	10,505,454	8,148,292	5,976,838
Insurance	911,132	2,531,107	2,748,664
System and comunication	525,851	612,732	1,111,656
Municipality taxes and other	1,178,129	1,710,046	1,160,005
Other	2,977,346	2,751,583	757,342
Total	**30,323,940**	**21,120,596**	**17,064,745**

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

29. NON-OPERATING INCOME AND EXPENSES

The detail of non-operating income and expenses is as follows:

	Year ended December 31,		
	2001 ThCh$	2002 ThCh$	2003 ThCh$
Financial Income			
Interest on notes receivable	11,478,194	32,088,937	21,259,726
Other financial income	6,123,924	4,226,242	1,533,795
	17,602,118	**36,315,179**	**22,793,521**
Gain on Investments In Related Companies			
Equity share in net income of related companies (1)	8,541,384	1,799,119	9,835,946
Equity share in net loss of related companies (1)	(7,973,438)	(2,184,180)	(18,901)
Amortization of goodwill	(1,144,957)	(995,061)	(753,016)
Negative amortization of goodwill	2,209,345	—	—
	1,632,334	**(1,380,122)**	**9,064,029**
Other non-operating income			
Gain on sale of investments	72,415,897	—	—
Gain on sale of property, plant and equipment and others	—	2,434,867	601,507
Fee and surcharge on Gas Andes contract	—	457,504	741,084
Forward	4,610,486	1,123,002	197,430
Other income	2,693,200	2,786,495	1,334,213
Other non-operating income (2)	**79,719,583**	**6,801,868**	**2,874,234**
Total non-operating income	**98,954,035**	**41,736,925**	**34,731,784**
Financial expenses			
Interest on bank loans	(22,836,541)	(20,025,924)	(10,053,494)
Interest on bonds	(45,894,823)	(47,962,356)	(41,646,788)
Miscellaneous interest and commissions	(5,568,068)	(5,453,663)	(3,154,992)
	(74,299,432)	**(73,441,943)**	**(54,855,274)**
Other non-operating expenses (3)	**(65,412,340)**	**(30,157,396)**	**(15,774,621)**
Total non-operating expenses	**(139,711,772)**	**(103,599,339)**	**(70,629,895)**

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

29. NON-OPERATING INCOME AND EXPENSES (Continued)

(1) These amounts include unrealized gains of loss of the following companies:

	Year ended December 31,		
	2001 ThCh$	2002 ThCh$	2003 ThCh$
Empresa Eléctrica Guacolda S.A.	88,040	**59,103**	**59,103**
Puerto Ventana S.A.	(336,471)	—	—
Petróleos, Asfaltos y Combustibles S.A.	22,262	—	—
	(226,169)	**59,103**	**59,103**
(2) OTHER NON-OPERATING INCOME			
Gain on the sale of participation in Central Puerto S.A.	62,099,448	—	—
Gain on sale of fixed assets	—	—	601,507
Gain on the sale of Puerto Ventanas S.A.	10,316,449	—	—
Reversal of provision in SIGEN S.A. investment	627,985	—	—
Reimbursement from insurance company to subsidiary	—	503,524	—
TNG advance interest	25,502	112,642	—
Interest for client's default	21,819	141,001	—
Gain on Forwards settlement	4,610,486	1,123,003	197,430
Fee Gas Andes	—	—	346,323
TermoAndes debt	—	—	174,286
Sale land and building Club de Campo Maipú	—	1,210,523	—
Sale buildings Miraflores #222 floor 4th to 7th	—	1,224,344	—
Other	2,017,894	2,486,831	1,554,688
Total other non-operating income	**79,719,583**	**6,801,868**	**2,874,234**
(3) OTHER NON-OPERATING EXPENSES			
Loss from sales and write-offs of property, plant and equipment	690,994	1,355,874	303,121
Loss from sales of land and building	—	3,743,811	—
Amortization of intangible assets	7,539,870	196,060	196,060
Amortization of bond issue discount and expenses	5,591,925	2,876,376	2,876,741
Taxes on interest payments	631,869	681,320	555,108
Bond conversion provisions	3,733,339	4,044,352	449,559
Loss on purchase rights	112,241	—	—
Customs and duty rebates	1,147,179	299,351	(157,896)
Loss on sale of investment in Agencias Universales S.A.	1,857,292	—	—
Post-retirement pension plan post retirement benefits	969,087	772,212	2,383,121
Loss on sale of investment in Hidroneuquén S.A.	19,128,432	—	—
Loss on sale of investment CCNI	6,927,463	—	—
Loss on forward	—	1,769,701	1,582,755
Loss on sale of investment in Ecogener and Explotaciones Sanitarias S.A.	—	1,465,766	—
Provision for loss sale Carbones del Cesar Ltda.	—	1,385,955	383,931
Loss on sale of data base of Oilgener Inc. and Fell-Block	8,410,124	4,662,201	—
Research and development expenses	—	82,432	2,600
Rio Maipo Security loss	—	132,563	—
Write-off interest receivable from a former subsidiary	—	1,588,633	—
Supplies and invetories write-off	—	—	3,725,975
TermoAndes and InterAndes swap loss	—	—	1,427,889
Other non-operating expenses of subsidiaries	8,672,525	5,100,789	2,045,657
Total other non-operating expenses	**65,412,340**	**30,157,396**	**15,774,621**

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

30. MINORITY INTEREST

As described in Note 1(a), AES Gener S.A. consolidates its financial statements with those of its subsidiaries in which other companies have a minority interest.

Amounts recorded related to minority shareholders as of December 31, 2001, 2002 and 2003 and for the years ended December 31, 2001, 2002 and 2003 are as follows:

	Minority interest							
	Percentage minority Interest As of December 31,			Participation in equity December 31,		Participation in net income (loss) for the year ended December 31,		
Subsidiary	**2001 %**	**2002 %**	**2003 %**	**2002 ThCh$**	**2003 ThCh$**	**2001 ThCh$**	**2002 ThCh$**	**2003 ThCh$**
Norgener S.A.	0.01	0.01	0.01	12	1	—	(1)	—
Energía Verde S.A.	0.01	0.01	0.01	13	2	(2)	(1)	—
Chivor S.A. E.S.P. (Colombia)	0.02	0.02	0.02	46,548	40,599	307	(1,155)	(2,515)
Sociedad Eléctrica Santiago S.A.	10.00	10.00	10.00	5,651,038	5,944,452	(471,148)	(739,437)	(697,108)
Servicios de Asistencia Técnica S.A.	0.10	0.10	0.10	(57)	(538)	1,491	(1,264)	(1)
New Caribbean S.A. (Dominican Republic)	49.99	49.99	49.99	1,116,523	1,034,016	(1,177,990)	(1,094,042)	(1,331,161)
Petróleos, Asfaltos y Combustibles S.A	2.10	2.10	2.10	81,680	72,979	(3,485)	(6,260)	8,700
Inversiones Termoenergía de Chile Ltda	0.01	0.01	0.01	1,279	(1,269)	(5)	520	20
Genergía S.A.	—	0.01	0.01	—	(888)	—	—	22
Gener Blue Water (Cayman Islands)	—	0.01	0.01	—	(8.120)	—	—	20
Genergia Power Ltd. (Cayman Islands)	—	0.01	0.01	—	(1)	—	—	22
Total				**6,897,036**	**7,081,233**	**(1,650,832)**	**(1,841,640)**	**(2,022,001)**

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

31. ENVIRONMENT COSTS

In connection with the environment, the Company incurred in the following costs during 2001, 2002 and 2003.

	2001 ThCh$	2002 ThCh$	2003 ThCh$
Air quality measuring station	30,288	47,296	34,707
Noise measuring	3,921	20,857	5,380
ISO 14001	21,882	15,562	4,860
Ashes	45,934	16,572	76,063
Gas emanation measuring	95,588	48,286	49,983
Maritime evaluation	10,613	10,215	8,565
Electrostatic Precipitators	33,179	4,264	17,901
Enviroment Measuring	—	—	145
Waste water System	—	7.116	4.894
Road improvements	13,307	4.398	2.263
Others	4,443	7,901	2,342
Total	**259,155**	**182,467**	**207,103**

All costs that represent acquisitions, construction or improvements to property, plant and equipment have been capitalized.

Chivor S.A. is regulated by the Colombian Law 99 of 1993, which requires routine payments each year by electricity generators. During year 2003 and 2002, Chivor S.A. paid ThCh$ 2,144,373 (ThUS$3,611) and ThCh$2,398,952 (ThUS$4,040) as required under this law.

32. CASH FLOW STATEMENTS

As of December 31, 2003, the item called ''other investing activities'' in the cash flow statement does not exceed 10% of the total of the item, whose explanation is required by Ordinance No. 1501.

The total balance of cash and cash equivalents is comprised of the following items as of December 31, 2002 and 2003:

	As of December 31,	
	2002 ThCh$	2003 ThCh$
Cash	4,562,736	3,413,411
Time Deposits	22,763,614	10,012,004
Money Market Funds	4,799,400	4,611,889
Other Current Assets (Commercial paper)	8,227,426	39,121,604
Total	**40,353,176**	**57,158,908**

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

32. CASH FLOW STATEMENTS (Continued)

The breakdown of other investment disbursements as of December 31, 2002 is as follows:

	As of December 31, 2002 ThCh$
Sale of investments for trust accounts with liquidation restrictions (Colombia)	6,209,884
Placement of investments in trust accounts with liquidation restrictions (Colombia)	(9,396,810)
Fell Block Intangible payments	(2,274,448)
Total Other Investing Activities	(5,461,374)

33. INSURANCE CONTRACTS

AES Gener S.A.

As of December 31, 2003, AES Gener S.A. had all insurance risk in place for its generation facilities which covers property damage, machine breakdown and business interruption. In addition, AES Gener S.A. holds public liability and transportation insurance policies in order to provide adequate protection for its assets and commercial operations. The current insurance policies are effective until April 2004.

33. INSURANCE CONTRACTS (Continued)

Norgener S.A.

As of December 31, 2003, Norgener S.A. had all insurance risk in place for its generation facilities which covers property damage, machine breakdown and business interruption. In addition, Norgener S.A. holds public liability and transportation insurance policies in order to provide adequate protection for its assets and commercial operations. The current insurance policies are effective until April 2004.

Energía Verde S.A.

As of December 31, 2003, Energía Verde S.A. had all insurance risk in place for its generation facilities which covers property damage, machine breakdown and business interruption. In addition, Energía Verde S.A. holds public liability and transportation insurance policies in order to provide adequate protection for its assets and commercial operations. The current insurance policies are effective until April 2004.

Sociedad Eléctrica Santiago S.A.

As of December 31, 2003, Sociedad Eléctrica Santiago S.A. had all insurance risk in place for its generation facilities which covers property damage, machine breakdown and business interruption. In addition, Sociedad Eléctrica Santiago S.A. holds public liability and transportation insurance policies in order to provide adequate protection for its assets and commercial operations. The current insurance policies are effective until April 2004.

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

33. INSURANCE CONTRACTS (Continued)

Chivor S.A. E.S.P.

As of December 31, 2003, Chivor S.A. E.S.P. had all insurance risk in place for its generation facilities which covers property damage, machine breakdown and business interruption and also includes coverage for sabotage and terrorism. In addition, Chivor S.A. E.S.P. holds general and employer's liability insurance policies.

The expiration of the current insurance policies runs through 2004; Chivor´s most relevant insurance policies expire on April 4, 2004 and January 13, 2005.

InterAndes S.A.

As of December 31, 2003, InterAndes S.A. had in place directors' and officers' and public liability insurance policies with expiration dates until November 29, 2004 and June 22, 2004, respectively.

TermoAndes S.A.

During 2003, TermoAndes S.A. maintained all insurance risk to cover property damage, machine breakdown and business interruption. The expiration date of this policy is April 4, 2004. As of December 31, 2003, TermoAndes S.A. had in place directors', officers' and public liability insurance policies with expiration dates until November 29, 2004 and June 22, 2004, respectively.

34. SUBSIDIARIES NOT CONSOLIDATED

In accordance with the official Circular No. 981 of the SVS issued on December 28, 1990, AES Gener S.A. does not consolidate Compañía de Carbones del Cesar Ltda., Oilgener Inc. and Energen.

A summary of the financial statements is as follows:

	December 31,					
	Oilgener Inc.		Cía. Carbones del Cesar Ltda.		Energen S.A.	
	2003 ThCh$	2002 ThCh$	2003 ThCh$	2002 ThCh$	2003 ThCh$	2002 ThCh$
Current assets	3,425	13,781	3,441	5,072	368	7,349
Non-current assets	—	11,455	2,659,581	3,785,678	3,420	3,352
Total assets	**3,425**	**25,236**	**2,663,022**	**3,790,750**	**3,788**	**10,701**
Current liabilities	—	—	7,726	—	10,872	18,990
Long term liabilities	—	—	—	—	—	—
Shareholder's equity	3,425	25,236	2,655,296	3,790,750	(7,084)	(8,289)
Total liabilities and shareholder's equity	**3,425**	**25,236**	**2,663,022**	**3,790,750**	**3,788**	**10,701**
Net sales	—	—	—	—	—	—
Gross profit	(463,304)	(4,529,463)	—	—	(3,500)	(40,327)
Net income (loss)	**(463,304)**	**(4,529,463)**	**—**	**—**	**(3,500)**	**(40,327)**

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

35. CORRECTION OF AN ERROR

a) Subsequent to the filing of its December 31, 2002 financial statements, the Company determined that an error was made in accounting for the accrual related to the tax deductible net loss for years 2001 and 2002, which resulted in a higher tax loss carryforward for those years.

This increase in the tax loss carryforward resulted in the recognition of a higher deferred tax asset by ThCh$3,138,513 and ThCh$2,834,887 for the years 2001 and 2002, respectively.

The statutory report filed with the SVS for the year ended December 31, 2003 reflected this effect as an increase in beginning retained earnings as of December 31, 2003.

For 20-F purposes the Company has modified the Chilean financial statements previously filed with the SVS to recognize the error as a deductible net loss in the years 2001 and 2002.

A summary of the significant effects of the correction is as follows:

	As of December 31, 2001		As of December 31, 2002	
	As previously reported ThCh$	As restated ThCh$	As previously reported ThCh$	As restated ThCh$
Balance Sheet Data:				
Deferred tax liabilities	8,637,604	5,499,091	9,973,743	4,000,343
Total long-term liabilities	801,302,141	798,163,628	981,569,534	975,596,134
Retained earnings	928,267	928,267	—	3,138,513
Total shareholders' equity	744,931,741	748,070,254	778,804,352	784,777,752
Income Statements:				
Income taxes	(10,187,774)	(7,049,261)	(4,498,298)	(1,663,411)
Net income (loss)	(5,229,957)	(2,091,444)	32,740,563	35,575,450

b) Subsequent to the filing of its December 31, 2003 financial statements, the Company determined that an error was made in the disclosure in the Chilean GAAP financial statements related to the omission in Note 24 of the treasury lock agreements and to the reduction in value of the treasury lock agreements for the period from January 1, 2004 to March 12, 2004. These 2003 Chilean GAAP financial statements reflect a modification in order to disclose the treasury lock agreements and their subsequent reduction in value that were not included in Notes 7 and 24. In addition, Note 36 of the Subsequent Events was also modified.

36. SUBSEQUENT EVENTS

1. *Changes in the Chilean Electricity Law*

36. SUBSEQUENT EVENTS (Continued)

In May 2002, the Chilean Ministry of Economy and Energy sent to the Chilean Congress a bill known as the Ley Corta, or the Short Law, which was approved by the Chilean Chamber of Deputies on January 22, 2004. The Short Law establishes amendments to the existing Electricity Law, principally in relation to tolls charged for the use of high voltage and transmission systems; the reduction of the minimum demand required to be considered as an unregulated customer from 2MW to 0.5 MW; the reduction of the floating band for regulated price from 10% to 5%; the incorporation of elements to create an ancillary services market; and the pricing mechanism for small and medium-sized electricity systems.

In addition to the amendments to modify the procedures used to determine transmission tolls, the Short Law contains other important modifications, including a reduction in the minimum demand requirement for a customer to qualify as an unregulated customer and a reduction of the range outside of which the node price must fall in order to be subject to re-adjustment. The Short Law will reduce the minimum demand requirement from the current level of 2 MW to 0.5 MW. Such modification will provide generation companies with a larger unregulated customer base and will allow them to sell electricity to those customers directly, rather than to regulated distributors that resell the energy to those customers. The previous law required that the difference between regulated node prices and the actual prices charged to unregulated customers, on average, not exceed 10%. If the prices determined by the Chilean regulatory agency did not meet this requirement, the node price was adjusted upward or downward to fall within a range of 10%. The Short Law reduces the range to 5%, effectively moving the regulated price closer to unregulated market prices.

The modifications contained in the Short Law maintain or improve our position, with regard to both our current status and projected development, in particular, the issues related with transmission tolls. In addition, the Regulations to the Electricity Law, Supreme Decree No. 327, which was modified on October 9, 2003 with respect to the clarification of the methodology utilized to calculate transmission tolls and the procedures to be used during rationing periods, will be replaced by the Short Law.

2. Events occurring after the original issuance of the financial statements:

a) On January 30, 2004, the Board of Directors of the Company called a general shareholders meeting for February 19, 2004. The meeting was held on February 19th during which a dividend of Ch$10 per share was declared.

b) On February 24, 2004, a subsidiary of the Company, Norgener S.A. and its customer Minera Escondida Limitada settled through arbitration a lawsuit which had been filed by Minera Escondida Limitada in December of 2002.

The settlement included the following: 1) the extension of the contract for 62 MW which originated in June 1993 and the 1994 110 MW contract through 2015; 2) a reduction in the price charged to Minera Escondida Limitada from July, 2004; 3) an upfront payment to be made by Minera Escondida Limitada; and 4) entry into a third contract from 2004 to 2015 for

36. SUBSEQUENT EVENTS (Continued)

up to 80 MW, which is subject to the completion of AES Gener S.A. of its financial restructuring plan.

c) On February 27, 2004, Inversiones Cachagua Limitada fully paid off the Note Receivable which AES Gener S.A. held.

As a result of the payment: 1) the Note was cancelled, 2) Inversiones Cachagua Limitada's guarantee of payment on the note with its shares in AES Gener S.A. was released.

In conjunction with the financial restructuring plan of AES Gener S.A., Inversiones Cachagua Limitada has informed AES Gener S.A. that none of its shares in AES Gener S.A. guarantee or collateralize any Inversiones Cachagua Limitada's obligations.

d) As of March 1, 2004, a tender offer for the yankee notes has been accepted for approximately ThUS$142,500 representing 72.62% of the total amount issued.

e) On March 3, 2004, certain amendments were made to the Convertible Note Agreement for Series M. They included: 1) lifting of the necessity of authorization or a representative of the holders of the convertible notes in Chile to complete a tender offer to the U.S. convertible note holders; 2) certain requirements that the amount of proceeds from the financial restructuring be equal to the paydown amount of the convertible notes; 3) an increase in the call premium to 3.5785%; and 4) extension of the tender offer time period.

For Series L: 1) the call premium was increased to 4.98% (including accrued interest 5.0785%); and 2) the tender offer period was extended.

f) On March 10, 2004, the shareholders declared null and void a previously approved capital increase and amended the amount of the increase to $125 million U.S.

g) On March 11, 2004, the Company requested the arbitration of the International Chamber of Commerce related to its dispute with Coastal Itabo Ltd., its joint venture partner in ITABO.

The Chamber admitted the arbitration request and, on March 12, 2004, it resolved that the Company propose the name of the arbitrator within the following 10 days. The arbitration request is based on the fact that Coastal Itabo Ltda, has alleged an event of default on the Company's part in accordance with the joint venture agreement.

h) In connection with the offering of the notes, under the financial restructuring plan, the Company entered into treasury lock agreements (the ''Agreements'') with an affiliate of the initial purchaser of such notes in a notional amount of ThUS $400,000 (ThCh$237,520,000) to hedge the interest rate variability risk associated with the changes in the U.S. Treasury rate. As of December 31, 2003, the notional amount of these agreements was ThUS$200,000 (ThCh$18,760,000) and, as of March 12, 2004 the ''lock'' date, the notional amount was ThUS$400,000 (ThCh$237,520,000). The Agreements were entered into in December 2003 and in February 2004 in contemplation of the offering of notes and have been extended on

36. SUBSEQUENT EVENTS (Continued)

several occasions. Since the date of the Agreements, the yield on the benchmark 10-year U.S. treasury note has decreased. On the ''lock'' date, the reduction in value for such treasury lock agreements was ThUS$22,100 (ThCh$13,140,000). Based on the December 31, 2003 fair market value calculation, the aggregate mark-to-market adjustments associated with the Agreements represented a reduction in value to the Company approximately ThUS$1,600 (ThCh$950,000) (ThUS$1,300 post-tax (ThCh$772,000)). On the closing date of the notes, the Company will be required to pay the actual loss amount to the counterpart. Under Chilean GAAP, the Company will amortize the cost associated with these transactions over the life of the notes. Under U.S. GAAP, the loss is recognized immediately in income due to the fact that the Agreements did not meet the hedge documentation requirement. With the transactions described above, the Company effectively locked in the 10-year U.S. treasury note rate in connection with the issuance of the notes at an average rate of 4.37%.

i) On March 12, 2004, the Company priced ThUS$400,000 of Senior Notes due in 2014 at a rate of 7.50%. The placement of these notes will take place on March 22, 2004.

37. DIFFERENCES BETWEEN CHILEAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

I. Reconciliation of Chilean GAAP to U.S. GAAP

The Company's consolidated financial statements have been prepared in accordance with Chilean GAAP, which varies in certain respects from U.S. GAAP. Such differences involve methods for measuring the amounts shown in the consolidated financial statements as well as additional disclosures required by U.S. GAAP. The principal differences between Chilean GAAP and U.S. GAAP for the Company are quantified in paragraph (v) and described below in the paragraphs preceding paragraph (v).

Under Chilean GAAP, financial statements are restated to reflect the full effects of the gain (loss) in the purchasing power of the Chilean peso on the financial position and results of operations of reporting entities. The method is based on a model that enables calculation of net inflation gains or losses caused by monetary assets and liabilities exposed to changes in the purchasing power of local currency, by restating all non-monetary accounts in the financial statements. The model prescribes that the historical cost of such accounts be restated for general price-level changes between the date of origin of each item and the year-end.

Under U.S. GAAP, financial statements are presented assuming that the U.S dollar is the functional currency of Gener. Accordingly, the effect of price-level changes is eliminated in the reconciliation to U.S. GAAP.

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

37. DIFFERENCES BETWEEN CHILEAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

a) Interest Rate Hedge

The Company entered into forward treasury lock agreements in a notional amount of US$200 million commencing in December, 2003 and an additional US$200 million in February, 2004 to hedge against the underlying interest rate of the notes. These agreements were entered into in December 2003 and in February 2004 in connection with an offering of senior notes which will close on March 22, 2004. Since the date of these agreements, the yield on the benchmark 10 year US treasury note has decreased, which has resulted in a decrease in value to the Company. See notes 7 and 36 of the restated Chilean GAAP financial statements. On the closing date of the notes, we will be required to pay the actual loss amount to the counterparty, which is US$22.1 million (ThCh13,140). Under Chilean GAAP, the cost associated with these transactions is amortized over the life of the notes.

Under U.S. GAAP, as the treasury lock agreements do not qualify as a ''hedge'', the mark-to-mark adjustment is recognized through the income statement.

(i) Subsequent to the issuance of the Company's December 31, 2003 consolidated financial statements, management determined that the Company's reconciliations of net income and shareholders' equity from Chilean GAAP to U.S. GAAP did not include the mark-to-market adjustment for the treasury lock agreements as of December 31, 2003. Therefore, the reconciliations of net income and shareholders' equity to U.S. GAAP as of and for the year ended December 31, 2003 has been restated to include such adjustment.

(ii) The effect of the restatement is shown in the table below:

	Year Ended December 31, 2003 ThCh$
U.S. GAAP net income as previously reported	20,347,612
Impact of restatement for omission of adjustment for treasury lock agreements (Note 36)	(985,242)
Tax effect in current year	167,490
U.S. GAAP net income as restated (Note 37v.)	19,529,860
Earnings per share under U.S. GAAP as previously reported (Chilean Pesos)	3.5869
Earnings per share under U.S. GAAP restated (Chilean Pesos)	3.4427
U.S. GAAP Shareholders' Equity as previously reported	359,767,234
Adjustment for omission of adjustment for treasury lock agreements	(817,751)
U.S. GAAP Shareholders' Equity as restated	358,949,483

37. DIFFERENCES BETWEEN CHILEAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

b) Functional and reporting currency:

Under Chilean GAAP, financial statements are adjusted for the effect of changes in the purchasing power of the Chilean currency during each period and presented in constant Chilean pesos (''reporting currency''), as mentioned in Note 1. Transactions are recorded in Chilean pesos by applying to the foreign currency amount the exchange rate between the reporting and the foreign currency at the date of the transaction. Exchange rate differences arising on the settlement of monetary items at rates different from those at which they were originally recorded are recognized in the income statement of the period. In accordance with Technical Bulletin 64 (''BT64''), the financial statements of foreign subsidiaries that operate in countries exposed to significant risks, and are not considered to be an extension of the parent company's operations, must be remeasured into U.S. dollars. The Company has remeasured its foreign subsidiaries into U.S. dollars under this requirement as follows:

- Monetary assets and liabilities are translated at year-end rates of exchange between the U.S. dollar and the local currency.
- All non-monetary assets and liabilities and shareholders' equity are translated at historical rates of exchange between the U.S. dollar and the local currency.
- Income and expense accounts are translated at average rates of exchange between the U.S. dollar and local currency.
- The effects of any exchange rate fluctuations are included in the results of operations for the period.

Under BT 64, the investment in a foreign subsidiary is price-level restated, the effects of which are reflected in income, while the effects of the foreign exchange gain or loss between the Chilean peso and the U.S. dollar are reflected in equity in the account ''Cumulative Translation Adjustment''; as the foreign investment itself is measured in U.S. dollars.

Under U.S. GAAP, a definition of the functional currency is required, which may differ from the reporting currency. Upon the acquisition of the Company by AES Corporation (AES) in 2000, management determined the U.S. dollar as the Company's functional currency in accordance with the Statement of Financial Accounting Standards (''SFAS'') No. 52.

Subsequent to the issuance of the Company's December 31, 2002 consolidated financial statements, management determined that the Company's reconciliation of net income and shareholders' equity from Chilean GAAP to U.S. GAAP were not prepared assuming that the U.S. dollar was the functional currency, but rather continued to reflect the Chilean Peso as the functional currency. Therefore, the reconciliation of net income and shareholders' equity to U.S. GAAP as of and for the years ended December 31, 2001 and 2002, have been restated to give effect to the identification of the U.S. dollar as the functional currency.

Accordingly, the Company has remeasured into U.S. dollars the consolidated financial statements as of and for the years ended December 31, 2001, 2002 and 2003 and translated

37. DIFFERENCES BETWEEN CHILEAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

these financial statements into the reporting currency, the Chilean Peso, by applying the procedures specified in SFAS No. 52.

Translation adjustments for periods prior to January 1, 2001 were not removed from equity and the translated amounts for non monetary assets at December 31 2000 became the accounting basis for those assets starting January 1, 2001. In addition, price-level adjustments reflecting the effect of changes in the purchase power of the Chilean peso recorded prior to January 1, 2001 in the amount of ThCh$225,029,951 were reversed.

The objective of the remeasurement process is to produce the same results that would have been reported if the accounting records had been kept in U.S. dollars. Accordingly, monetary assets and liabilities are remeasured at the balance sheet date (current) exchange rate. Non-monetary assets are recorded at their historical exchange rate at the time of purchase. Past transactions in currencies other than the U.S. dollar are remeasured at the exchange rates in effect when the transactions occurred. Revenues and expenses are remeasured on a monthly basis at the average rates of exchange in effect during the period, except for consumption of non monetary assets, which are remeasured at the rates of exchange in effect when the respective assets were acquired. Transaction gains and losses on monetary assets and liabilities arising from the remeasurement are included in the determination of net income (loss) in the period such gains and losses arise.

The amounts obtained from the remeasurement process referred to above are translated into Chilean pesos following the provisions of SFAS No. 52. Assets and liabilities are translated at the current selling exchange rate of Chilean pesos 654.79, 718.61 and 593.8 to US$1.00 as of December 31, 2001, 2002 and 2003, respectively. Revenues, expenses, gains and losses reported in the income statement are translated at the exchange rate existing at the time of each transaction or, if appropriate, at the monthly average exchange rate during the period. Translation effects of exchange rate changes are included as a cumulative translation adjustment in shareholders' equity.

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

37. DIFFERENCES BETWEEN CHILEAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

The effect of the restatement is shown in the table below:

	Year ended December 31 2001 ThCh$	year ended December 31 2002 ThCh$
U.S. GAAP net income as previously reported	10,578,578	(4,757,068)
Adjustment to Chilean GAAP net income (note 35)	3,138,513	2,834,887
Impact of restatement for change in functional currency	40,337,577	43,049,122
Tax effect from previous year	(3,266,113)	(2,817,622)
U.S. GAAP net income as restated (Note 37v)	50,788,555	38,309,319
Earnings per share under U.S. GAAP as previously reported (in Chilean pesos)	1.9208	(0.8386)
Earnings per share under U.S. GAAP restated (in Chilean pesos)	8.9531	6.7532
Diluted per share under U.S. GAAP as previously reported (in Chilean pesos)	3.977	
Diluted earnings per share under U.S. GAAP restated (in Chilean pesos)	8.9874	

	2001 ThCh$	2002 ThCh$
U.S. GAAP Shareholder's equity as previously reported	479,265,446	468,681,290
Adjustment to Chilean GAAP net income (note 35)	3,138,513	5,973,400
Impact of restatement for change in functional currency	(150,250,233)	(79,861,358)
U.S. GAAP Shareholder's equity as restated (Note 37v)	322,153,726	394,793,332

c) Revaluation of property, plant and equipment:

Under Chilean GAAP, certain property, plant and equipment are reported in the financial statements at amounts determined in accordance with a technical revaluation performed in 1986, as discussed in Note 8b). The difference between the book value at the technical revaluation date and the revalued amount is included in equity as a surplus, and is subject to adjustments for price-level restatement and depreciation. Under U.S. GAAP, property, plant and equipment is carried at historical cost. The effects of the reversal of this revaluation, as well as of the related accumulated depreciation and depreciation expense for the periods presented are shown in paragraph (v) below.

d) Deferred income taxes:

Under Chilean GAAP, on January 1, 2000, the Company recorded income taxes in accordance with Technical Bulletin No. 60 of the Chilean Association of Accountants, recognizing, using the liability method, the deferred tax effects of temporary differences between

37. DIFFERENCES BETWEEN CHILEAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

the financial and tax values of assets and liabilities. Upon adoption, a contra asset or liability (''complementary accounts'') was recorded offsetting the effects of the deferred tax assets and liabilities not recorded prior to January 1, 2000, the adoption date of Technical Bulletin No. 60. The complementary accounts are amortized to income over the estimated average reversal periods corresponding to the underlying temporary differences to which the deferred tax asset or liability relates.

Under U.S. GAAP, the accounting is similar, however, at the adoption date of Statement of Financial Accounting Standards (''SFAS'') No. 109, Accounting for Income Taxes, the change in accounting principle is immediately recorded through the income statement as a ''Cumulative Effect of a Change in Accounting Principle''. Therefore, in U.S. GAAP, the amortization of the complementary accounts created under Chilean GAAP is reversed.

e) Intangibles:

Under Chilean GAAP, the Company's balance sheets include net intangible assets relating to the transfer of revalued assets from the Company's predecessor, Compañía Chilena de Distribución Eléctrica S.A., at the time of the Company's formation. Under U.S. GAAP, such intangible assets would have been recorded at the predecessor's historical cost before technical revaluation. The effects of adjusting the Company's equity (for the intangible asset net of accumulated amortization, inclusive of the accumulated price-level restatement) and the Company's income statement (for the annual amortization charge) are included under paragraph (t) below.

In 2001, a provision was made in order to cover the contingent loss that the Company expected would be generated on the disposal of Oilgener Inc. Such loss was equivalent to the net book value of this investment (as well as other investments that were in the process of being sold at December 31, 2001). The investment included a seismic database owned by Oilgener Inc. consisting of well data related to properties in Chile and Argentina. The seismic data base was the main asset of Oilgener Inc. and at December 31, 2001 represented 96.6% of the net book value of this investment. This seismic date base was sold in 2002. Under U.S. GAAP, such an intangible asset was net recorded. Consequently a provision was not necessary as the asset was not recognized. As a result, the provision for the loss to be incurred on the sale of Oilgener Inc. that was made in Chilean GAAP in 2001 has been reversed in paragraph (v) below.

f) Staff severance indemnities:

Pursuant to agreements between the Company and its employees, the Company has committed to provide a lump sum payment to each employee with more than five years of service at the end of his or her employment. Under Chilean GAAP, the Company records the present value of the liability, calculated based on total expected service, current salary levels of all employees covered by such agreements with more than five years of service, and a discount rate of 8%. Under U.S. GAAP, this arrangement is considered to be a pension plan, and the liability should be measured by projecting future expected severance payments using an

37. DIFFERENCES BETWEEN CHILEAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

assumed salary progression rate and discounting the resulting amounts to their present value. In practice, the Company believes that the salary progression rate will not differ significantly from the general inflation rate. The application of U.S. GAAP would not have produced results materially different from the acceptable method under Chilean GAAP. As a result, the effects of these differences have not been included in paragraph (v) below.

However, as of January 1, 2002, the Company changed the interest rate used for determining the present value of the provisions for the staff severance indemnities, reducing it from 10% to 8%. The effect of this change at the beginning of 2002 amounted to ThCh$88,896, which was recorded as a deferred asset to be amortized over 10 years. Under U.S. GAAP, the effect of reducing the discount rate to 8% has been charged to income in the year ended December 31, 2002. In the year ended December 31, 2003, the difference between U.S. GAAP and Chilean GAAP results from the reversal of the amortization of the deferred asset recorded under Chilean GAAP.

g) Capitalized interest:

Under Chilean GAAP, all interest on debt associated with a construction project is capitalized, including interest, price-level restatement and, with respect to foreign currency borrowings, foreign currency translation gains and losses. Interest is capitalized based on the Company's weighted average interest rate on long-term debt, or if applicable, the interest rate related to specific borrowings. Interest capitalization ends when the property or equipment is ready for service or its intended use.

Under U.S. GAAP, the Company reverses those amounts capitalized due to foreign currency exchange gains and losses and the related monetary gain on foreign currency borrowings for construction costs for purposes of reconciling to U.S. GAAP.

Additionally, under U.S. GAAP, the capitalization of interest on qualifying assets under construction is required, regardless of whether interest is associated with debt directly related to a project. The effect of the capitalization and the related depreciation expense of this difference are included in paragraph (v) below.

h) Goodwill and negative goodwill:

Under Chilean GAAP, goodwill is amortized over a maximum of twenty years. Under U.S. GAAP, for business combinations initiated up to June 30, 2001, goodwill was capitalized and amortized on a straight-line basis over a period not exceeding 40 years. In June, 2001, the FASB issued SFAS No. 141, ''Business Combinations'' (''SFAS No. 141'') which addresses the initial recognition and measurement of goodwill and other intangible assets acquired in a business combination. Under U.S. GAAP, the Company adopted SFAS No. 141 for business combinations initiated after June 30, 2001. In June, 2001, the FASB issued SFAS No. 142, ''Goodwill and Other Intangible Assets'' (''SFAS No. 142''). SFAS No. 142 addresses the accounting for goodwill and other intangible assets subsequent to a business acquisition. SFAS No. 142 requires that

37. DIFFERENCES BETWEEN CHILEAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

intangible assets with finite useful lives be amortized over their estimated useful lives and that goodwill and other intangible assets with indefinite useful lives not be amortized, but rather tested, at least annually, for impairment Effective December 31, 2001, the provisions of SFAS No. 142 were applied to goodwill and other intangible assets acquired prior to June 30, 2001. The reversal of the amortization of goodwill generated in Chilean GAAP in 2002 and 2003 has been included in paragraph (v) below.

i) Investments in related companies (difference between cost and equity method):

The Company has a series of investments that represent an interest of less than 20% in certain companies (Gasoducto GasAndes S.A., Gasoducto GasAndes (Argentina) S.A. and CDEC-SIC Ltda.). Under Chilean GAAP, these investments have been accounted for under the equity method, because it is presumed that an investor, whose investment in voting stock is more than 10%, has the ability to exercise significant influence over an investee. Under U.S. GAAP, these investments would generally be accounted for at cost less any non-temporary impairment in value, as it presumed that the investor has the ability to exercise significant influence, if the investor owns 20% to 50% of the voting common stock. The effects of this difference are included in paragraph (v) below.

j) Foreign exchange contracts not effective as hedges:

As of December 31, 1993, the Company held foreign exchange contracts to transfer its Yen-denominated construction commitments to U.S. dollars. Under Chilean GAAP, the Company accounted for these contracts as ineffective hedges and recorded them at the lower of cost or market. During 1994, these contracts were settled, resulting in a loss that was deferred and is being amortized over the period that the related construction costs are depreciated. For U.S. GAAP purposes, foreign exchange contracts would have been marked-to-market through earnings. The difference reflects the reversal of amortization recorded under Chilean GAAP for U.S. GAAP purposes. The effects of the above differences are included under paragraph (v) below.

k) Effect of U.S. GAAP adjustments in related Companies accounted for under the equity method:

The principal U.S. GAAP adjustments affecting the Company's equity-method investees are:

i) Capitalization of interest cost that is not capitalized under Chilean GAAP.

ii) Accounting for deferred tax assets and liabilities.

iii) The deferred tax effects of the U.S. GAAP adjustments.

iv) Accounting for forward exchange contracts.

v) Reversal of a provision for maintenance of fixed assets.

vi) Accounting for amortization of deferred costs of a prepaid loan.

vii) Amortization of goodwill.

The effect of these differences is included under paragraph (v) below.

37. DIFFERENCES BETWEEN CHILEAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

l) Complementary pension plan and post-retirement benefits:

Pension and post-retirement benefits are recorded under Chilean GAAP in a comparable manner to U.S. GAAP. However, under Chilean GAAP, the Company capitalizes unrecognized actuarial gains and losses, whereas under U.S. GAAP, the Company adopted a policy to recognize actuarial gains and losses immediately in the income statement. Additionally, under Chilean GAAP, additional minimum liabilities, if any, are recorded as charges in the income statement while under U.S. GAAP, an additional liability that exceeds unrecognized prior service cost is reported in other comprehensive income. Lastly, as of January 1, 2002, the Company changed the interest rate used for determining the present value of the provisions for its supplementary pension benefit plan, reducing it from 10% to 8%. The effect of this change at the beginning of 2002 amounted to ThCh$585,136, which was recorded as a deferred asset to be amortized over 10 years. Under U.S. GAAP, the effect of reducing the discount rate to 8% has been charged to income in the year ended December 31, 2002. In the year ended December 31, 2003, the reversal of the amortization of the deferred asset recorded under Chilean GAAP results in an additional difference.

m) Recognition of a loss from an analysis of the Impairment of Long-Lived Assets:

Under Chilean GAAP, long-lived assets are subject to impairment tests when circumstances indicate that impairment may exist. In determining whether impairment exists, the Company evaluates whether the operating revenue of the entity will be sufficient to cover its costs including depreciation (Technical Bulletin No. 33). The entity revenues are estimated based on its undiscounted cash flows.

Under U.S. GAAP, long-lived assets are also subject to periodic impairment tests when circumstances indicate that impairment may exist. In determining whether impairment exists, however, the Company groups its assets at the lowest level of identifiable cash flows. If an asset's (or asset group's) carrying amount exceeds the sum of the undiscounted cash flows that are expected to be generated from the use and eventual disposition of the asset, an impairment loss is recognized for an amount equal to the amount by which the asset's carrying amount exceeds its fair value, which is generally measured based on discounted cash flows.

On March 2, 2001, the Company entered into an agreement with TotalFinaElf to sell four Argentine investments. Notwithstanding the fact that the agreement was signed after December 31, 2000, an impairment was recorded at such date under U.S. GAAP because management had the authority to sell the investments and committed to a plan to dispose of the assets, as required by APB Opinion No. 30th "Reporting of Results of Operations-Reporting the Effects of Disposal of a Segment of a Business" ("APB 30").

In November 2001, TotalFinaElf purchased two of the four Argentine investments, resulting in a loss for Chilean GAAP. Accordingly, the loss on impairment already recorded in 2000 for USGAAP is reversed in the 2001 reconciliation of net income. The remaining two investments have not been sold and are no longer planned to be sold. For this reason, in accordance with

37. DIFFERENCES BETWEEN CHILEAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

SFAS No. 144, ''Accounting for the Impairment or Disposal of Long-Lived assets,'' these investments are considered to be held and used.

In addition, in 2001, a U.S. GAAP impairment test was performed on the Company's Termoandes generation plant and transmission line, which showed that the Chilean side of the transmission line owned by Gener was impaired. Accordingly, an impairment loss was recorded at December 31, 2001 under U.S. GAAP for this asset.

An impairment loss was also recorded in 2001 under U.S. GAAP in connection with the investments in Explotaciones Sanitarias S.A., Ecogener S.A. and Compañía Carbones del Cesar Ltda. No loss was recorded under Chilean GAAP for Explataciones Sanitarias S.A. or Ecogener S.A. until they were sold in 2002. Additionally, an impairment loss was not recorded for Compania Carbones del Cesar Ltda. under Chilean GAAP until 2002 when the Company received an offer from a third party indicating that such an impairment occurred. Accordingly, the loss that was recorded in 2002 for Chilean GAAP is reversed in the 2002 reconciliation of net income to U.S. GAAP.

n) Reversal of contingent gain

In December 1999, AES Gener filed a lawsuit against Hidroeléctrica Guardia Vieja S.A. and Hidroeléctrica Aconcagua S.A. for their alleged contractual performance default related to an energy capacity sales contract. On December 14, 2001, the arbitrator accepted the Company's claims and the defendants were ordered to fulfill the contract. Under Chilean GAAP, based on the arbitrator's acceptance of the lawsuit filed by Gener, the Company recorded into income in 2001 a portion of the gain contingency equal to ThCh$3,058,871. The Company recorded only a portion of the gain contingency, because on January 7, 2002, the defendants filed an appeal that is being studied by the Supreme Court. Under U.S. GAAP, this gain contingency would not be recorded until it is realized. The effect of this difference is included in paragraph (v) below.

o) Reclassification of account receivable from main shareholder

On February 28, 2001, AES Gener and Inversiones Cachagua Ltda. signed a contract for a mercantile current account whose balance is in U.S. dollars and, accrues interest every 30 days at LIBOR plus a spread, and has a final maturity date on February 28, 2004.

AES Gener transferred ThCh$302,095,088 to Inversiones Cachagua Ltda. in the above mentioned mercantile current account. Such amount came from proceeds of the sale of investments in Argentina and in Chile. According to a board of directors' agreement dated July 30, 2001, these funds were transferred to the principal shareholder and charged to the mercantile current account instead of distributing them as interim dividends, as there was no certainty that the Company would be able to generate the profits needed to cover such interim dividends.

Under Chilean GAAP, the mercantile account current account receivable balance is classified as an asset, as it is subject to indexation, accrues interest and has a maturity date, however, under U.S. GAAP, it is shown as a deduction from shareholders' equity as a ''Note Receivable

37. DIFFERENCES BETWEEN CHILEAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

from Shareholder.'' In addition, interest and exchange differences accrued each year associated with this note have been reclassified from income to shareholders' equity, net of the payments of ThCh$29,883,305 received in 2003. The effect of this matter is included in paragraph (v) below.

p) Interest rate swap

In 1998, the Company entered into an interest rate swap, whereby it receives variable interest payments and pays fixed interest payments in order to convert variable rate debt into fixed rate debt. Under Chilean GAAP, the Company has recorded the interest expense as incurred and the fair value of the swap has not been recorded.

Under U.S. GAAP, SFAS No. 133 ''Accounting for Derivative Instruments and Hedging Activities'' was adopted by the Company as of January 1, 2001. SFAS No. 133 established accounting and reporting standards for derivative instruments, including embedded derivatives, and for hedging activities. SFAS No. 133 requires that all derivatives be recognized as either assets or liabilities in the consolidated balance sheet and measured at fair value. Depending on the documented designation of a derivative instrument, any change in fair value is recognized either in income or shareholders' equity (as a component of accumulated other comprehensive income (''OCI'')).

The Company has designated its interest rate swap as a cash flow hedge, and accordingly has recognized changes in its fair value in other comprehensive income. Gains and losses on cash flow hedge transactions reported in other comprehensive income, and the transition adjustment reported by the Company as a cumulative effect type adjustment of accumulated other comprehensive income, are reclassified to earnings in the same period that the related cash flows of the hedged transaction affect earnings.

SFAS No. 133 also prescribes requirements for designation and documentation of hedging relationships and ongoing retrospective and prospective assessments of effectiveness in order to qualify for hedge accounting. Hedge accounting is considered to be appropriate if the assessment of hedge effectiveness indicates that the change in fair value of the designated hedging instrument is 80% to 125% effective at offsetting the change in fair value due to the hedged risk of the hedged item or transaction. Measurement of amounts to be recorded in income due to ineffectiveness of hedges are based on the dollar-offset method as required by SFAS No. 133.

The effects of the differences in the method of recording this cash flow hedge are included in paragraph (v) below.

q) Forward exchange contracts

The Company has forward exchange contracts between the U.S. dollar and the Chilean peso. Under Chilean GAAP, these forward exchange contracts are recorded at fair value with the changes in the fair value recorded as unrealized gains and losses. These derivatives are considered cash flow hedges of forecasted transactions (future sales of energy to regulated

37. DIFFERENCES BETWEEN CHILEAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

customers price-adjusted every six months by the fluctuation in the U.S. dollar exchange rate during that same period, while most of the energy costs are fixed in U.S. dollars). The initial premium or discount on these contracts is deferred and amortized over the life of the contract.

Under U.S. GAAP, these forward exchange contracts are also valued at fair value, with the initial premium or discount deferred and amortized over the life of the contract. However, as the Company's formal documentation at the inception of the hedge did not qualify for hedge accounting treatment, the changes in the fair value of these derivatives are recognized through the income statement.

r) Minimum dividend

As required by the Chilean Corporations Law, unless otherwise decided by the unanimous vote of the holders of issued and paid-in shares, a Company must distribute a cash dividend in an amount equal to at least 30% of the Company's net income for each year as determined in accordance with Chilean GAAP, unless and except to the extent the Company has unabsorbed prior year losses. Since the payment of the 30% dividend from each year's income is a legal requirement in Chile, a provision has been made in the accompanying U.S. GAAP reconciliation in paragraph (v) below to recognize the corresponding decrease in shareholders´ equity as of December 31 of the year ended included in the reconciliation to which the net income under Chilean GAAP relates.

s) Asset retirement obligation

The Company adopted SFAS No. 143, ''Accounting for Asset Retirement Obligations'', effective January 1, 2003. Under SFAS No. 143, entities are required to record the fair value of a legal liability for an asset retirement obligation (''ARO'') in the period in which it is incurred. When a new liability is recorded, the entity capitalizes the costs of the liability by increasing the carrying amount of the related long-lived asset. The liability is accreted to its present value each period and the capitalized cost is depreciated over the useful life of the related asset. At retirement, an entity settles the obligation for its recorded amount or incurs a gain or loss.

With the adoption of SFAS No. 143, the Company recorded an ARO asset of ThCh$141,396, net of accumulated amortization of ThCh$89,253, and a deferred tax asset of ThCh$41,812. The net amount initially recognized as a result of applying SFAS No. 143 was ThCh$204,142, which was recorded as a cumulative effect of a change in accounting principle. The remaining difference of ThCh$14,101 results from the 2003 accretion of the ARO liability and depreciation of the ARO asset, which was recorded within costs of goods sold.

t) Property, plant and equipment construction penalties received

During 2000, the Company received penalty payments from a contractor for the late completion of a project to build a combined cycle power plant. Under Chilean GAAP, the penalty payments were recognized as income within the income statement.

37. DIFFERENCES BETWEEN CHILEAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

Under U.S. GAAP, the payments were treated as a reduction in the asset value. This asset was sold in 2001, thereby resulting in the gain on disposal under U.S. GAAP. The effect of these differences is included in paragraph (v) below.

u) Discontinued operations

In 2001 the Company decided to divest the following subsidiaries: Oilgener Inc., Explotaciones Sanitarias S.A, Ecogener S.A., and Carbones del Cesar, for which an impairment loss was recognized under US GAAP as explained in paragraph (l) above. However, these subsidiaries did not qualify as ''discontinued operations'' under APB. 30, The adoption of SFAS No. 144 on January 1, 2002 changed the definition of ''discontinued operations'' to include operations of a ''component'' of an entity as defined in conjunction with SFAS No. 131. SFAS No. 144 required reclassification in all year financial statements presented of such defined ''discontinued operations''. Such reclassifications have been made in the reconciliation included in paragraph (v).

Oilgener Inc., Explotaciones Sanitarias S.A, and Ecogener S.A. were sold in 2002. Carbones del Cesar, however, has not been disposed of as of December 31, 2003 and was reclassified as held and used as the Company did not meet the requirement to complete the sale within the one-year period under SFAS No. 144.

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

37. DIFFERENCES BETWEEN CHILEAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

v) Effects of conforming to U.S. GAAP:

The adjustments to reported net income required to conform with accounting principles generally accepted in the United States are as follows:

	Year ended December 31,		
	2001 ThCh$ (As restated note 37b)	2002 ThCh$ (As restated note 37b)	2003 ThCh$ (As restated note 37a)
Net income as reported under Chilean GAAP	(2,091,444)	35,575,450	53,678,463
Charge to income for the mark-to-market adjustment on treasury lock agreements (a)	—	—	(985,242)
Reversal of additional depreciation of technical revaluation (paragraph (c))	1,686,493	1,687,514	1,312,755
Reversal of technical revaluation of fixed assets retired during the year (paragraph (c)):			
—Cost	—	83,911	(51,324)
—Accumulated depreciation	—	(49,500)	72,287
Asset retirement obligation (paragraph (s))	—	—	(14,101)
Property, plant and equipment construction penalties received (paragraph (t))	11,324,895	—	—
Capitalized interest (paragraph (g))	(903,749)	(85,826)	(936,466)
Recognition of a loss from an analysis of Impairment of Long-Lived Assets (paragraph (m))	3,484,658	3,545,873	—
Intangibles (paragraph (e))	196,060	(789,385)	196,059
Charge to income of subsidiary development stage deficit	(123,158)	—	—
Effect of U.S. GAAP adjustments on investments in related companies (paragraph (k))	(1,359,236)	568,806	(780,710)
Difference between equity and cost method of accounting for investments (paragraph (i))	(619,997)	(488,466)	(490,852)
Reversal of provision for loss on sale of Oilgener Inc. (paragraph (e))	3,877,011	—	—
Goodwill (paragraph (h))	272,862	361,028	447,381
Negative goodwill (paragraph (h))	(1,722,120)	—	—
Reversal of contingent gain (paragraph (n))	(3,058,871)	—	—
Staff severance indemnities (paragraph (f))	—	(88,696)	8,870
Complementary pension and post-retirement benefits (paragraph (l))	(380,971)	(585,136)	(171,060)
Reclassification of additional minimum liability, net of tax (paragraph (l))	—	661,423	(516,466)
Deferred tax effects of U.S. GAAP adjustments	(712,049)	(1,222,548)	375,011
Adjustment to deferred income taxes (paragraph (d))	28,612,199	(6,990,451)	(2,740,476)
Interest rate swap (paragraph (p))	92,799	(856,017)	(1,103,856)
Forward exchange contracts (paragraph (q))	(1,986,454)	1,984,535	(11,711)
Foreign exchange contracts not effective as hedges (paragraph (j))	10,237	10,236	10,236
Interest on account receivable from main shareholder, net of tax (paragraph (o))	(5,991,303)	(26,794,263)	(15,896,650)
Deferred tax effects resulting from change in functional currency (paragraph (b))	(3,266,113)	(2,817,622)	(3,787,785)
Reversal of price level restatement (paragraph (b))	(320,447)	4,436,012	8,741,391
Transactions gains and losses resulting from change in functional currency (paragraph (b))	33,027,610	25,161,872	(6,607,275)
Reclassification of discontinued operations (paragraph (u))	10,290,814	3,161,015	—
Effect of minority interest on US GAAP adjustments	(22,578,250)	(9,369)	117,620
Effect of minority interest on remeasurement adjustment	2,308,069	(640,816)	18,538
Effect of change in functional currency on equity method investees	9,307,913	5,124,839	(11,150,635)
Income from continuing operations	**59,377,457**	**40,944,419**	**19,734,002**
(Loss) on discontinued operations, net of tax benefit of ThCh$1,701,912 in 2001 and ThCh$525,915 in 2002 (paragraph (u))	(8,588,902)	(2,635,100)	—
Income in accordance with U.S. GAAP before cumulative effect of change in accounting principle	**50,788,555**	**38,309,319**	**19,734,002**
Cumulative effect of change in accounting principle for SFAS No. 143, net of tax of ThCh$41,812 in (paragraph (s))	—	—	(204,142)
Net income in accordance with U.S. GAAP	**50,788,555**	**38,309,319**	**19,529,860**
Other comprehensive income			
Cumulative translation adjustment	69,555,321	31,595,484	(61,674,231)
Cash flow hedge (paragraph (p))	(5,624,171)	(3,619,755)	3,297,374
Additional minimum liability (paragraph (l))	—	(661,423)	661,423
Comprehensive income (loss) in accordance with U.S. GAAP	**114,719,705**	**65,623,625**	**(38,185,574)**

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

v) Effects of conforming to U.S. GAAP: (Continued)

The adjustments required to conform shareholders' equity amounts to U.S. GAAP are as follows:

	Years ended December 31,	
	2002 ThCh$ (As restated note 37b)	2003 ThCh$ (As restated note 37a)
Shareholders' equity as reported under Chilean GAAP	784,777,752	808,603,884
Charge to income for the mark-to-market adjustment on treasury lock agreements (a)	—	(985,242)
Reversal of technical revaluation of property, plant and equipment (paragraph (c)):		
Cost	(41,593,156)	(41,644,481)
Accumulated depreciation	29,662,113	31,047,155
Asset retirement obligation (paragraph (s))	—	(260,054)
Capitalized interest, net of depreciation (paragraph (g))	19,440,627	18,504,161
Recognition of a loss from an analysis of the Impairment of long-lived Assests (paragraph (m))	(23,382,386)	(23,382,386)
Intangibles (paragraph (e))	(1,765,614)	(1,569,555)
Effect of U.S. GAAP adjustments on investments in related companies (paragraph (k))	(1,455,632)	(2,293,255)
Difference between equity and cost accounting for investments (paragraph (i))	130,005	(360,847)
Goodwill (paragraph (h))	2,581,494	3,085,789
Staff severance indemnities (paragraph (f))	(88,696)	(79,826)
Complementary pension and post-retirement benefits (paragraph (l))	(585,136)	(611,239)
Interest rate swap (paragraph (p))	(15,071,171)	(11,102,143)
Forward exchange contract (paragraph (q))	(1,919)	(13,630)
Foreign exchange contracts not effective as hedges (paragraph (j))	(225,199)	(214,963)
Reversal of contingent gain (paragraph (n))	(3,058,871)	(3,058,871)
Deferred tax effects of U.S. GAAP adjustments	1,174,338	(3,978,469)
Adjustment to deferred income taxes (paragraph (d))	(49,001,169)	(51,741,648)
Reclassification of account receivable from main shareholder (paragraph (o))	(210,872,302)	(196,885,647)
Accrual for minimum dividends (paragraph (r))	(10,672,635)	(16,945,584)
Reversal of price level restatement (paragraph (b))	(260,894,045)	(243,562,615)
Cumulative translation adjustment (paragraph (b))	101,150,806	39,476,573
Effect of change in functional currency on equity method investees (paragraph (b))	14,432,752	3,282,117
Transactions gains and losses resulting from change in functional currency (paragraph (b))	58,189,483	51,582,207
Effect of minority interest on US GAAP adjustment	254,640	372,260
Effect of minority interest on remeasurement adjustment	1,667,253	1,685,792
Shareholders' equity in accordance with U.S. GAAP	**394,793,332**	**358,949,483**

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

v) Effects of conforming to U.S. GAAP: (Continued)

The following summarizes the changes in shareholder's equity under U.S. GAAP during the years ended December 31, 2002 and 2003:

	Years ended December 31,	
	2002 ThCh$ (As restated note 37b)	2003 ThCh$ (As restated note 37a)
Balance at January 1 (restated for 2001)	332,153,726	394,793,332
Reclassification of Interest on account receivable from main shareholder	26,794,263	15,896,650
Reclassification of Account receivable from main shareholder	(33,741,800)	—
Payments of account receivable from main shareholder	—	(29,883,305)
Accrual for minimum dividends	(10,672,635)	(6,272,950)
Chivor additional minimum liability, net of tax	(661,423)	661,423
Cash flow hedge, net of tax	(3,619,755)	3,297,374
Cumulative translation adjustment	31,595,484	(61,674,231)
Price level adjustment	14,636,153	22,601,330
Net income in accordance with U.S. GAAP	**38,309,319**	**19,529,860**
Balance at December 31	**394,793,332**	**358,949,483**

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

v) Effects of conforming to U.S. GAAP: (Continued)

Condensed Financial Statements

	As of December 31,	
ASSETS	2002 ThCh$ (As restated note 37b)	2003 ThCh$ (As restated note 37 a)
Current assets		
Inventories	25,145,789	13,876,383
Other current assets	108,770,290	105,877,842
Total current assets	**133,916,079**	**119,754,225**
Non-current assets		
Net property, plant and equipment	1,209,763,599	961,252,926
Other non current assets	229,480,108	148,194,132
Total other non-current assets	**1,439,243,707**	**1,109,447,058**
TOTAL ASSETS	**1,573,159,786**	**1,229,201,283**
LIABILITIES		
Current Liabilities	**276,781,324**	**187,085,484**
Long-Term Liabilities		
Long-term bank liabilities	237,573,498	169,589,268
Bonds payable	545,743,670	454,306,799
Other non-current liabilities	113,097,189	53,992,429
Total long-term liabilities	**896,414,357**	**677,888,496**
Total liabilities	**1,173,195,681**	**864,973,980**
Minority interest	**5,170,773**	**5,277,820**
TOTAL SHAREHOLDERS' EQUITY	**394,793,332**	**358,949,483**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,573,159,786**	**1,229,201,283**

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

v) Effects of conforming to U.S. GAAP: (Continued)

	Year ended December 31,		
	2001 ThCh$ (As restated note 37b)	2002 ThCh$ (As restated note 37b)	2003 ThCh$ (As restated note 37a)
INCOME STATEMENT:			
Operating revenues	376,011,493	358,375,024	315,392,619
Operating costs and expenses:			
Cost of sales	(232,720,344)	(221,051,670)	(203,292,895)
Selling, general and administrative expenses	(28,141,499)	(19,917,720)	(15,196,034)
Operating Income	**115,149,650**	**117,405,634**	**96,903,690**
Interest expense	(75,803,955)	(76,115,852)	(50,629,801)
Other income (expense)	13,079,372	9,398,475	3,110,353
Other expense	(2,142,502)	(7,130,551)	(7,059,872)
Foreign exchange gain (loss)	4,831,177	8,016,838	(18,634,863)
Income before income taxes	**55,113,742**	**51,574,544**	**23,689,507**
Income taxes	18,005,296	(13,028,422)	(9,690,846)
Income before minority interest and equity in earnings	**73,119,038**	**38,546,122**	**13,998,661**
Minority interest	(21,650,159)	(2,539,087)	(1,677,531)
Equity in earnings of affiliated companies	7,908,578	4,937,384	7,412,872
Income from continuing operations	**59,377,457**	**40,944,419**	**19,734,002**
Discontinued Operations, net of tax	**(8,588,902)**	**(2,635,100)**	**—**
Income before cumulative effect of change in accounting principle	50,788,555	38,309,319	19,734,002
Cumulative effect of change in accounting principle, net of tax	—	—	(204,142)
Net income	**50,788,555**	**38,309,319**	**19,529,860**

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

37. DIFFERENCES BETWEEN CHILEAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

Condensed Cash flows:

Information for inclusion in the statement of cash flows required by U.S. GAAP including the cash flow information of Hidroneuquén S.A. and development-stage companies, which are not consolidated under Chilean GAAP, is as follows:

	For the year ended December 31,		
	2001 ThCh$ (As restated note 37b)	2002 ThCh$ (As restated note 37b)	2003 ThCh$ (As restated note 37a)
Net cash flow provided by operating activities	22,654,566	73,196,949	118,459,902
Net cash flow provided by (used in) investing activities	297,012,309	(3,539,876)	(1,674,941)
Sales of permanent investments(1)	289,176,376	4,959,478	11,676
Net cash flow (used in) financing activities	(322,939,729)	(99,434,250)	(91,577,407)
Loan to main shareholder(1)	(171,193,374)	—	—
Proceeds from issuance of shares(1)	111,043,076	6,975	—
Dividends paid(1)	(148,396,793)	(2,990,810)	(31,356,233)
Repayment of loans(1)	(108,172,275)	(86,447,003)	(65,197,506)
Increase (decrease) in cash and cash equivalents	(3,272,854)	(29,777,177)	25,207,554
Cash and cash equivalents at the beginning of the year	65,456,688	63,723,746	39,953,640
Exchange difference	1,539,912	6,007,071	(8,002,286)
Cash and cash equivalents at end of year	**63,723,746**	**39,953,640**	**57,158,908**

(1) These items consist of those which exceed 10% of the net cash flow provided by operating activities averaged for the last three years.

For the purposes of the U.S. GAAP statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents:

	December 31,		
	2001 ThCh$	2002 ThCh$	2003 ThCh$
Cash	43,171,250	4,517,560	3,413,411
Time deposits that are cash equivalents	16,634,844	22,538,232	10,012,004
Other deposit instruments that are cash equivalents(1)	3,917,652	12,897,848	43,733,493
Total cash and cash equivalents	63,723,746	39,953,640	57,158,908

(1) These items consist of investments made for cash management purposes with original maturities of less than three months and are included on the balance sheet with similar investments with longer terms in "Other current assets". See Note 7.

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

37. DIFFERENCES BETWEEN CHILEAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

Supplementary Cash Flow information

	Year ended December 31,		
	2001 ThCh$	2002 ThCh$	2003 ThCh$
Interest paid, net of capitalized interest	69,195,057	72,897,710	46,845,197
Taxes paid	59,763	170,806	72,047

w) Accumulated other comprehensive income

In accordance with SFAS No. 130, ''Reporting Comprehensive Income'' the Company reports a measure of all changes in shareholder's equity that result from transactions and other economic events of the period other than transactions with owners (''comprehensive income''). Comprehensive income is the total net income and other non-owner equity transactions that result in changes in net equity. The components of other comprehensive income are reported net of the related tax effects.

The following represents accumulated other comprehensive income balances as of December 31, 2002 and 2003.

	2002			
	Effect of US GAAP ThCh$			
	Cumulative translation adjustment (As restated note 37b)	Cash flow hedge	Chivor additional minimum/ liability	Accumulated other comprehensive income (As restated note 37b)
Beginning balance	69,555,321	(5,624,171)	—	63,931,150
Credit (charge) for the period	31,595,484	(3,619,755)	(661,423)	27,314,306
Ending balance	101,150,805	(9,243,926)	(661,423)	91,245,456
Related tax effect	—	(1,949,099)	(356,151)	(2,305,250)

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

37. DIFFERENCES BETWEEN CHILEAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

	2003			
	Effect of US GAAP ThCh$			
	Cumulative translation adjustment	Cash flow hedge	Chivor additional minimum/ liability	Accumulated other comprehensive income
Beginning balance	101,150,805	(9,243,926)	(661,423)	91,245,456
Credit (charge) for the period	(61,674,232)	3,297,374	661,423	(57,715,435)
Ending balance	39,476,573	(5,946,552)	—	33,530,021
Related tax effect	—	1,775,509	356,151	2,305,250

II. Additional Disclosure Requirements:

a) Earnings per share

1) Basic earnings per share

	Year ended December 31,		
	2001 (As restated note 37b)	2002 (As restated note 37b)	2003 (As restated note 37a)
Income from continuing operations	10.4672	7.2177	3.4787
Loss on discontinued operations	(1.5141)	(0.4645)	—
Cumulative effect of change in accounting principle	—	—	(0.036)
Basic earnings per share	**8.9531**	**6.7532**	**3.4427**
Weighted average number of shares outstanding (in thousands)	**5,672,743**	**5,672,753**	**5,672,753**

2) Diluted earnings per share

As described in note 21, AES Gener placed ThUS$499,944 (ThCh$296,866,742) in convertible bonds during 1998 and 1999; ThUS$23,305 (ThCh$13,838,509) had been converted into shares for the year ended December 31, 2001.

Diluted earnings per share for the year ended December 31, 2001 are as follows (the calculation for December 31, 2002 and 2003 has not been included as the effect would have been anti-dilutive on the income from continuing operations line):

	Year ended December 31, 2001 (As restated note 37b)		
	Numerator	Denominator	Per Share
Income from continuing operations	59,377,457	5,672,743	10.4672
Loss on discontiunued operations	(8,588,902)	5,672,743	(1.5141)
Net income available to shareholders	50,788,555	5,672,743	8.9531
Assumed conversion of convertible bonds	20,767,371	2,289,068	9.0724
Income from continuing operations	80,144,828	7,961,811	10.0662
Loss on discontiunued operations	(8,588,902)	7,961,811	(1.0788)
Diluted earnings per share	**71,555,926**	**7,961,811**	**8.9874**

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

b) Income taxes:

The provision for income taxes differs under Chilean GAAP from the charge calculated in accordance with U.S. GAAP, as a result of the following differences:

	2001				
	Chile ThCh$	**Colombia ThCh$**	**Argentina ThCh$**	**Dom. Rep. ThCh$**	**Total ThCh$**
Current income taxes as determined under Chilean GAAP	657	65,989	2,203,914	774,864	3,045,424
Deferred income taxes as determined under Chilean GAAP	3,275,879	257,266	470,693	—	4,003,838
U.S. GAAP adjustments: (As restated—note 37b)					
Deferred tax effect applying SFAS No. 109	1,133,165	5,808,024	(35,553,388)	—	(28,612,199)
Deferred tax effect of U.S. GAAP adjustments	(4,932,266)	(21,309)	3,963,713	—	(989,862)
Deferred tax effect in remeasuring	3,266,113	—	—	—	3,266,113
Adjustments for remeasurement	(420,522)	—	—	—	(420,522)
Discontinued operations	1,701,912	—	—	—	1,701,912
Expense (benefit) for the period under U.S GAAP	**4,024,938**	**6,109,970**	**(28,915,068)**	**774,864**	**(18,005,296)**

	2002				
	Chile ThCh$	**Colombia ThCh$**	**Argentina ThCh$**	**Dom. Rep. ThCh$**	**Total ThCh$**
Current income taxes as determined under Chilean GAAP	—	209,102	48,365	731,913	989,380
Deferred income taxes as determined under Chilean GAAP	10,997,017	(7,740,055)	(2,582,930)	—	674,032
U.S. GAAP adjustments: (As restated—note 37b)					
Deferred tax effect applying SFAS No. 109	746,167	6,056,137	188,147	—	6,990,451
Deferred tax effect of U.S. GAAP adjustments	963,760	—	(267,128)	—	696,632
Deferred tax effect in remeasuring	2,817,622	—	—	—	2,817,622
Adjustments for remeasurement	334,390	—	—	—	334,390
Discontinued operations	525,915	—	—	—	525,915
Expense (benefit) for the period under U.S GAAP	**16,384,871**	**(1,474,816)**	**(2,613,546)**	**731,913**	**13,028,422**

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

	2003				
	Chile (As restated note 37a) ThCh$	**Colombia ThCh$**	**Argentina ThCh$**	**Dom. Rep. ThCh$**	**Total (As restated note 37a) ThCh$**
Current income taxes as determined under Chilean GAAP	139,886	10,584	—	676,240	826,710
Deferred income taxes as determined under Chilean GAAP	414,366	3,776,187	(268,875)	—	3,921,678
U.S. GAAP adjustments:					
Deferred tax effect applying SFAS No. 109	261,578	2,387,785	91,113	—	2,740,476
Deferred tax effect of U.S. GAAP adjustments	(288,268)	—	(86,743)	—	(375,011)
Deferred tax effect in remeasuring	3,787,784	—	—	—	3,787,784
Adjustments for remeasurement	(1,210,791)	—	—	—	(1,210,791)
Expense (benefit) for the period under U.S. GAAP	**3,104,555**	**6,174,556**	**(264,505)**	**676,240**	**9,690,846**

AES GENER S.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements (Continued)

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

Deferred tax assets (liabilities) as of balance sheet dates are summarized as follows:

	2002			2003		
	SFAS No. 109 applied to Chilean GAAP Balances	SFAS No. 109 Applied to US GAAP Adjustments (As restated note 37b)	Total Deferred Taxes under SFAS No.109 (As restated note 37b)	SFAS No. 109 applied to Chilean GAAP Balances	SFAS No. 109 Applied to US GAAP Adjustments (As restated note 37a)	Total Deferred Taxes under SFAS No.109 (As restated note 37a)
	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$
Deferred income tax assets:						
Tax loss carry forwards (1)	36,611,792	—	36,611,792	47,051,224	—	47,051,224
Impairment of long-lived assets	—	3,975,005	3,975,005	—	3,975,006	3,975,006
Provision allowance						
Cash flow hedge	—	4,975,303	4,975,303	—	3,586,144	3,586,144
Forward exchange contracts	—	327	327	—	2,317	2,317
Discount on bonds payable	3,946,412	—	3,946,412	5,928,549	—	5,928,549
Pension	—	114,552	114,552	—	73,481	73,481
Other	438,490	819,614	1,258,104	444,281	731,708	1,175,989
Total deferred income tax assets	**40,996,694**	**9,884,801**	**50,881,495**	**53,424,054**	**8,368,656**	**61,792,710**
Deferred income tax liabilities:						
Staff severance indemnities	(92,897)	—	(92,897)	(143,486)	—	143,486
Amortization of intangibles	(300,155)	—	(300,155)	(266,824)	—	(266,824)
Depreciation	(97,254,846)	—	(97,254,846)	(99,256,030)	—	(99,256,030)
Capitalized interest	—	(3,304,907)	(3,304,907)	—	(3,145,707)	(3,145,707)
Other	(1,590,585)	38,284	(1,552,301)	(5,291,558)	36,544	(5,255,015)
Adjustment to deferred income taxes for change in functional currency	—	(5,443,840)	(5,443,840)	—	(9,237,962)	(9,237,962)
Total deferred income tax liabilities	(99,238,483)	(8,710,463)	(107,948,946)	(104,957,898)	(12,347,125)	(117,305,023)
Net deferred tax liabilities from application of SFAS No. 109	(58,241,789)	1,174,338	(57,067,451)	(51,533,844)	(3,978,469)	(55,679,804)

(1) Tax loss carryforwards relate to Chilean entities and to Energy Trade and Finance Corporation In accordance with the current enacted tax law in Chile, tax losses may be carried forward indefinitely.

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

The provision for income taxes differs from the amount of income tax determined by applying the applicable local statutory income tax rate to pretax income, calculated in accordance with U.S. GAAP, as a result of the following differences:

	December 31,		
	2001 ThCh$ (As restated note 37b)	2002 ThCh$ (As restated note 37b)	2003 ThCh$ (As restated note 37a)
Pretax income (loss) in accordance with U.S GAAP	55,113,742	51,574,544	23,689,507
Statutory tax rate	16.00%	16.50%	17.00%
Statutory tax rate applied to pretax income (loss)	8,818,199	8,509,800	4,027,217
Statutory tax rate of foreign subsidiaries income (loss)	720,066	(4,240,684)	(20,498,325)
Price-level adjustments	(12,255,460)	(10,499,264)	(7,334,274)
Equity in earnings in related companies	4,967,006	593,040	15,685,087
Goodwill	(183,193)	(164,185)	(128,013)
Permanent differences arising from U.S GAAP adjustments	2,378,892	(4,711,831)	(3,612,091)
Tax loss in the sale Hidroneuquen in excess of the book loss	15,883,598	—	—
Others	(687,831)	(1,994,590)	2,169,553
Discontinued operation	(1,635,981)	(520,708)	—
Effective income tax rate	18,005,296	(13,028,422)	(9,690,846)

c) Segment information:

1. Information by business segments

AES Gener operates in four reportable segments. The Company aggregated Gener, Energia Verde, Santiago, and Norgener operating segments related to the power generation plants located in different regions of Chile into one reportable segment, Chilean Operations. The Argentinian Operations consist of the Argentinian subsidiaries Termoandes S.A. and Interandes S.A. engaged principally in the generation and transmission of electricity. Chivor is the Colombian subsidiary that operates a hydroelectric power generation plant. The Other segment includes the international operations and all Chilean operations engaged in activities other than generation of electricity.

The Company's segment information is presented in accordance with Chilean GAAP. The principal measurement differences between Chilean GAAP and U.S. GAAP as they relate to the Company are the result of differences in the accounting for: (i) functional currency, (ii) price-level adjustments, (iii) investments accounted for under the equity methods; and (iv) difference between cost and equity method. Management uses Chilean GAAP operating profit/(loss) before depreciation as its measure of segment profitability. In the tables below, this measure is referred to as segment operating profit.

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

The following table summarizes segment and geographic information (Chilean GAAP):

Year ended December 31, 2001 ThCh$	Chilean Operations	Argentinian Operations	Chivor	Others	Total
Revenues from external customers	265,958,282	1,145,075	71,769,736	22,120,693	360,993,786
Revenues from transactions with other operating segments of the same enterprise	71,180,422	47,868,953	14,348	5,888,494	124,952,217
Interest income	2,945,776	968,983	758,906	12,928,453	17,602,118
Interest expense	(8,466,171)	(13,359,929)	(23,150,886)	(29,322,446)	(74,299,432)
Depreciation	(28,664,455)	(7,636,597)	(9,415,296)	(1,234,814)	(46,951,162)
Segment operating profit	116,394,931	(17,939,957)	32,237,512	19,654,636	150,347,122
Price level restatement	5,039,050	(19,651,081)	(18,132,165)	7,038,562	(25,705,634)
Total assets	1,151,613,159	285,840,812	476,409,571	12,770,094	1,926,633,636
Earning from equity-method investees	—	(983,541)	—	1,551,487	567,946
Capital expenditures	20,323,244	556,835	189,430	1,672,674	22,742,182

Year ended December 31, 2002 ThCh$	Chilean Operations	Argentinian Operations	Chivor	Others	Total
Revenues from external customers	289,757,470	7,046	81,698,657	2,793,336	374,256,509
Revenues from transactions with other operating segments of the same enterprise	88,116,136	30,677,978	85,071	1,815,002	120,694,187
Interest income	33,818,130	735,060	1,358,294	403,695	36,315,179
Interest expense	(39,028,607)	(13,233,473)	(21,179,020)	(843)	(73,441,943)
Depreciation	(31,407,067)	(9,303,475)	(9,359,978)	(22)	(50,070,542)
Segment operating profit	162,089,286	(10,125,664)	36,092,190	2,185,039	190,240,851
Price level restatement	14,217,454	(12,794,402)	(19,737,886)	208,037	(18,106,797)
Total assets	1,125,899,958	279,793,610	482,573,916	15,275,341	1,903,177,554
Earning from equity-method investees	(84,946)	(300,115)	—	—	(385,061)
Capital expenditures	(10,969,243)	(38,149)	(160,727)	—	(11,168,119)

Year ended December 31, 2003 ThCh$	Chilean Operations	Argentinian Operations	Chivor	Others	Total
Revenues from external customers	281,163,429	17,593	78,714,068	2,436,801	362,331,891
Revenues from transactions with other operating segments of the same enterprise	91,083,239	29,756,952	74,056	—	120,914,247
Interest income	20,812,994	332,519	1,278,263	369,745	22,793,521
Interest expense	(33,635,421)	(10,696,562)	(10,523,151)	(140)	(54,855,274)
Depreciation	(30,504,626)	(7,720,869)	(7,755,093)	(2)	(45,980,590)
Segment operating profit	142,541,825	(8,986,268)	37,006,235	2,436,804	172,998,596
Price level restatement	(68,111,374)	3,428,232	51,990,213	(913,371)	(13,606,300)
Total assets	1,024,559,601	218,296,870	400,090,280	14,098,992	1,657,045,743
Earning from equity-method investees	9,817,045	—	—	—	9,817,045
Capital expenditures	(1,855,860)	(246,253)	(509,244)	—	(2,611,357)

2. Reconciliation of reportable segment totals to consolidated totals

	Year Ended December 31, 2001 ThCh$	Year Ended December 31, 2002 ThCh$	Year Ended December 31, 2003 ThCh$
Segment operating profit	150,347,122	190,240,851	172,998,596
Depreciation	(46,951,162)	(50,070,543)	(45,980,590)
Chilean GAAP operating profit	**103,395,960**	**140,170,308**	**127,018,006**

d) Investments in related companies:

The following tables show the condensed financial information of related companies accounted for using the equity method. All amounts are in thousands of constant Chilean pesos of December 31, 2003 purchasing power.

The condensed information shown here has been taken from the companies' financial statements prepared in accordance with Chilean GAAP. For the overall effect that the application of U.S. GAAP has on the financial statements of these companies, see paragraph 1(j) in Note 37 above.

EMPRESA ELECTRICA GUACOLDA S.A.

	December 31,		
	2001 ThCh$	2002 ThCh$	2003 ThCh$
Percentage interest	50.00%	50.00%	50.00%
Current assets	16,067,593	18,519,264	31,677,318
Non-current assets	216,059,173	207,392,226	204,371,605
Total assets	**232,126,766**	**225,911,490**	**236,048,923**
Current liabilities	23,398,143	89,459,259	28,704,917
Non-current liabilities	127,975,913	54,062,917	109,165,650
Total liabilities	**151,374,056**	**143,522,176**	**137,870,567**
Net sales	57,517,560	63,977,136	63,405,091
Gross profit	15,562,798	24,329,366	17,014,619
Net income (loss)	(9,254,626)	1,636,604	15,789,043

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

EMPRESA GENERADORA DE ELECTRICIDAD ITABO S.A.

	December 31,		
	2001 ThCh$	2002 ThCh$	2003 ThCh$
Percentage interest	25.01%	25.01%	25.01%
Current assets	59,927,044	45,711,961	53,403,081
Non-current assets	194,817,714	233,430,084	193,808,337
Total assets	**254,744,758**	**279,142,045**	**247,211,418**
Current liabilities	9,226,494	25,374,780	33,789,057
Non-current liabilities	6,516,759	6,443,380	6,245,696
Total liabilities	**15,743,253**	**31,818,160**	**40,034,753**
Net sales	107,802,390	94,169,007	82,324,928
Gross profit	14,546,906	4,789,521	17,216,890
Net income (loss)	7,751,333	(7,332,534)	4,832,061

e) Short-term and long-term liabilities

The Company has potentially enforceable non-compliance events under the terms of loan agreements entered into by TermoAndes and InterAndes with a syndicate of banks led by Deutsche Bank. To date, Deutsche Bank has not exercised, nor are they starting to exercise, any of such rights. The boards of directors of TermoAndes and InterAndes believe that Deutsche Bank would not benefit from exercising such rights. TermoAndes and InterAndes are currently gathering the evidence needed to obtain a waiver from Deutsche Bank, and management has no reason to believe such evidence would not satisfy the requirements necessary to maintain the debts as long-term obligations. However, under U.S. GAAP, because of the potential lack of compliance with contract covenants, the related debts have been reclassified in their entirety as short-term liabilities at December 31, 2002 and December 31, 2003.

The following table presents the approximate annual maturities of debt for the years after 2003:

	ThCh$
2004	117,397,895
2005	320,178,834
2006	264,747,847
2007	7,175,742
2008	7,003,264
Thereafter	24,790,380
Total	**741,293,962**

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

f) Disclosure regarding the fair value of financial instruments and derivative financial instruments:

In accordance with SFAS No. 107, ''Disclosures About Fair Value of Financial Instruments'', information is provided about the fair value of certain financial instruments for which it is practicable to estimate that value.

For the purposes of SFAS No. 107, the estimated fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation.

There are certain limitations inherent in the fair value data since while the data represents management's best estimates, the data is subjective, involving significant estimates regarding current economic and market conditions. The methods and assumptions used to estimate the fair values are as follows:

For cash, short-term deposits and investments, and current receivables and payables, the carrying amounts approximate the fair value due to the short-term maturity of these instruments.

For interest earning assets and interest bearing liabilities, which are contracted at variable interest rates, the book value is considered to be equivalent to their fair value.

For financial instruments where an active secondary market exists, the fair value is determined by reference to the quoted market price at the respective balance sheet date.

For interest earning assets with an original maturity of more than one year, the fair values is calculated by discounting contractual cash flows at the current market origination rates for financial instruments with similar terms.

For the Company's long-term fixed rate debt, the contractual cash flows were discounted at prevailing interest rates at the balance sheet dates.

	Book value 2002 ThCh$	Estimated fair Value 2002 ThCh$	Book value 2003 ThCh$	Estimated fair Value 2003 ThCh$
Assets				
Cash and cash equivalents	4,562,737	4,562,737	3,413,411	3,413,411
Time deposits	22,763,614	22,763,614	10,131,263	10,131,263
Trade accounts receivable	33,987,117	33,987,117	29,367,132	29,367,132
Money market funds	5,056,585	5,056,585	4,789,841	4,789,841
Other investments	16,041,436	16,041,436	46,129,938	46,129,938
Liabilities				
Short-term debt	70,561,009	75,496,968	117,397,895	163,046,683
Long-term debt	919,730,561	884,509,945	623,896,067	576,238,164
Derivative financial instruments(1)	25,120,099	25,120,099	19,357,412	19,357,412

(1) AES Gener enters into forward exchange swaps, interest rate swaps, foreign currency forward contract agreements, and treasury lock agreements in order to hedge its exposure to non-U.S. dollar foreign currency and interest rate fluctuations related to long-term bank liabilities, forecast transactions for financial restructuring, and Bonds payable. The Company also, from time to time enters into foreign currency exchange contracts to transfer its

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

exposure in U.S. dollars to an exposure in UF. The Company's accounting policy for such contracts is described in Note 1.

The Company is exposed to credit related losses in the event of non-performance by counterparties to these financial instruments, but does not expect any counterparties to fail to meet their obligations given their high credit ratings. The credit exposure of foreign exchange contracts is represented by the fair value of contracts with a positive fair value at the reporting date.

The notional amounts, carrying amounts and fair values of these contracts are as follows:

	As of December 31, 2002			As of December 31, 2003		
	Notional amount ThCh$	Carrying Amount ThCh$	Fair Value ThCh$	Notional Amount ThCh$ (As restated note 37a)	Carrying Amount ThCh$ (As restated note 37a)	Fair Value ThCh$ (As restated note 37a)
Forward exchange swaps	8,295,760	8,293,841	8,293,841	2,383,600	2,369,970	2,369,970
Interest rate swap	149,197,326	16,826,258	16,826,258	101,018,251	12,439,400	12,439,400
Treasury lock agreements	—	—	—	118,760,000	985,242	985,242
Foreign currency forward contracts	—	—	—	3,383,800	3,562,800	3,562,800
Total	**157,493,086**	**25,120,099**	**25,120,099**	**225,545,651**	**19,357,412**	**19,357,412**

The amounts of credit risk to which the Company is exposed in the event of the nonperformance by counterparties under these agreements is shown by the fair values of the gross amounts receivable by the Company in the above table.

g) Disclosure regarding interest capitalization:

	Year ended December 31,		
	2001 ThCh$	2002 ThCh$	2003 ThCh$
Interest cost incurred	74,299,432	73,441,943	54,855,274
Interest capitalized under Chilean GAAP	652,569	108,870	147,712
Interest capitalized under U.S. GAAP	652,569	926,793	147,712

h) Employee Benefit Plans

Gener and its subsidiaries sponsor various benefit plans for its current and retired employees. A description of such benefits are as follows:

I. Staff Severance Indemnities

Pursuant to agreements between the Company and its active employees, the Company has committed to provide a lump sum payment to each employee with more than five years of service, at the end of his or her employment, based upon total years of service.

The provision for staff severance indemnities is calculated in accordance with the policy set forth in note 1(p), using the current salary levels and expected remaining years of service of all employees covered under the agreement and an assumed discount rate of 8%.

The present value of the liability for staff severance indemnity as of December 31, 2002 and 2003 was ThCh$3,321,664 and ThCh$3,683,166, respectively. Amounts charged to income related to staff severance indemnities were ThCh$6,465,404, ThCh$496,665 and ThCh$192,333 for the years ended December 31, 2001, 2002 and 2003, respectively. Payments for the years ended December 31, 2001, 2002 and 2003 were ThCh$6,466,450, ThCh$665,411 and ThCh$35,214, respectively.

II. Other Benefits for Retired Personnel

Certain benefits are provided to only retired personnel. These benefits include electrical service rate subsidies, additional medical insurance and supplementary pension benefits. No active employees are entitled to these benefits when they retire. For the years ended December 31, 2001, 2002 and 2003, the Company paid ThCh$655,805, ThCh$312,045 and ThCh$698,291 respectively.

i) Electrical service rate

This benefit subsidizes a portion of the public rate charge that the distribution companies Chilectra and Chilquinta charge retired employees. The electric rate subsidies result in the eligible retired employees paying approximately 30% of their total monthly electricity costs, with Gener paying the difference.

ii) Medical benefits

This benefit provides supplementary health insurance. This benefit continues in the event of the death of the retiree, to cover the surviving spouse, and is measured assuming a trend for future medical costs.

iii) Supplementary pension benefits

Retired employees receive a monthly benefit designed to cover a portion, up to a maximum of 50%, of the difference between their salary at the point of retirement and the theoretical pension that would have been received had the employee reached the legal retirement age of the Institución de Previsión Social (''Institute of Social Welfare''). This benefit expires at the time of death of the retiree.

Under US GAAP, pension and other post-retirement employee benefits have been accounted for in accordance with SFAS No. 87 and SFAS No. 106, respectively. The Company´s policy is to recognize actuarial gains and losses immediately in the income statement. The Company uses a December 31 measurement date for its employee benefit plans. The Company's employee benefit plans are unfunded. The accumulated benefit obligation was equal to the projected benefit at December 31, 2002 and 2003. In 2004 the Company expects to contribute ThCh$344,650 and ThCh$360,324 to its pension and post-retirement benefit plans, respectively.

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

The following data are presented under US GAAP for Gener's pension and post-retirement benefit plans:

	Pension Benefits		Other Benefits	
Changes in Benefit obligations	**2002 ThCh$**	**2003 ThCh$**	**2002 ThCh$**	**2003 ThCh$**
Benefit obligations at January 1	(2,223,403)	(2,168,164)	(2,523,123)	(2,904,935)
Interest cost	(177,872)	(173,453)	(201,850)	(232,395)
Actuarial loss	(107,428)	(151,475)	(477,708)	(502,996)
Benefits paid	340,539	346,350	297,746	351,941
Benefit obligations at December 31	(2,168,164)	(2,146,742)	(2,904,935)	(3,288,385)
Funded Status of the Plans	(2,168,164)	(2,146,742)	(2,904,935)	(3,288,385)
Unrecognized net transition obligation	263,633	131,817	1,025,848	932,665
Net liability recorded under US GAAP	(1,904,531)	(2,014,925)	(1,879,087)	(2,355,720)
Amounts recognized in the statement of financial position consist of:				
Accrued benefit liability	(2,168,164)	(2,146,742)	(1,879,087)	(2,355,720)
Intangible assets	263,633	131,817	—	—
Net liability recorded under US GAAP	(1,904,531)	(2,014,925)	(1,879,087)	(2,355,720)
Assumptions as of December 31				
Discount rate	8%	8%	8%	8%
Components of net periodic benefit cost				
Interest cost	(177,872)	(173,453)	(201,850)	(232,395)
Actuarial loss	(107,428)	(151,475)	(477,708)	(502,996)
Amortization of transition obligation	(131,816)	(131,816)	(93,259)	(93,183)
Net periodic benefit cost	(417,116)	(456,744)	(772,817)	(828,574)

Assumed medical benefits cost trend rates have a significant effect on the amounts reported for the medical benefits plan. For measurement purposes, the medical inflation trend rate is estimated at 3%. A one-percentage-point change in assumed medical benefits cost trend rates would have the following effect:

	1 Percentage Point increase ThCh$	1 Percentage Point decrease ThCh$
Effect on total interest cost	2,287	(2,638)
Effect on post-retirement benefit obligations	228,691	(263,766)

Pension Retirement Benefits—Chivor

In addition to the benefits discussed above, Colombian law requires that benefits be paid to all retired employees who have reached certain requirements of age and length of service. In accordance with Law No. 100 of 1993, beginning April 1, 1994, Chivor has funded its obligation through payments made to the *Instituto de Seguros Sociales* ("Colombian Institute of Social Security") and other private pension funds. For retirees not covered by the provisions of Law

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

No. 100, (10 in 1998 and none in 1997), Chivor obtains an actuarial report each year updating the value of its pension obligation. During 2003, the plan was amended due to the enactment of Law No. 797. The law established a new system to determine the amount of the pension the Columbian Institute of Social Security is going to recognize. The plan amendment generated unrecognized prior service cost of ThCh$205,512. The amortization of the unrecognized prior service cost is based on the average remaining service life of active participants. Benefits covered in this reserve amount include monthly pension benefits, surviving-spouse pension benefits, Christmas bonuses and the additional one-month's pension benefit paid to retirees in June of each year. The Company uses a December 31 measurement date for its employee benefit plan. The plan is unfunded. The accumulated benefit obligation was ThCh$2,234,443 and ThCh$2,346,604 at December 31, 2003 and 2002, respectively. The Company expects to contribute ThCh$303,424 to its pension plan in 2004. The Company's policy is to recognize actuarial gains and losses immediately in the income statement. The following data is provided for Chivor's pension plan:

	Pension Benefits	
	ThCh$ 2002	ThCh$ 2003
Benefit obligations at January 1	(1,554,023)	(2,154,344)
Service cost	(40,770)	(27,404)
Interest cost	(148,904)	(220,510)
Actuarial gain (loss)	(764,725)	176,522
Amendments	—	(205,512)
Benefits paid	187,505	221,424
Currency adjustments	166,573	(65,109)
Benefit obligations at December 31,	(2,154,344)	(2,274,933)
Funded status	(2,154,344)	(2,274,933)
Unrecognized prior service cost	—	185,447
Net liability recorded under US GAAP	(2,154,344)	(2,089,486)
Assumptions as of December 31		
Discount rate	5%	5%
Rate of compensation increase	0.5%	0.5%
Components of net periodic benefit cost:		
Service cost	40,770	27,404
Interest cost	148,904	220,510
Actuarial loss (gain)	764,725	(176,522)
Amortization of prior service cost	—	20,065
Net periodic benefit cost	954,399	91,457
Amounts recognized in the statement of financial position consist of:		
Accrued benefit cost	(2,815,767)	(2,234,443)
Intangible asset	—	144,957
Accumulated other comprehensive income	661,423	—
Net amount recognized	(2,154,344)	(2,089,486)

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

i) Restrictions on payment of dividends

Under certain of the Company's debt agreements, restrictions exist on the ability of its subsidiaries to transfer funds to AES Gener through intercompany loans, advances, or cash dividends. The nature and amounts of these restrictions are disclosed in note 25.

j) Pledges granted

Gener Argentina S.A. has pledged to Banco Frances Uruguay S.A., its shares in InterAndes S.A. and TermoAndes S.A., to guarantee all of the existing financing contracts in these companies. In addition, Energy Trade and Finance Corporation has placed in trust its shares in Chivor, for the purpose of guaranteeing the contracted obligations of Chivor with respect to the Bank of America NT & S.A. As part of the financing obtained by our wholly-owned subsidiary Energía Verde S.A., in November 2001 AES Gener pledged all our shares in favor of Banco Crédito e Inversiones and Scotia Bank Sudamericano. The underlying assets are not reported separately in the statement of financial position because the secured parties are not permitted to sell or repledge the collateral held under the pledges.

The carrying amounts of assets pledged as collateral is as follows:

	Percentage of Participation 2003	Net assets of subsidiary ThCh$
InterAndes S.A.	100%	21,105,752
TermoAndes S.A.	100%	72,391,805
Chivor S.A. E.S.P.	99.98%	202,947,550
Energía Verde S.A.	100%	25,089,701

In addition to the above assets, as of December 31, 2003, our subsidiary Norgener had outstanding debt with Banco de Chile of ThCh$22,742,540 (ThUS$38,300), which was secured by certain fixed assets worth ThCh$57,361,080 (ThUS$96,600).

k) Derivative instruments and hedging activities

The Company enters into derivative financial instruments to manage its exposure to fluctuations in interest rates and foreign currency exchange rates. All derivative instruments held or issued by the Company are economic hedges of existing or anticipated financial transactions. No derivatives are utilized for speculative purposes. The Company has entered into interest rate swap agreements to exchange variable rate interest payment obligations for fixed rate obligations without the exchange of the underlying principal amounts in order to manage interest rate exposures. As of December 31, 2003, Gener had swap agreements outstanding with an aggregate notional amount of ThCh$101,018 (ThUS$ 170,122) that expire in various amounts through September 28, 2007. The swap agreements have a fixed interest rate of 6.36 percent.

In connection with the offering of Gener senior notes, the Company has entered into treasury lock agreements to lock in the underlying interest rate for the senior notes to be issued pursuant to its financial restructuring plan. As of December 31, 2003, the notional amount of these agreements was ThCh$118,760 (ThUS$200,000). The treasury lock agreements had an average fixed interest rate of 4.37 percent.

The Company has entered into foreign currency swap agreements to hedge firm foreign currency commitments. The currency swap agreements mature from January 13, 2004 to March 10, 2004. The notional amounts were ThCh$3,383,800 at December 31, 2003. The currency swaps have terms that match the hedged exposure, thus no ineffectiveness is recorded. The interest rate swaps are designated as and are effective cash-flow hedges. The fair values of the swaps are recorded on the balance sheet, with changes in fair values included in other comprehensive income. The ineffective portion of the hedge is recorded into income in current-period earnings. The foreign currency swaps and treasury lock agreements have not been documented as hedges, and accordingly, changes in fair value are recognized in the income statement. The Company does not maintain any fair value hedges or hedges of a net investment in a foreign entity under US GAAP. No hedging relationships were de-designated during 2003.

Hedge ineffectiveness is measured using the dollar-offset method. During 2003, hedge ineffectiveness for cash flow hedges resulted in ThCh$1,427,889 being recognized in the other non-operating expenses line in the consolidated financial statements. No portion of the derivative instruments gain or loss was excluded from the assessment of hedge effectiveness. The Company did not reclassify any amounts to earnings for forecasted transactions that did not occur.

At December 31, 2003, the Company expects to reclassify approximately ThCh$1,437,167 of loss on derivative instruments, net of deferred taxes of ThCh$503,008 from accumulated other comprehensive income to earnings during the next twelve months due to the actual fulfillment of forecasted transactions.

l) Asset Retirement Obligations:

The Company adopted SFAS No. 143, ''Accounting for Asset Retirement Obligations'', effective January 1, 2003. Under SFAS No. 143, entities are required to record the fair value of a legal liability for an asset retirement obligation (ARO) in the period in which it is incurred. When a new liability is recorded, the entity capitalizes the costs of the liability by increasing the carrying amount of the related long-lived asset. The liability is accreted to its present value each period and the capitalized cost is depreciated over the useful life of the related asset. At retirement, an entity settles the obligation for its recorded amount or incurs a gain or loss.

The Company evaluated its leased and owned assets. During this evaluation, the Company determined that it had legal obligations to return certain assets to their condition before the Company obtained ownership or use of the related asset. Gener has recorded an asset retirement obligation for its legal liability to restore the land at its Laja, Constitución and Mostazal plants.

With the adoption of SFAS No. 143, the Company recorded an ARO asset of ThCh$141,396, net of accumulated amortization of ThCh$89,253, and a deferred tax asset of ThCh$41,812. The net amount initially recognized as a result of applying SFAS No. 143 was ThCh$204,142, which was recorded as a cumulative effect of a change in accounting principle.

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2003 and thousands of US dollars, except as indicated)

a) Pro forma asset retirement obligation:

Asset retirement obligation as of January 1, 2001	ThCh$289,384
Asset retirement obligation as of December 31, 2001	ThCh$330,820
Asset retirement obligation as of December 31, 2002	ThCh$387,350

b) The reconciliation of the beginning and ending asset retirement obligation as of December 31, 2003 is as follows:

	2003 ThCh$
Asset retirement obligation as of January 1, 2003	387,350
Accretion expense for liability	28,206
Currency adjustments	(56,412)
Asset retirement obligation as of December 31, 2003	359,144

c) Had SFAS No. 143 been adopted on January 1, 2001, there would not have been a significant impact on basic or diluted earnings per share for any of the three years in the period ended December 31, 2003.

m) Recently issued pronouncements

In April 2003, the Financial Accounting Standards Board (''FASB'') issued SFAS No.149, ''Amendment of SFAS No. 133 on Derivative Instruments and Hedging Activities''. SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No.133. SFAS No.149 is effective for contracts entered into or modified after June 30, 2003, except for SFAS No.133 Implementation Issues that have been effective for fiscal quarters that began prior to June 15, 2003, which should continue to be applied in accordance with their respective effective dates. In addition, certain provisions relating to forward purchases or sales of issued securities or other securities that do not yet exist should be applied to existing contracts as well as new contracts entered into after June 30, 2003. The adoption of SFAS No. 149 did not have a significant impact on the Company's results of operations, financial position or cash flows.

In June 2003, the FASB issued SFAS No. 150, ''Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity.'' SFAS No. 150 clarifies classification and measurement of certain financial instruments with characteristics of both liabilities and equity. It requires classification of financial instruments within its scope as liabilities. Such financial instruments may include mandatory redeemable shares, financial instruments which embody an obligation to repurchase shares or require the issuer to settle the obligation by transferring assets, or financial instruments that embody an unconditional obligation, or, in certain circumstances, an unconditional obligation. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS No. 150 did not have a significant impact on the Company's results of operations, financial position or cash flows.

In November 2002, the FASB published FIN 45, ''Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.'' FIN 45 expands on the accounting guidance of Statements No. 5, 57, and 107 and incorporates without change the provisions of FIN 34: ''Disclosure of Indirect Guarantees of Indebtedness of Others and Interpretation of FASB Statement No. 5'' which has been superseded. FIN 45 elaborates on the existing disclosure requirements for most guarantees, including loan guarantees such as standby letters of credit. FIN 45 also clarifies that at the time a company issues a guarantee, the Company must recognize an initial liability for the fair value, or market value, of the obligations it assumes under that guarantee and must disclose that information in its interim and annual financial statements. The provisions of FIN 45 are required to be applied on a prospective basis to guarantees issued or modified by the Company on January 1, 2003 and after. The expanded disclosure requirements of FIN 45 were effective for the year ended December 31, 2002. Except for the disclosure requirement, the adoption of FIN 45 did not have a significant impact on the Company's results of operations, financial position or cash flows.

In December 2003, the FASB issued a revision to Interpretation No. 46, ''Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51'' (''FIN 46R'' or the ''Interpretation''). FIN 46R clarifies the application of ARB No. 51, ''Consolidated Financial Statements,'' to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. FIN 46R requires the consolidation of these entities, known as variable interest entities (''VIEs''), by the primary beneficiary of the entity. The primary beneficiary is the entity, if any, that will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both.

Among other changes, the revisions of FIN 46R (a) clarified some requirements of the original FIN 46, which had been issued in January 2003, (b) eased some implementation problems, and (c) added new scope exceptions. FIN 46R deferred the effective date of the Interpretation for public companies, to the end of the first reporting period ending after March 15, 2004, except that all public companies must at a minimum apply the provisions of the Interpretation to entities that were previously considered ''special-purpose entities'' under the FASB literature prior to the issuance of FIN 46R by the end of the first reporting period ending after December 15, 2003.

The Company is evaluating whether the adoption of FIN 46 will have a material impact on its financial position, cash flows and results of operations. The Company did not enter into any transactions under the scope of FIN 46R after February 1, 2003.

EITF Issue No. 01-08, ''Determining Whether an Arrangement Contains a Lease.'' In May 2003, the EITF reached consensus in EITF Issue No. 01-08 to clarify the requirements of identifying whether an arrangement should be accounted for as a lease at its inception. The guidance in the consensus is designed to mandate reporting revenue as rental or leasing income that otherwise would be reported as part of product sales or service revenue. EITF Issue No. 01-08 requires both parties to an arrangement to determine whether a service contract or similar arrangement is, or includes, a lease within the scope of SFAS No. 13, ''Accounting for Leases.'' Upon application of EITF Issue No. 01-08, the accounting requirements under the consensus could affect the timing of revenue and expense recognition, and revenues reported as supply, transportation and storage services may be required to be reported as rental or lease income. Should capital-lease treatment be necessary, purchasers of transportation and storage services in the arrangements would be required to recognize assets on their balance sheets. The consensus is being applied prospectively to arrangements agreed to, modified, or acquired in business combinations on or after January 1, 2004. Previous arrangements that would be leases or would contain a lease according to the consensus will continue to be accounted for as transportation and storage purchases or sales arrangements.

The Company is currently evaluating the impact of the adoption of EITF Issue No. 01-08 on its consolidated results of operations, cash flows or financial position.

EITF Issue No. 03-11, ''Reporting Realized Gains and Losses on Derivative Instruments That Are Subject to FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, and Not Held for Trading Purposes''. In July 2003, the EITF reached consensus in EITF Issue No. 03-11 that determining whether realized gains and losses on derivative contracts not held for trading purposes should be reported on a net or gross basis is a matter of judgment that depends on the relevant facts and circumstances and the economic substance of the transaction. In analyzing the facts and circumstances, EITF Issue No. 99-19, and Opinion No. 29, ''Accounting for Nonmonetary Transactions,'' should be considered. EITF Issue No. 03-11 is effective for transactions or arrangements entered into after September 30, 2003. The Company is currently evaluating the impact of the adoption of EITF Issue No. 03-11 on its consolidated results of operations, cash flows or financial position.

In December 2003, the Securities Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 104, Revenue Recognition. SAB 104 updates portions of the interpretive guidance included in Topic 13 of the codification of Staff Accounting Bulletins in order to make this interpretive guidance consistent with current authoritative accounting and auditing guidance and SEC rules and regulations. The company believes it is following the guidance of SAB 104.

Schedule I

1) PRESENTATION

These financial statements have been prepared on the bases of accounting principles generally accepted in Chile.

AES GENER S.A.
Financial information of registrant (Parent Company)
(Restated for General Price-Level Changes and Expressed in Thousands of Constant Chilean Pesos (ThCh$) of December 31, 2003)

	As of December 31,	
	2002 ThCh$ (As restated note 3)	2003 ThCh$
ASSETS		
CURRENT ASSETS:		
Cash	1,294,808	2,209,241
Time deposits	—	2,921,688
Marketable securities	1,796,083	255,570
Trade receivables	22,026,139	19,635,855
Notes receivable	21,139	21,150
Miscellaneous receivables	729,823	502,174
Notes and accounts receivable from related companies	10,420,761	186,118,786
Inventories	13,896,635	8,983,858
Recoverable taxes	109,510	108,644
Prepaid expenses	1,851,192	642,207
Deferred taxes	654,035	1,377,267
Other current assets	7,047,563	14,792,764
Total current assets	**59,847,688**	**237,569,204**
PROPERTY, PLANT AND EQUIPMENT:		
Land	1,568,159	1,516,017
Construction and infrastructure	352,887,200	350,676,531
Machinery and equipment	392,446,599	393,889,849
Other property, plant & equipment	6,275,307	2,808,563
Technical revaluation	42,213,625	42,213,625
Less: Accumulated depreciation	(392,117,207)	(407,599,397)
Net property, plant and equipment, net	**403,273,683**	**383,505,188**
OTHER ASSETS:		
Investments in related companies	484,536,047	509,492,697
Negative goodwill	7,496,812	6,426,603
Goodwill	(7,247,443)	(6,874,184)
Long-term receivables	26,897	5,790
Notes and accounts receivable from related companies	500,014,630	254,604,094
Deferred taxes	—	206,230
Intangibles	5,889,447	5,889,448
Amortization	(4,123,833)	(4,319,893)
Other	11,266,965	7,289,113
Total other assets	997,859,522	772,719,898
TOTAL ASSETS	**1,460,980,893**	**1,393,794,290**

AES GENER S.A.
Financial information of registrant (Parent Company)
(Restated for General Price-Level Changes and Expressed in Thousands of Constant Chilean Pesos (ThCh$) of December 31, 2003)

	As of December 31,	
	2002 ThCh$ (as restated note 3)	2003 ThCh$
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Bond payables	11,271,048	9,190,063
Long-term debt due within one year	606,611	134,727
Dividends Payable	148,204	113,377
Accounts payable	15,366,729	15,903,922
Notes and accounts payable to related companies	37,396,765	37,731,751
Accruals	4,563,615	5,631,861
Withholdings	1,519,224	1,387,660
Total current liabilities	**70,872,196**	**70,093,361**
LONG-TERM LIABILITIES:		
Bond payables	491,101,875	401,788,179
Notes and accounts payable to related companies	55,576,962	79,920,467
Notes payable	5,596	—
Accruals	53,813,861	32,794,115
Deferred taxes	4,050,890	—
Other long-term liabilities	781,761	594,284
Total long-term liabilities	**605,330,945**	**515,097,045**
SHAREHOLDERS' EQUITY:		
Paid-in capital	660,615,361	660,615,361
Share premium	29,535,351	29,535,351
Other reserves	51,035,492	53,509,290
Future dividends reserve	4,877,585	5,292,019
Prior years	3,138,513	5,973,400
Net income	35,575,450	53,678,463
Total shareholders' equity	784,777,752	808,603,884
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,460,980,893**	**1,393,794,290**

AES GENER S.A.
Financial information of registrant (Parent Company)
(Restated for General Price-Level Changes and Expressed in Thousands of Constant Chilean Pesos (ThCh$) of December 31, 2003)

	December 31,		
	2001 ThCh$ (as restated note 3)	2002 ThCh$ (as resatated note 3)	2003 ThCh$
OPERATING REVENUE	229,196,352	241,399,880	229,590,527
OPERATING COSTS	(215,371,199)	(191,239,032)	(194,445,116)
OPERATING MARGIN	13,825,153	50,160,848	35,145,411
SELLING AND ADMINISTRATION EXPENSES	(15,535,415)	(9,955,170)	(8,883,575)
OPERATING PROFIT	(1,710,262)	40,205,678	26,261,836
NON-OPERATING INCOME			
Financial income	12,723,821	33,412,263	20,199,229
Equity in earnings of related companies	28,357,631	31,454,883	118,593,310
Other non-operating income	85,038,949	3,705,245	1,513,011
Equity in loss of related companies	(84,290,782)	(28,425,380)	(1,005,672)
Amortization of goodwill	(588,489)	(785,179)	(647,230)
Financial expense	(29,511,349)	(31,684,693)	(28,346,815)
Other non-operating expenses	(33,983,710)	(25,112,913)	(11,405,368)
Monetary correction	(3,701,782)	(416,243)	(686,496)
Exchange difference	21,639,869	18,723,825	(76,052,236)
Non-operating expense	(4,315,842)	871,808	22,161,733
INCOME BEFORE INCOME TAX, MINORITY INTEREST AND AMORTIZATION OF NEGATIVE GOODWILL	(6,026,104)	41,077,486	48,423,569
INCOME TAX	1,725,315	(5,719,770)	4,881,635
INCOME (LOSS) BEFORE MINORITY INTEREST AND AMORTIZATION OF NEGATIVE GOODWILL	(4,300,789)	35,357,716	53,305,204
INCOME BEFORE AMORTIZATION OF NEGATIVE GOODWILL	(4,300,789)	35,357,716	53,305,204
AMORTIZATION OF NEGATIVE GOODWILL	2,209,345	217,734	373,259
NET INCOME (LOSS)	(2,091,444)	35,575,450	53,678,463

AES GENER S.A.

Financial information of registrant (Parent Company)

(Restated for General Price-Level Changes and Expressed in Thousands of Constant Chilean Pesos (ThCh$) of December 31, 2003)

CONSOLIDATED STATEMENTS OF CASH FLOWS 2003

	2001 ThCh$ (as restated note 3)	2002 ThCh$ (as restated note 3)	2003 ThCh$
Cash Flow from operating activities			
Collection of accounts receivable	239,108,898	282,139,166	268,840,137
Financial income received	15,219,454	12,295,252	1,735,595
Dividends and other distributions received	24,335,836	13,526,014	7,440,172
Other income received	5,452,427	536,106	1,419,881
Payment to suppliers and personnel	(239,489,440)	(209,083,167)	(202,872,370)
Financial expenses	(28,508,413)	(32,950,382)	(30,471,018)
Payment for income taxes	(16,763)	(3,495)	(2,028)
Other expenses	(1,163,249)	(5,467,925)	(4,965,682)
VAT and other similar items paid	(12,172,646)	(12,265,853)	(8,607,589)
Net cash provided by operating activities	**2,766,104**	**48,725,716**	**32,517,098**
Cash Flow from financing activities			
Borrowings from banks and others	26,616,624	14,114,881	—
Proceeds from other loans to related companies	—	17,097,531	26,160,747
Dividends paid	(152,330,022)	—	(29,730,082)
Repayment of loans	(26,937,290)	(13,771,976)	(446,305)
Repayment of bonds	(6,463,818)	(5,794,421)	
Payment of costs associated with issuance of bonds	—	—	(220,722)
Other obligations to related companies	—	(9,055,773)	—
Other financing activities			
Net cash used in financing activities	**(159,114,506)**	**2,590,242**	**(4,236,362)**
Cash flow from investing activities			
Sales of property, plant and equipment	222,262	2,710,988	599,694
Sales of permanent investments	267,232,707	4,217,612	—
Proceeds from other loans to related companies	73,921,956	—	28,405,994
Sales of other instruments	9,671,589	808,098	—
Other investments revenues	23,382,239	—	12,662
Acquisition of fixed assets	(9,042,016)	(2,813,705)	(1,630,009)
Payment of capitalized interest	(481,840)	(610,649)	(194,485)
Permanent investments	(7,553,551)	(13,795,961)	(13,909,503)
Investment in financial instruments	(635,519)	(756,624)	(1,598,053)
Investments in Commercial paper			
Other obligations to related companies	(205,023,269)	(70,353,505)	(28,651,703)
Other investing activities	(216,899)	(2,359,857)	—
Net cash provided by (used in) investing activities	**151,477,659**	**(82,953,603)**	**(16,965,403)**
Net increase (decrease) in cash and cash equivalents before the effects of price-level restatement	**(4,870,743)**	**(31,637,645)**	**11,315,333**
Price-level restatement of cash and cash equivalents	**1,183,741**	**985,824**	**(1,395,077)**
Net increase (decrease) in cash and cash equivalents	**(3,687,002)**	**(30,651,821)**	**9,920,256**
Cash and cash equivalents at beginning of year	44,470,070	40,783,069	10,131,248
Cash and cash equivalents at end of year	**40,783,068**	**10,131,248**	**20,051,504**

AES GENER S.A.
Financial information of registrant (Parent Company)
(Restated for General Price-Level Changes and Expressed in Thousands of Constant Chilean Pesos (ThCh$) of December 31, 2003)

RECONCILIATION BETWEEN NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES AND NET INCOME FOR THE YEAR

	2001 ThCh$ (as restated note 3)	2002 ThCh$ (as restated note 3)	2003 ThCh$
Net income (Loss)	**(2,091,444)**	**35,575,450**	**53,678.463**
(Gain) loss on sales of fixed assets	(222,262)	1,091,645	(599,694)
Gain on sale of investments	(78,493,974)	—	—
Loss on sale of investments	9,389,228	5,704,099	—
Adjustments to reconcile net income to net cash Provided by operating activities			
Depreciation	17,195,457	18,606,597	17,741,168
Amortization of intangibles	7,537,562	196,060	196,060
Provisions and write-offs	11,691,668	7,732,020	8,039,163
Equity share in net loss from investments in related companies	(28,357,631)	(31,454,883)	(118,593,310)
Equity share in net loss from investments in related companies	84,290,782	28,425,380	1,005,672
Amortization of goodwill	588,489	785,179	647,230
Amortization of negative goodwill	(2,209,345)	(217,734)	(373,259)
Net price-level restatement	(17,938,087)	(18,307,582)	76,738,732
Other credits to income that do not represent cash flow	(1,657,388)	(1,051,216)	—
Other debits to income that do not represent cash flow	4,071,777	2,854,493	1,725,165
Change in operating assets			
(Increase) decrease of accounts receivable	(5,402,639)	(2,712,675)	(299,101)
(Increase) decrease of inventories	(3,074,725)	7,117,943	5,168,181
(Increase) decrease of other assets	26,355,725	(7,289,622)	(9,459,214)
Change in operating liabilities			
Increase (decrease) of accounts payable to related companies	(17,210,546)	(4,477,068)	3,896,607
Increase of interest payable	1,445,553	(655,448)	(2,123,574)
Net increase of income taxes payable	(1,836,361)	5,912,050	(4,826,300)
Increase (decrease) of other accounts payables, net of VAT	(1,305,735)	891,028	(44,891)
Net cash provided by operating activities	**2,766,104**	**48,725,716**	**32,517,098**

AES GENER S.A.
Financial information of registrant (Parent Company)
(Restated for General Price-Level Changes and Expressed in Thousands of Constant Chilean Pesos (ThCh$) of December 31, 2003)

2) SHAREHOLDERS' EQUITY

	Paid-in Capital ThCh$	Share Premium Account ThCh$	Other Reserves ThCh$	Future Dividends Reserve ThCh$	Retained Earnings ThCh$	Interim Dividends ThCh$	Subsidiary Development Stage Deficit ThCh$	Net Income For the period ThCh$
2001								
Balance as of January 1	615,928,605	27,536,497	105,890,721	26,080,533	60,255,290	(2,877,218)	(670,262)	2,206,586
Distribution of earnings from last year	—	—	—	—	(1,340,894)	2,877,218	670,262	(2,206,586)
Issuance of shares, due to conversion of bonds	1,488	1,046	—	—	—	—	—	—
Capitalization of reserves	—	—	(67,448,654)	67,448,654	—	—	—	—
Subsidiary start-up accumulated deficit	—	—	—	—	—	—	(118,387)	—
Dividend payments	—	—	—	(86,024,114)	(58,914,396)	—	—	—
Other reserves	—	—	(2,536,857)	—	—	—	—	—
Currency translation adjustment	—	—	10,873,328	—	—	—	—	—
Price-level restatement	19,093,805	853,643	1,191,704	1,436,994	892,307	—	—	—
Net income for the period	—	—	—	—	—	—	—	(2,010,423)
Total	**635,023,898**	**28,391,186**	**47,970,242**	**8,942,067**	**892,307**	**—**	**(118,387)**	**(2,010,423)**
Balance at Dec. 31, 2001 restated	**660,615,361**	**29,535,351**	**49,903,443**	**9,302,432**	**928,267**	**—**	**(123,158)**	**(2,091,444)**
2002								
Balances as of January, 1	635,023,898	28,391,186	47,970,242	8,942,067	892,307	—	(118,387)	(2,010,423)
Distribution of earnings from last year	—	—	—	(4,253,434)	2,124,624	—	118,387	2,010,423
Currency translation adjustment	—	—	1,120,841	—	—	—	—	—
Price-level restatement	19,050,717	851,736	1,439,107	140,659	90,508	—	—	—
Net income for the period	—	—	—	—	—	—	—	35,223,218
Total	**654,074,615**	**29,242,922**	**50,530,190**	**4,829,292**	**3,107,439**	**—**	**—**	**35,223,218**
Balance Dec. 31, 2002 restated	**660,615,361**	**29,535,351**	**51,035,492**	**4,877,585**	**3,138,513**	**—**	**—**	**35,575,450**
2003								
Balances as of January 1,	654,074,615	29,242,922	50,530,190	4,829,292	3,107,439	—	—	35,223,218
Distribution of earnings from last year	—	—	2,636,863	29,779,536	2,806,819	—	—	(35,223,218)
Final dividends	—	—	—	(29,779,536)	—	—	—	—
Prior year adjustment	—	—	—	—	—	—	—	—
Currency translation adjustment	—	—	(144,607)	—	—	—	—	—
Price-level restatement	6,540,746	292,429	486,844	462,727	59,142	—	—	—
Net income for the period	—	—	—	—	—	—	—	53,678,463
Total	**660,615,361**	**29,535,351**	**53,509,290**	**5,292,019**	**5,973,400**	**—**	**—**	**53,678,463**
Balance at Dec. 31, 2003	**660,615,361**	**29,535,351**	**53,509,290**	**5,292,019**	**5,973,400**	**—**	**—**	**53,678,463**

Dividends received from subsidiaries and affiliates are as follows:

Company	2001 ThCh$	2002 ThcH$	2003 ThCh$
New Caribbean Investment	3,518,083	816,244	897,251
Sociedad eléctrica Santiago	630,203	12,083,667	6,542,921
Explotaciones Sanitarias S.A.	193,847	174,743	—
Puerto Ventanas S.A.	2,294,533	356,432	—
Itabo S.A.	4,161,888	94,928	—
Ecogener	49,586	—	—
Gener Argentina S.A.	12,157,449	—	—
Gasandes S.A.	728,668	—	—
Agunsa S.A.	482,676	—	—
Portuaria Cabo Froward S.A.	118,902	—	—
Total	**24,335,835**	**13,526,014**	**7,440,172**

AES GENER S.A.
Financial information of registrant (Parent Company)
(Restated for General Price-Level Changes and Expressed in Thousands of Constant Chilean Pesos (ThCh$) of December 31, 2003)

3) CORRECTION OF AN ERROR

Subsequent to the filing of its December 31, 2002 and 2001 financial statements, the Company determined that an error was made in accounting for the accrual related to the deductible net loss for years 2001 and 2002, which resulted in a higher tax loss carryforward for those years.

This increase in the tax loss carryforward resulted in the recognition of a higher deferred tax asset by ThCh$3,138,513 and ThCh$2,834,887 for the years 2001 and 2002, respectively.

The Statutory report filed with the SVS for the year ended December 31, 2003 reflected this effect as an increase in beginning retained earnings as of December 31, 2003.

For 20-F purposes the Company has modified the Chilean financial statements previously filed with the SVS to recognized the error as a deductible net loss in the years 2001 and 2002.

A summary of the significant effects of the restatement is as follows:

	As of December 31, 2001		As of December 31, 2002	
	As previously reported ThCh$	As restated ThCh$	As previously reported ThCh$	As restated ThCh$
Balance Sheet Data:				
Deferred taxes	8,637,604	5,499,091	9,973,743	4,000,343
Total long term liabilities	801,302,141	798,163,628	981,569,534	975,596,134
Retained earnings	928,267	928,267	—	3,138,513
Net income for the year	(5,229,957)	(2,091,444)	32,740,563	35,575,450
Total Shareholders' equity	744,931,741	748,070,254	778,804,352	784,777,752
Income Statements:				
Income taxes	(10,187,774)	(7,049,261)	(4,498,298)	(1,663,411)
Net income (loss)	(5,229,957)	(2,091,444)	32,740,563	35,575,450

AES GENER S.A.
Financial information of registrant (Parent Company)
(Restated for General Price-Level Changes and Expressed in Thousands of Constant Chilean Pesos (ThCh$) of December 31, 2003)

4) BONDS

Number of Instruments	Series	Amount of Issuance	Basis of Readjustment	Nominal Annual Interest rate %	Scheduled Maturity	Terms	Amortization payments	2003 ThCh$	Country of Placing Bonds
Bonds Payable short-term portion									
	Unit	200,000,000	US	6.50	1/15/2006	Semiannually	Repayment of Principal due	3,545,051	Foreign
	LA1	659,900	US	6.00	03/01/2005	Semiannually	Repayment of principal due	7,815	Chile
	LA2	2,591,000	US	6.00	03/01/2005	Semiannually	Repayment of principal due	30,686	Chile
	LA3	15,705,000	US	6.00	03/01/2005	Semiannually	Repayment of principal due	186,000	Chile
	LA4	110,800,000	US	6.00	03/01/2005	Semiannually	Repayment of principal due	1,312,246	Chile
	LA5	273,000,000	US	6.00	03/01/2005	Semiannually	Repayment of principal due	3,233,241	Chile
	M	73,883,000	US	6.00	03/01/2005	Semiannually	Repayment of principal due	875.024	Foreign
Totals Short-Term								9,190,063	
Bonds Long Term									
	Unit	200,000,000	US	6.50	1/15/2006	Semiannually	Repayment of principal due	118,760,000	Foreign
	LA1	659,900	US	6.00	03/01/2005	Semiannually	Repayment of Principal due	391.849	Chile
	LA2	2,591,000	US	6.00	03/01/2005	Semiannually	Repayment of principal due	1,538,536	Chile
	LA3	15,705,000	US	6.00	03/01/2005	Semiannually	Repayment of principal due	9,325,629	Chile
	LA4	110,800,000	US	6.00	03/01/2005	Semiannually	Repayment of principal due	65,793,040	Chile
	LA5	273,000,000	US	6.00	03/01/2005	Semiannually	Repayment of principal due	162,107,400	Chile
	M	73,883,000	US	6.00	03/01/2005	Semiannually	Repayment of principal due	43,871,725	Foreign
Totals Long Term								401,788,179	

AES Gener S.A. and Subsidiaries
Schedule II-Valuation and Qualifying Accounts
(in thousands of constant Chilean pesos of December 31, 2003)

	Balance at Beginning of period	Additions charged to costs and expenses	Deductions	Other	Balance at end of period
December 31, 2001					
Allowance for doubtful Accounts receivable	2,511,867	1,207,259	6,780	—	3,712,346
December 31, 2002					
Allowance for doubtful Accounts receivable	3,712,346	347,260	1,010,776	—	3,048,830
December 31, 2003					
Allowance for doubtful Accounts receivable	3,048,830	1,295,577	2,368,293	538,122(1)	1,437,992
December 31, 2001					
Allowance for Inventories	331,949	226,324	54,480	—	503,793
December 31, 2002					
Allowance for Inventories	503,793	179,381	469,205	—	213,969
December 31, 2003					
Allowance for Inventories	213,969	3,797,603	124,658	—	3,886,914

(1) Amounts classified as "other" consist of foreign currency translation adjustments.

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Luxembourg, Postal Code 1115
Luxembourg

You should only rely on the information contained in this offering memorandum. We have not authorized anyone to provide information different from that contained in this offering memorandum. We are offering to sell, and seeking offers to buy, the notes only in jurisdictions where offers and sales are permitted. The information contained in this offering memorandum is accurate only as of the date of this offering memorandum, regardless of the time of delivery of this offering memorandum or of any sale of the notes.

TABLE OF CONTENTS

AES GENER S.A.

US$400,000,000

7.50% Senior Notes Due 2014

Deutsche Bank Securities

OFFERING MEMORANDUM

November 24, 2004

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