

HQI TRANSELEC CHILE S.A
(A free translation from the original in Spanish)

Financial statements

December 31, 2002

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Ch\$ - Chilean pesos
ThCh\$ - Thousands of Chilean pesos
US\$ - United States dollars
ThUS\$ - Thousands of United States dollars
UF - Unidad de Fomento (an official inflation-indexed monetary unit)

PRICEWATERHOUSECOOPERS 

PricewaterhouseCoopers
RUT.: 81.513.400-1
Santiago de Chile
Av. Andrés Bello 2711
Torre Costanera - Pisos 2, 3, 4 y 5
Las Condes
Teléfono [56] (2) 940 0000

REPORT OF INDEPENDENT ACCOUNTANTS (A free translation from the original in Spanish)

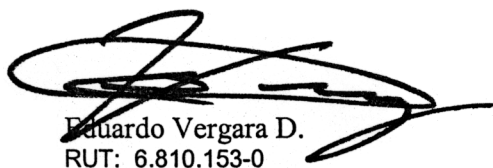
Santiago, January 31, 2003

To the Board of Directors and to the Shareholders,
HQI Transelec Chile S.A.

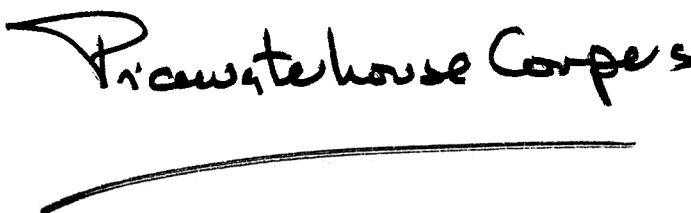
We have reviewed the accompanying balance sheets of HQI Transelec Chile S.A. as of December 31, 2002 and 2001, and the related statements of income and of cash flows for the years then ended. The financial statements (including the respective notes) are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Chile. Those standards require that we plan and perform the audits in order 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, the financial statements referred to above present fairly, in all material respects, the financial position of HQI Transelec Chile S.A. at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in Chile.



Eduardo Vergara D.
RUT: 6.810.153-0



PricewaterhouseCoopers

HQI TRANSELEC CHILE S.A.

BALANCE SHEET

<u>ASSETS</u>	As of December 31,		<u>LIABILITIES AND EQUITY</u>	As of December 31,	
	<u>2002</u>	<u>2001</u>		<u>2002</u>	<u>2001</u>
	ThCh\$	ThCh\$		ThCh\$	ThCh\$
CURRENT ASSETS			CURRENT LIABILITIES		
Cash and banks	207,418	123,355	Bonds payable - short term portion	8,846,375	8,567,996
Time deposits	102,575,396	84,318,703	Accounts payable	7,008,966	4,047,990
Marketable securities	-	3,048,994	Sundry creditors	3,266,269	2,344,061
Trade accounts receivable	12,041,223	9,202,615	Accounts payable to related companies	529,021	278,264
Sundry debtors	432,367	285,024	Provisions	1,178,174	1,155,312
Accounts receivable from related companies	8,958,412	2,461,069	Withholdings	981,582	1,343,374
Inventories	80,731	81,145	Deferred taxes	1,058,564	-
Recoverable taxes	-	1,524,266	Other current liabilities	2,087,700	623,771
Prepaid expenses	601,535	674,724			
Deferred taxes	42,314	185,306			
Other current assets	<u>17,008,669</u>	<u>6,261,409</u>			
Total current assets	<u>141,948,065</u>	<u>108,166,610</u>	Total current liabilities	<u>24,956,651</u>	<u>18,360,768</u>
FIXED ASSETS			LONG-TERM LIABILITIES		
Land	5,513,018	5,547,369	Long-term bonds payable	495,556,699	480,351,035
Buildings and infrastructure	307,414,332	289,620,915	Provisions	1,192,343	1,338,278
Machinery and equipment	234,982,013	228,998,688	Other long-term liabilities	<u>34,789</u>	<u>35,832</u>
Other fixed assets	1,688,806	1,879,023	Total long-term liabilities	<u>496,783,831</u>	<u>481,725,145</u>
Increase in value from technical reappraisal	22,602,778	23,320,733			
Accumulated depreciation	<u>(77,252,063)</u>	<u>(62,513,355)</u>	SHAREHOLDERS' EQUITY		
Total fixed assets, net	<u>494,948,884</u>	<u>486,853,373</u>	Paid-in capital	329,347,471	329,347,471
			Accumulated (loss) earnings	(1,969,309)	3,375,577
OTHER ASSETS			Profit (loss) for the year	<u>14,333,781</u>	<u>(5,344,886)</u>
Investments in other companies	55,825	38,256	Total shareholders' equity	<u>341,711,943</u>	<u>327,378,162</u>
Goodwill	96,052,406	101,897,261			
Long-term debtors	212,277	455,114			
Notes and accounts receivable from related companies - long term	80,276,160	75,003,994			
Intangibles	23,833,712	23,848,476			
Amortization of intangibles	(2,276,305)	(1,622,762)			
Deferred taxes	17,473,664	20,244,468			
Other	<u>10,927,737</u>	<u>12,579,285</u>			
Total other assets	<u>226,555,476</u>	<u>232,444,092</u>			
Total assets	<u>863,452,425</u>	<u>827,464,075</u>	Total liabilities and equity	<u>863,452,425</u>	<u>827,464,075</u>

The accompanying Notes 1 to 30 form an integral part of these financial statements.

HQI TRANSELEC CHILE S.A.

STATEMENT OF INCOME

	For the year ended	
	December 31,	
	<u>2002</u>	<u>2001</u>
	ThCh\$	ThCh\$
OPERATING RESULTS		
Sales	89,666,576	92,657,749
Cost of sales	<u>(24,860,199)</u>	<u>(24,838,136)</u>
Gross margin	64,806,377	67,819,613
Administrative and selling expenses	<u>(3,089,880)</u>	<u>(2,671,765)</u>
Operating income	<u>61,716,497</u>	<u>65,147,848</u>
NON-OPERATING RESULTS		
Financial income	8,788,050	7,176,733
Other non-operating income	911,926	280,386
Goodwill amortization	(5,494,935)	(5,599,768)
Financial expenses	(38,148,996)	(36,803,464)
Other non-operating expenses	(5,025,739)	(897,550)
Price-level restatement	39,274	(2,900,202)
Exchange differences	<u>(4,096,789)</u>	<u>(30,981,180)</u>
Non-operating results	<u>(43,027,209)</u>	<u>(69,725,045)</u>
Income (loss) before income taxes	18,689,288	(4,577,197)
Income tax	<u>(4,355,507)</u>	<u>(767,689)</u>
PROFIT (LOSS) FOR THE YEAR	14,333,781	(5,344,886)

The accompanying Notes 1 to 30 form an integral part of these financial statements.

HOI TRANSELEC CHILE S.A.

STATEMENT OF CASH FLOWS

	For the year ended December 31,	
	<u>2002</u>	<u>2001</u>
	ThCh\$	ThCh\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit (loss) for the year	14,333,781	(5,344,886)
Charges (credits) to income not representing cash flows:		
Loss on sale of fixed assets	67,612	43,234
Depreciation	15,324,549	15,331,744
Amortization of intangibles	642,563	687,762
Amortization of goodwill	5,494,935	5,599,768
Write-offs and provisions	4,099,337	-
Price-level restatement	(39,274)	2,900,202
Exchange differences	4,096,789	30,981,180
Other (credits) charges to income not representing cash flows	1,733,278	(1,211,032)
Decrease (increase) in assets:		
Trade accounts receivable and sundry debtors	(2,985,951)	(773,371)
Inventories	414	(44,843)
Other assets	(6,163,663)	886,044
Increase (decrease) in liabilities:		
Accounts payable and sundry creditors	5,991,106	1,133,774
Interest payable	278,379	6,336,580
Income tax payable (net)	5,496,627	(1,791,850)
Value added tax and other taxes	(227,134)	39,942
Net cash flows from operating activities	48,143,348	54,774,248
CASH FLOWS FROM FINANCING ACTIVITIES		
Bonds payable		443,828,265
Other loans from related companies		-
Payment of related company loans		(341,179,195)
Bond issuance and placement expenses		(10,156,156)
Net cash flows from financing activities		92,492,914
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Sale of fixed assets	290,653	77,124
Recovery of related company loans	-	40,385,220
Purchase of fixed assets	(27,282,330)	(10,822,210)
Other loans to related companies	(381,852)	(106,383,141)
Other expenses related to investments	-	(2,789,777)
Long term investment	(17,569)	-
Net cash flows used in investing activities	(27,391,098)	(79,532,784)
Total net cash flow for the year	20,752,250	67,734,378
EFFECT OF INFLATION AND EXCHANGE ON CASH AND CASH EQUIVALENTS	<u>5,252,732</u>	<u>74,593</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	26,004,982	67,808,971
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>92,043,691</u>	<u>24,234,720</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	118,048,673	92,043,691

The accompanying Notes 1 to 30 form an integral part of these financial statements.

HOI TRANSELEC CHILE S.A.
(A free translation from the original in Spanish)

NOTES TO THE FINANCIAL STATEMENTS

As of December 31, 2002 and 2001

NOTE 1 - REGISTRATION

Inversiones HQ Chile Limitada was formed as a limited liability company by public deed dated September 15, 2000. The objective of the Company was to invest in shares and public securities. On October 16, 2000, the Company changed its name to Inversiones HQI Transelec Chile Limitada, without making any change to the Company's objective. On November 23, 2000, the Company changed its name to HQI Transelec Chile S.A. and was registered as a closed Company with the Chilean Superintendent of Securities and Insurance Companies, and is subject to its control, under number 729 as from March 22, 2001. The revised objective of the new Company is the exploitation and development of electrical systems of its own and of third parties pertaining to the transmission of electrical energy, for which they can acquire and/or make use of concessions, taking into account all the benefits that are available by law to electrical companies.

On October 23, 2000, Inversiones HQI Transelec Chile Limitada (now HQI Transelec Chile S.A.) and Inversiones HQI Chile Holding Limitada together acquired all the shares of Empresa Nacional de Transmisión Eléctrica S.A. ("TRANSELEC"), from Empresa Nacional de Electricidad S.A. ("ENDESA") and Endesa Inversiones Generales S.A.

Per public deed dated January 18, 2001, the Company purchased from Inversiones HQI Chile Holding Limitada 98,606 shares, corresponding to 0.01% of the share capital in Compañía Nacional de Transmisión Eléctrica S.A., concentrating 100% of ownership. As a result, Compañía Nacional de Transmisión Eléctrica S.A. was absorbed by HQI Transelec Chile S.A., the latter assuming all assets, liabilities, obligations and rights of TRANSELEC. The Company directly undertook business operations associated with the transmission of electrical energy which were carried out by the absorbed subsidiary.

NOTE 2 - ACCOUNTING PRINCIPLES

a) Period

The financial statements relate to the twelve-month periods between January 1 and December 31, 2002 and 2001.

b) Basis of preparation

The financial statements of HQI Transelec Chile S.A. at December 31, 2002 and 2001 have been prepared in conformity with accounting principles generally accepted in Chile issued by the Chilean Institute of Accountants, and specific instructions and regulations issued by the Superintendent of Securities and Insurance Companies. The latter predominate over the former in the event of discrepancy.

c) Basis of presentation

For comparative purposes, the financial statements for the year ended December 31, 2001 have been restated in the percentage of the change in the Consumer Price Index for the year 2002 which amounted to 3.0%.

d) Price-level restatement

The financial statements have been restated in order to reflect the effect of changes in the purchasing power of the Chilean peso during the respective years. Accordingly, non-monetary assets and liabilities and shareholders' equity have been restated against income. The restatements have been determined on the basis of the official Chilean Consumer Price Index (CPI) issued by the National Institute of Statistics, applied one month in arrears, which was 3.0% for the year ended December 31, 2002 (3.1% in 2001). In addition, the accounts in the income statement have been restated to their year-end values.

e) Operating estimates

The Company has to make accounting estimates to record its accounts receivable and payable from transmission tolls. Final settlements of these accounts may extend beyond one fiscal year and can result in losses or gains for amounts not expected to be significant

f) Foreign currency balances

Balances in foreign currency are adjusted at the exchange rate prevailing on the closing date of the financial statements. Indexed units have been restated according to variations in the corresponding index.

Assets and liabilities in foreign currency and UF have been translated into Chilean pesos at the following period closing exchange or conversion rates:

	Ch\$ per unit	
	<u>2002</u>	<u>2001</u>
Unidad de Fomento	16,744.12	16,262.66
United States dollar	718.61	654.79
Euro	741.75	578.18

g) Time deposits

Investments in time deposits are recorded at cost plus price-level indexation and accrued interest at year-end.

h) Resale agreements

Other current assets include purchases of securities under resale agreements, which are recorded at their initial investment value at purchase date plus interest and readjustments.

i) Marketable securities

This item includes investments in mutual funds, which are valued at their quoted market value at each year-end.

j) Allowance for doubtful accounts

The Company believes that it is unnecessary to record an allowance for doubtful accounts at each year-end.

k) Fixed assets

Fixed assets are valued at restated purchase cost or contribution value at year end. For the year ending December 31, 2002, the costs of financing work in progress have been capitalized during construction period. Consequently, financial expenses amounting to ThCh\$ 2,279,053 were capitalized in 2002.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, considering a residual value of 5% for assets purchased until 1999.

l) Goodwill

The amount presented as Goodwill represents the difference between the purchase value of shares in Compañía Nacional de Transmisión Eléctrica S.A. and the proportional equity value of the investment on the purchase date. This difference is amortized over a 20-year period.

m) Bonds payable

This item includes, in long-term, the obligation incurred in the issuance of bonds by the Company at nominal value plus readjustments at year end and, in short-term, accrued interest at year end. The difference between the book value and placement value is amortized until maturity and is presented in Other current assets and Other long-term assets.

n) Severance indemnities

The provision for severance payments to Company staff upon reaching 15 years of service is presented at present value on an accrual basis, using an annual interest rate of 6.5% and considering an average tenure of 40 years (35 years as of December 31, 2001). An average of 75% of the benefit, for staff with less than 15 years of service, has been accrued at present value.

o) Income taxes and deferred taxes

The Company provides for income taxes in accordance with current legislation.

In conformity with Technical Bulletin No. 60 issued by the Chilean Institute of Accountants, deferred taxes have been recorded for all temporary differences between accounting balances for assets and liabilities and the corresponding tax balances, considering the tax rate at the estimated date of reversal. The effect of deferred income taxes, which were not previously recorded by TRANSELEC, acquired by HQI Transelec Chile S.A. on October 23, 2000, are recorded in net income as from acquisition, based on the period of reversal.

p) Debt security issuance and placement expenses

The Company has deferred the expenses incurred in the issuance and placement of debt securities during 2001. These deferred charges are recorded under Other long-term and short-term assets, and are amortized using the straight-line method until maturity of the obligations.

q) Staff vacation

In conformity with Technical Bulletin No. 47 issued by the Chilean Institute of Accountants, the annual cost of employee vacations is recorded as an expense in the financial statements on an accrual basis.

r) Intangibles

This balance consists of rights-of-way which are amortized on the straight-line basis over 40 years in conformity with Technical Bulletin No. 55 issued by the Chilean Institute of Accountants.

s) Statement of cash flows

Cash and cash equivalents correspond to cash and banks, time deposits, marketable securities and investments under resale agreements.

Cash flows from operating activities include all business-related cash flows and, in general, all cash flows not defined as from financial or investment activities. The concept of operations used in this statement is broader than that used in the Income Statement.

t) Derivative contracts

The hedging contracts subscribed by the Company include foreign exchange forward contracts and swaps and have been recorded at fair value in conformity with Technical Bulletin No. 57 issued by the Chilean Institute of Accountants.

NOTE 3 - ACCOUNTING CHANGES

There have been no changes in accounting policies for the period January 1 to December 31, 2002, that could effect significantly the interpretation of these financial statements.

NOTE 4 - MARKETABLE SECURITIES

The balance of marketable securities at 2001 year-end corresponds to investments in mutual funds as follows:

<u>Entity</u>	<u>ThCh\$</u>
FM Santander	309,272
FM Santiago	674,912
FM Scotiabank Sudamericano	515,378
FM Citicorp	19,102
FM Banchile	496,112
FM Crédito e Inversiones	435,907
FM BHIF	<u>598,311</u>
Total	3,048,994

NOTE 5 - SHORT- AND LONG-TERM DEBTORS

Debtors are summarized as follows:

a) Trade accounts receivable short-term

	<u>2002</u>	<u>2001</u>
	ThCh\$	ThCh\$
Tolls and transmission charges	11,882,237	8,799,468
Services provided to other parties	<u>158,986</u>	<u>403,147</u>
Total	12,041,223	9,202,615

b) Trade accounts receivable short and long-term

	Current Up to 90 days		Current Between 90 and 1 year		Total Current		Long-term	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Tolls and transmission charges	11,374,328	9,202,615	666,895	-	12,041,223	9,202,615	-	-
Sundry debtors	<u>432,367</u>	<u>285,024</u>	<u>-</u>	<u>-</u>	<u>432,367</u>	<u>285,024</u>	<u>212,277</u>	<u>455,114</u>
Total	11,806,695	9,487,639	666,895	-	12,473,590	9,487,639	212,277	455,114

NOTE 6 - BALANCES AND TRANSACTIONS WITH RELATED COMPANIES

Significant balances and transactions with related companies are as follows:

a) Notes and accounts receivable

The receivable balance as at December 31, 2002 originates in a loan granted on April 17, 2001 to Inversiones HQI Chile Holding Ltda. for ThUS\$ 169,354. On July 31, 2001 Inversiones HQI Chile Holding Ltda. paid ThUS\$ 62,000 of the total debt, of which, ThUS\$ 58,144 corresponded to capital and ThUS\$ 3,856 to interest. On September 4, 2002, a second loan was granted amounting to ThUS\$ 500. The amount due is payable in United States dollars and accrues a 7.875% interest on an annual basis of 360 days. The balance due will be paid from the dividends to be received by Inversiones HQI Chile Holding Ltda. from HQI Transelec Chile S.A., first for payment of accrued interest and then for capital amortization.

<u>RUT</u>	<u>Company</u>	Current		Long-term	
		<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
		ThCh\$	ThCh\$	ThCh\$	ThCh\$
77.498.840-8	Inversiones HQI Chile Holding Ltda.	<u>8,958,412</u>	<u>2,461,069</u>	<u>80,276,160</u>	<u>75,003,994</u>
Total		<u>8,958,412</u>	<u>2,461,069</u>	<u>80,276,160</u>	<u>75,003,994</u>

b) Notes and accounts payable

The balance at December 31, 2002 corresponds to services provided by Hydro Québec not yet paid by the Company.

<u>RUT</u>	<u>Company</u>	Short-term	
		<u>2002</u>	<u>2001</u>
		ThCh\$	ThCh\$
0-E	Hydro Québec	<u>529,021</u>	<u>278,264</u>
Total		529,021	278,264

c) Transactions

<u>Company</u>	<u>RUT</u>	<u>Relationship</u>	<u>Nature of transaction</u>	<u>2002</u>		<u>2001</u>	
				<u>Amount</u>	<u>Effect in income (charge) credit</u>	<u>Amount</u>	<u>Effect in income (charge) credit</u>
				ThCh\$	ThCh\$	ThCh\$	ThCh\$
Inversiones HQI Chile Holding Ltda.	77.498.840-8	Shareholder	Loans granted	359,305	13,172,319	107,578,980	16,002,584
		Shareholder	Payment of loan	-	-	333,182,808	(23,470,769)
		Shareholder	Recovery of loan	-	-	42,708,929	-
		Shareholder	Reimbursement of expenses	33,571	-	-	-
Hydro Québec	0-E	Ultimate parent	Payment of provided services	1,101,697	(602,842)	-	-
		Ultimate parent	Forward contracts			2,929,190	5,101,291

NOTE 7 - DEFERRED TAXES AND INCOME TAXES

a) General information

At December 31, 2002 the Company has provided for income taxes amounting to ThCh\$ 2,177,503, considering a tax basis of ThCh\$ 13,609,396.

At December 31, 2001 the Company did not provide for income tax due to tax losses amounting to ThCh\$ 19,943,874. Nonetheless, as a result of the merger with TRANSELEC, on March 31, 2001 the Company paid income taxes amounting to ThCh\$ 1,285,800, corresponding to the taxable income of the subsidiary for the period between January 1 and 31, 2001.

At December 31, 2002 the income tax provision is presented in current liabilities and in 2001 in current assets under Recoverable taxes.

	<u>2002</u>	<u>2001</u>
	ThCh\$	ThCh\$
Income tax provision	(2,177,503)	-
Other taxes	<u>(7,116)</u>	<u>(14,761)</u>
Sub-total	(2,184,619)	(14,761)
Provisional monthly payments	1,113,285	1,539,027
Other tax credits	<u>12,770</u>	<u>-</u>
Total	(1,058,564)	<u><u>1,524,266</u></u>

b) Deferred taxes

In conformity with the principle described in Note 2 o), deferred taxes have been adjusted in 2002 and 2001 to recognize the effect of the changes in the rate introduced by the tax reform published in September 2001.

Concepts	2002				2001			
	Deferred tax asset		Deferred tax liability		Deferred tax asset		Deferred tax liability	
	<u>Short-term</u>	<u>Long-term</u>	<u>Short-term</u>	<u>Long-term</u>	<u>Short-term</u>	<u>Long-term</u>	<u>Short-term</u>	<u>Long-term</u>
<u>Temporary differences</u>	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Accrued employee vacations	62,506	-	-	-	64,147	-	-	-
Fixed asset depreciation	-	-	-	890,246	-	-	-	924,646
Accrued employee severance benefits	-	-	-	209,394	-	-	-	123,413
Other events	33,215	-	-	-	23,436	-	-	-
Capitalization of financial expenses	-	-	387,439	-	-	-	-	-
Tax loss benefit	-	-	-	-	-	2,818,358	-	-
Increase in value of fixed assets (absorption)	-	20,407,512	-	-	-	20,804,977	-	-
Fixed Assets (Ex Leasing)	-	-	-	3,534,738	-	-	-	3,340,346
Writte - off of assets	-	191,017	-	-	-	-	-	-
Prepaid expenses	-	-	-	1,388,684	-	-	-	1,572,973
Forward contracts	334,032	-	-	-	97,723	-	-	-
Swap contracts	-	1,124,810	-	-	-	729,540	-	-
Complementary accounts - net of amortization				(1,773,387)				(1,852,971)
Total	<u>429,753</u>	<u>21,723,339</u>	<u>387,439</u>	<u>4,249,675</u>	<u>185,306</u>	<u>24,352,875</u>		<u>4,108,407</u>

c). Income taxes

<u>Item</u>	<u>2002</u>	<u>2001</u>
	ThCh\$	ThCh\$
Current tax expense	(2,184,619)	(14,761)
Deferred tax effect	(2,091,304)	622,359
Amortization on deferred tax complementary accounts	(79,584)	(89,487)
Other charges	-	(1,285,800)
Total income tax	(4,355,507)	(767,689)

NOTE 8 - OTHER CURRENT ASSETS

Other current assets is summarized as follows:

	<u>2002</u>	<u>2001</u>
	ThCh\$	ThCh\$
Securities under resale agreements	15,265,859	4,552,639
Bond issuance expenses	1,084,050	1,084,050
Deferred bond discount	610,120	610,120
Others	<u>48,640</u>	<u>14,600</u>
	17,008,669	6,261,409

NOTE 9 - INFORMATION ABOUT PURCHASES UNDER RESALE AGREEMENTS OF SECURITIES

At December 31, 2002 the resale agreements are summarized as follows:

<u>Code</u>	<u>Dates</u>		<u>Company</u>	<u>Currency</u>	<u>Suscription</u>	<u>Rate</u>	<u>Final</u>	<u>Identification</u>	<u>Market</u>
	<u>Purchase</u>	<u>Maturity</u>			<u>value</u>	<u>%</u>	<u>value</u>		<u>value</u>
					ThCh\$		ThCh\$		ThCh\$
CRV	12/16/2002	01/07/2003	Banco Chile	Pesos	500,000	0,25	500,917	PDBC	500,625
CRV	12/16/2002	01/09/2003	Banco Chile	Pesos	800,000	0,25	801,600	PDBC	801,000
CRV	12/16/2002	01/15/2003	Banco Chile	Pesos	2,000,000	0,25	2,005,000	PDBC	2,002,500
CRV	12/16/2002	01/02/2003	Banco de Crédito e Inversiones	Pesos	600,000	0,24	600,816	PDBC	600,720
CRV	12/17/2002	01/13/2003	Citibank	Pesos	1,000,000	0,23	1,002,070	PDBC	1,001,073
CRV	12/17/2002	01/02/2003	Banco Santander	Pesos	200,000	0,24	200,256	PCDG	200,224
CRV	12/17/2002	01/06/2003	Banco Santander	Pesos	200,000	0,24	200,320	PCDG	200,224
CRV	12/17/2002	01/08/2003	Banco Santander	Pesos	300,000	0,24	300,528	PRD0	300,336
CRV	12/17/2002	01/09/2003	Banco Santander	Pesos	200,000	0,24	200,368	PCDD	200,224
CRV	12/18/2002	01/13/2003	Banco Santander	Pesos	837,000	0,23	838,668	BR41	837,834
CRV	12/18/2002	01/06/2003	Dresdner Bank	Pesos	499,235	0,25	500,025	PDBC	499,775
CRV	12/18/2002	01/08/2003	Banco de Crédito e Inversiones	Pesos	1,343,000	0,24	1,345,256	PDBC	1,344,397
CRV	12/19/2002	01/20/2003	Scotiabank	Pesos	300,000	0,25	300,800	PRBC	300,300
CRV	12/23/2002	01/02/2003	Banco Santander	Pesos	2,287,000	0,24	2,288,830	PCDG	2,288,464
CRV	12/24/2002	01/09/2003	Banco Santander	Pesos	576,000	0,23	576,707	PRD0	576,309
CRV	12/24/2002	01/14/2003	Banco Chile	Pesos	650,000	0,24	651,092	PDBC	650,364
CRV	12/24/2002	01/15/2003	Bank Boston	Pesos	273,000	0,22	273,440	CERO	273,140
CRV	12/26/2002	01/21/2003	Banco Chile	Pesos	795,000	0,25	796,723	PDBC	795,331
CRV	12/26/2002	01/21/2003	Dresdner Bank	Pesos	364,449	0,24	365,207	PDBC	364,594
CRV	12/30/2002	01/30/2003	Banco Chile	Pesos	250,000	0,25	250,646	PDBC	250,021
CRV	12/30/2002	01/22/2003	Banco de Crédito e Inversiones	Pesos	350,000	0,22	350,590	PDBC	350,026
CRV	12/30/2002	01/29/2003	Banco de Crédito e Inversiones	Pesos	245,000	0,22	245,539	PDBC	245,019
CRV	12/26/2002	01/14/2003	Banco Santander	US\$	950,734	1,6	952,092	BR	950,945

NOTE 10 - FIXED ASSETS

Fixed assets are summarized as follows:

	2002			2001		
	Gross value	Accumulated depreciation	Net value	Gross value	Accumulated depreciation	Net value
	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Land, rights and others	<u>5,513,018</u>	<u>-</u>	<u>5,513,018</u>	<u>5,547,369</u>	<u>-</u>	<u>5,547,369</u>
Buildings and infrastructure						
Buildings	6,568,172	(1,179,993)	5,388,179	6,522,395	(924,577)	5,597,818
Access roads	357,052	(47,678)	309,374	357,297	(37,545)	319,752
Lines	253,627,037	(29,256,876)	224,370,161	250,873,834	(23,514,887)	227,358,947
Houses and apartments	583,123	(239,962)	343,161	632,078	(211,647)	420,431
Non-hydraulic civil projects	19,046,753	(2,912,127)	16,134,626	18,267,587	(2,245,288)	16,022,299
Work in progress	<u>27,232,195</u>	<u>-</u>	<u>27,232,195</u>	<u>12,967,724</u>	<u>-</u>	<u>12,967,724</u>
	<u>307,414,332</u>	<u>(33,636,636)</u>	<u>273,777,696</u>	<u>289,620,915</u>	<u>(26,933,944)</u>	<u>262,686,971</u>
Machinery and equipment						
Telecommunication equipment	6,194,552	(3,484,732)	2,709,820	5,530,966	(3,387,905)	2,143,061
Machinery and office equipment, furniture	201,050	(99,577)	101,473	167,540	(89,559)	77,981
Service equipment	22,230	(14,759)	7,471	21,342	(12,929)	8,413
Tools and instruments	1,591,195	(1,120,754)	470,441	1,369,605	(1,072,858)	296,747
Power generation unit	497,501	(89,729)	407,772	492,059	(70,996)	421,063
Electrical equipment	191,895,274	(29,166,295)	162,728,979	188,688,972	(22,853,493)	165,835,479
Protection and mechanical equipment	32,167,031	(4,680,754)	27,486,277	31,038,656	(3,828,193)	27,210,463
Transportation and loading equipment	680,472	(393,250)	287,222	691,826	(404,961)	286,865
Computers	407,611	(299,278)	108,333	459,549	(287,611)	171,938
Software	<u>1,325,097</u>	<u>(554,145)</u>	<u>770,952</u>	<u>538,173</u>	<u>(364,509)</u>	<u>173,664</u>
	<u>234,982,013</u>	<u>(39,903,273)</u>	<u>195,078,740</u>	<u>228,998,688</u>	<u>(32,373,014)</u>	<u>196,625,674</u>
Subtotal	547,909,363	(73,539,909)	474,369,454	524,166,972	(59,306,958)	464,860,014
Other fixed assets						
Advances to contractors	-	-	-	104,174	-	104,174
Construction materials	<u>1,688,806</u>	-	<u>1,688,806</u>	<u>1,774,849</u>	-	<u>1,774,849</u>
	1,688,806	-	1,688,806	1,879,023	-	1,879,023
Increased value from technical reappraisal	<u>22,602,778</u>	<u>(3,712,154)</u>	<u>18,890,624</u>	<u>23,320,733</u>	<u>(3,206,397)</u>	<u>20,114,336</u>
Total fixed assets	572,200,947	(77,252,063)	494,948,884	549,366,728	(62,513,355)	486,853,373

Depreciation for 2002 totalled ThCh\$ 15,324,549 (ThCh\$ 15,331,744 in 2001). The amount of ThCh\$ 15,097,715 was charged to Operating costs (ThCh\$ 15,309,950 in 2001) and ThCh\$ 226,834 (ThCh\$ 21,794 in 2001) was recorded in Administrative and selling expenses.

Assets subject to technical reappraisal correspond to those contributed by ENDESA to TRANSELEC and include: land, buildings, electrical equipment, telecommunication equipment, lines, houses, and apartments.

NOTE 11 - INVESTMENT IN OTHER COMPANIES

At December 31, 2002, this balance corresponds to an 7.69% (8.33% in 2001) of Sociedad Centro de Despacho Económico de Carga del Sistema Eléctrico Interconectado Central Limitada (CDEC-SIC), whose exclusive objective is to administrate the operations of the power stations and transmission lines that are interconnected within the electricity system. At December 31, 2002 the value of the investment is ThCh\$ 55,825 (ThCh\$ 38,256 in 2001).

<u>RUT</u>	<u>Company</u>	<u>Percentage of participation</u>	<u>Book value at</u>	
			<u>2002</u>	<u>2001</u>
		<u>%</u>	<u>ThCh\$</u>	<u>ThCh\$</u>
77.286.570-8	CDEC-SIC Ltda.	7.6900	55,825	38,256

NOTE 12 - GOODWILL

a) Goodwill is summarized as follows:

	<u>Year ended December 31,</u>	
	<u>2002</u>	<u>2001</u>
	<u>ThCh\$</u>	<u>ThCh\$</u>
Opening balance	108,743,150	128,172,417
Transfer to Deferred taxes (1)	(349,920)	(21,487,623)
Opening equity balance difference (2)	-	2,058,356
	108,393,230	108,743,150
Amortization of goodwill	(12,340,824)	(6,845,889)
	96,052,406	101,897,261

(1) For the year 2001, the transfer corresponds to the deferred income tax asset generated by the allocation for income tax purposes of goodwill to property, plant and equipment as a result of the absorption of TRANSELEC by HQI Transelec. Consequently, goodwill was reduced by the equivalent amount of the deferred tax created by the difference in basis for tax and financial statements purposes.

- (2) As a result of the arbitration process -relative to the Share Purchase Agreement dated October 23, 2000 between Inversiones HQI Transelec Limitada (currently HQI Transelec Chile S.A.), Inversiones HQI Chile Holding Limitada and Hydro Quebec International Inc., the buyers, and Empresa Nacional de Electricidad (ENDESA) and Endesa Inversiones Generales S.A. (Eniges), the sellers- whereby share buyers undertook to reimburse the sellers the difference between the net equity of ThCh\$ 188,019,844, and the period-end net equity value on the agreement date, if such difference were positive, on June 29, 2001, an arbitration resolution was rendered by the arbitration auditors. A net equity at year-end of ThCh\$ 190,688,338 was determined, which was greater than the initial net equity reference by ThCh\$ 2,668,494. Since a portion of this amount was recognized as goodwill at December 31, 2000, goodwill only increased by ThCh\$ 1,968,870 (historical) during 2001.

b) Goodwill and the corresponding amortization is originated as follows:

RUT	Company	2002		2001	
		Amortization during the year	Balance of goodwill	Amortization during the year	Balance of goodwill
		ThCh\$	ThCh\$	ThCh\$	ThCh\$
96.659.380-6	Compañía Nacional de Transmisión Eléctrica S.A.	<u>5,494,935</u>	<u>96,052,406</u>	<u>5,599,768</u>	<u>101,897,261</u>
	Total	5,494,935	96,052,406	5,599,768	101,897,261

NOTE 13 - INTANGIBLES

Intangibles is summarized as follows:

	<u>2002</u>	<u>2001</u>
	ThCh\$	ThCh\$
Rights-of-way	23,833,712	23,848,476
Accumulated amortization	<u>(2,276,305)</u>	<u>(1,622,762)</u>
Net value	21,557,407	22,225,714

The amortization charge to income amounted to ThCh\$ 642,563 in 2002 (ThCh\$ 687,762 in 2001).

NOTE 14 - OTHER ASSETS

The balance at each year-end is summarized as follows:

	<u>2002</u>	<u>2001</u>
	ThCh\$	ThCh\$
Prepaid expenses general	342,486	299,162
Deferred expenses on bond placements – UF	1,747,798	2,087,167
Deferred expenses on bond placements - US\$	5,336,881	6,081,563
Discount on bond placements – UF	2,286,678	2,730,681
Discount on bond placements - US\$	1,190,497	1,356,613
Others	<u>23,397</u>	<u>24,099</u>
	10,927,737	12,579,285

NOTE 15 - OTHER CURRENT LIABILITIES

Sundry creditors

The balance of this account at December 31, 2002 amounting to ThCh\$ 3,266,269 (ThCh\$ 2,344,061 in 2001), corresponds to provisions recorded to compensate differences in amounts received by HQI Transelec. These differences originate from toll and transmission contracts undersigned by the Company and its clients (principally electricity generation companies), that consider the recompensation of toll charges defined in the Electric Law (DFL N° 1). At the CDEC-SIC level, values of the transmission of energy and power (VIRTs) are determined and paid to and by the electricity generation companies and the electricity transmission companies. By law as well as contracts, HQI Transelec records income relating to the toll charges as informed by the CDEC-SIC. Any differences between these and the VIRT's is returned to the electricity generating companies once agreed.

NOTE 16 - LONG-AND SHORT-TERM OBLIGATIONS (PROMISSORY NOTES AND BONDS)

a) During 2001, the Company made the following public offering of bonds in the local market:

On April 2, 2001 the Company registered the first bond issuance for a maximum of UF 10,000,000 with the Superintendent of Securities and Insurance Companies under number 249. Of this amount, UF 9,200,000 were finally placed on April 11, 2001.

As of December 31, 2002 the risk ratings obtained are the following:

<u>Classifier</u>	<u>Rating</u>
Fitch Chile Clasificadora de Riesgo Ltda.	AA
Feller-Rate Clasificadora de Riesgo Limitada	AA+

The terms of issuance of these bonds are as follows:

Issuer	HQI Transelec Chile S.A.
Securities issued	Bearer bonds in local currency, denominated in Unidades de Fomento.
Maximum issued	10,000,000 Unidades de Fomento divided into Series A Series A-1 : Up to UF 3,000,000 (3,000 bonds at UF 1,000 each). Series A-2: Up to UF 4,000,000 (400 bonds at UF 10,000 each). Series B Series B-1: Up to UF 1,000,000 (1,000 bonds at UF 1,000 each). Series B-2: Up to UF 3,000,000 (300 bonds at UF 10,000 each).
Indexation	Change in Unidades de Fomento
Amortization period	Series A 6 years and Series B 21 years (6 years of grace and 1 and 15 years for capital amortization, respectively).
Capital amortization	Series A, in one installment, upon maturity, and Series B, payable half-yearly, in increasing amounts, and effective September 1, 2007.
Early redemption	Series A: without early redemption and Series B,: effective September 1, 2009, on any of its denominated dates of payment of interest or interest and capital amortization.

Interest rate	Series A and B bonds accrue an 6.20% annual interest rate on the outstanding capital, expressed in Unidades de Fomento. Interest is calculated over a period of 360 days, upon maturity and payable half-yearly in two semesters of 180 days each.
Interest payments	Half-yearly payments, upon maturity on March 1 and September 1 yearly, starting September 1, 2001. Interest accrued at 2002 year-end amounts to ThCh\$ 3,135,741 (ThCh\$3,136,961 in 2001) and is presented in Current liabilities.
Guarantees:	This issuance has no special guarantees, except for the general guarantee on all of the issuer's assets.
Period of placement	36 months, as from the date of register with the Superintendent of Securities and Insurance Companies.

b) The Company issued and placed notes in the international market on April 17, 2001 as follows:

As of December 31, 2002 the risk ratings obtained are the following:

<u>Classifier</u>	<u>Rating</u>
Standard and Poor's Rating Group	A-
Fitch IBCA, Duff & Phelps	A-
Moody's Investors Service Inc.	Baa1
Issuer	HQI Transelec Chile S.A.
Securities issued	US\$ (Yankee Bonds) traded in the U.S. market.
Issue value	ThUS\$ 465,000 of a single series
Indexation	Change in United States dollar
Capital amortization	At maturity on April 15, 2011.
Nominal interest rate	7.875% annual.
Interest payments	On April 15 and October 15 each year, effective October 15, 2001. Interest accrued at 2002 year-end amounts to ThCh\$ 5,710,634 (ThCh\$ 5,431,035 in 2001) and is presented in Current liabilities.

c) Bonds

Register number or identification of bonds	Series	Nominal amount		Interest rate %	Maturity	Periodicity		Par value	Par value	Issued in Chile or abroad
		placed	Currency			Payment of interest	Amortization payments	31/12/2002	31/12/2001	
								ThCh\$	ThCh\$	
Long-term bonds (short-term portion)										
249	A1	40,712	UF	6.2	03/01/2003	Semester	At maturity	681,682	681,682	Chile
249	A2	81,424	UF	6.2	03/01/2003	Semester	At maturity	1,363,366	1,363,366	Chile
249	B1	4,071	UF	6.2	03/01/2003	Semester	Semester	68,168	68,168	Chile
249	B2	61,068	UF	6.2	03/01/2003	Semester	Semester	1,022,525	1,023,745	Chile
First offering	Sole	7,946,777	US\$	7.875	04/15/2003	Semester	At maturity	<u>5,710,634</u>	<u>5,431,035</u>	Abroad
Total long-term bonds (short-term portion)								8,846,375	8,567,996	
Long-term bonds										
249	A1	2,000,000	UF	6.2	03/01/2007	Semester	At maturity	33,488,240	33,501,080	Chile
249	A2	4,000,000	UF	6.2	03/01/2007	Semester	At maturity	66,976,480	67,002,159	Chile
249	B1	200,000	UF	6.2	03/01/2022	Semester	Semester	3,348,824	3,350,108	Chile
249	B2	3,000,000	UF	6.2	03/01/2022	Semester	Semester	50,232,360	50,251,619	Chile
First offering	Sole	465,000,000	US\$	7.875	04/15/2011	Semester	At maturity	334,153,650	313,611,671	Abroad
Swap Contracts	3 contracts	7,315,503	UF	9.16	06/30/2006	Semester	At maturity	<u>7,357,145</u>	<u>12,634,398</u>	Chile
Total long-term bonds								<u>495,556,699</u>	<u>480,351,035</u>	

NOTE 17 - PROVISIONS AND WRITE-OFFS

Provisions at each year-end are as follows:

	<u>2002</u>	<u>2001</u>
	ThCh\$	ThCh\$
a) Short-term provisions		
Employee severance indemnity benefits	55,149	
Accrued payroll	556,023	643,872
Employee vacation benefits	390,661	400,918
Cost of accidents (lines and substations)	<u>176,341</u>	<u>110,522</u>
Total	1,178,174	1,155,312
b) Long-term provisions		
Employee severance indemnity benefits	<u>1,192,343</u>	<u>1,338,278</u>
	1,192,343	1,338,278

No write-offs have been recorded during 2002 and 2001 that relate to these items.

NOTE 18 - SEVERANCE INDEMNITIES

The change in severance indemnities during each year is as follows:

	<u>2002</u>	<u>2001</u>
	ThCh\$	ThCh\$
Opening balance	1,299,299	1,269,138
Price-level restatement	38,979	39,343
Provision for the year	<u>(90,786)</u>	<u>29,797</u>
	1,247,492	1,338,278
Short-term	55,149	-
Long-term	<u>1,192,343</u>	<u>1,338,278</u>
	1,247,492	1,338,278

NOTA 19 - EQUITY

In accordance with Technical Bulletin No. 14 of the Chilean Institute of Accountants, the loss for the year ending December 31, 2001 has been adjusted as a result of a correction made in the determination of deferred income taxes at December 31, 2001. The amount related to the adjustment is ThCh\$ 152,855 (historical), and is summarized as follows:

	<u>Originally reported</u>	<u>Adjustment</u>	<u>As restated</u>
	ThCh\$	ThCh\$	ThCh\$
Loss before income taxes	(4,443,881)	-	(4,443,881)
Income taxes	<u>(898,184)</u>	<u>152,855</u>	<u>(745,329)</u>
Net loss	<u>(5,342,065)</u>	<u>152,855</u>	<u>(5,189,210)</u>

a) Changes in equity

	<u>12/31/2002</u>			<u>12/31/2001</u>		
	<u>Paid-in capital</u>	<u>Accumulated income/loss</u>	<u>Net income (loss) for the year</u>	<u>Paid-in capital</u>	<u>Accumulated income</u>	<u>Net income (loss) for the year</u>
	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Opening balance	319,754,826	3,277,260	(5,189,210)	310,140,471	-	3,178,720
Allocation of prior-year income	-	(5,189,210)	5,189,210	-	3,178,720	(3,178,720)
Price-level restatement of equity	9,592,645	(57,359)	-	9,614,355	98,540	-
Net income (loss) for the year	<u>-</u>	<u>-</u>	<u>14,333,781</u>	<u>-</u>	<u>-</u>	<u>(5,189,210)</u>
Final balance	<u>329,347,471</u>	<u>(1,969,309)</u>	<u>14,333,781</u>	<u>319,754,826</u>	<u>3,277,260</u>	<u>(5,189,210)</u>
Restated balance				<u>329,347,471</u>	<u>3,375,577</u>	<u>(5,344,886)</u>

b) Number of shares

<u>Series</u>	<u>Number of shares</u>	<u>Number of paid-in shares</u>	<u>Voting shares</u>
Single series	1,000,000	1,000,000	1,000,000

c) Capital

<u>Series</u>	<u>Subscribed capital</u>	<u>Paid-in capital</u>
	ThCh\$	ThCh\$
Single series	329,347,471	<u>329,347,471</u>

NOTE 20 - OTHER NON-OPERATING INCOME AND EXPENSES

These are summarized as follows:

	<u>2002</u>	<u>2001</u>
	ThCh\$	ThCh\$
<u>Other non-operating income:</u>		
Prior-year income	609,239	214,394
Miscellaneous income	47	2,599
Income on disposal of materials	<u>302,640</u>	<u>63,393</u>
	911,926	280,386
 <u>Other non-operating expenses:</u>		
Prior-year expenses	769,575	155,532
Miscellaneous losses	-	544,239
Retired employee benefits	-	125
Directors' remuneration	19,399	19,348
Fiscal and judicial fines	-	7,514
Loss on disposal of fixed assets	4,120,822	
Loss on sale of fixed assets	76,834	112,580
Investigation expenses	-	58,212
Prepaid expense amortization	<u>39,109</u>	<u>-</u>
	5,025,739	<u><u>897,550</u></u>

NOTE 21 - PRICE-LEVEL RESTATEMENT

The net effects of price-level restatements, as described in Note 2 d), resulted in a net credit to income amounting to ThCh\$ 39,274 (charge of ThCh\$ 2,900,202 in 2001) and is summarized below.

	<u>Index</u>	<u>2002</u> ThCh\$	<u>2001</u> ThCh\$
Assets (charges) / credits			
Inventories	CPI	51,142	-
Fixed assets	CPI	13,492,220	14,623,647
Rights	CPI	678,358	744,584
Cash and banks	CPI	2,858,265	2,080,705
Goodwill	CPI	2,957,690	3,332,072
Notes and accounts receivable from related companies	CPI	2,383,212	2,093,782
Deferred taxes	CPI	573,404	552,223
Other non-monetary assets	CPI	1,452,209	302,162
Expense and cost accounts	CPI	<u>988,331</u>	<u>414,971</u>
Total (charges) / credits		25,434,831	24,144,146
Liabilities (charges) / credits			
Shareholders' equity	CPI	(9,535,286)	(10,004,282)
Bonds payable	UF	(13,992,612)	(13,578,621)
Non-monetary liabilities	CPI	-	(1,997,377)
Income accounts	CPI	<u>(1,867,659)</u>	<u>(1,464,068)</u>
Total (charges) / credits		(25,395,557)	(27,044,348)
Price-level restatement net income		<u><u>39,274</u></u>	(2,900,202)

NOTE 22 - EXCHANGE DIFFERENCES

The effects of exchange differences during the year 2002 amounted to a net charge to income of ThCh\$ 4,096,789 (ThCh\$ 30,981,180 in 2001), and is summarized as follows:

<u>Item</u>	<u>Currency</u>	<u>2002</u> ThCh\$	<u>2001</u> ThCh\$
Assets (charges) / credits			
Time deposits	Dollars	5,721,772	(130,130)
Notes and accounts receivable from related companies	Dollars	4,716,750	8,947,370
Forward contracts	Dollars	858,226	1,840,167
Swap contracts	Dollars	<u>5,059,856</u>	<u>(9,787,569)</u>
Total (charges) / credits		16,356,604	869,838
Liabilities (charges) / credits			
Notes and accounts payable to related companies	Dollars	(1,904)	(12,804,629)
Bonds payable	Dollars	(20,295,813)	(19,046,389)
Accounts payable	Dollars	<u>(155,676)</u>	<u>-</u>
Total (charges) / credits		(20,453,393)	(31,851,018)
Net loss from exchange differences		(4,096,789)	(30,981,180)

NOTE 23 - DEBT SECURITY ISSUANCE EXPENSES

Expenses incurred in debt securities issued in the local and foreign markets include: stamp tax, placement fees, legal services, financial services, risk classification reports, and printing costs.

	<u>Local</u> ThCh\$	<u>12/31/2002</u> <u>Abroad</u> ThCh\$	<u>Total</u> ThCh\$
<u>Composition</u>			
Bond issuance expenses	2,426,536	6,826,243	9,252,779
Amortization	<u>(339,369)</u>	<u>(744,681)</u>	<u>(1,084,050)</u>
Total	2,087,167	6,081,562	8,168,729

Balance sheet presentation

Other current assets	339,369	744,681	1,084,050
Other - Others	<u>1,747,798</u>	<u>5,336,881</u>	<u>7,084,679</u>
Total	2,087,167	6,081,562	8,168,729

	12/31/2001		
	<u>Local</u>	<u>Abroad</u>	<u>Total</u>
	ThCh\$	ThCh\$	ThCh\$
<u>Composition</u>			
Bond issuance expenses	2,709,345	7,446,811	10,156,156
Amortization	<u>(282,808)</u>	<u>(620,568)</u>	<u>(903,376)</u>
Total	2,426,537	6,826,243	9,252,780
<u>Balance sheet presentation</u>			
Other current assets	339,370	744,680	1,084,050
Other - Others	<u>2,087,167</u>	<u>6,081,563</u>	<u>8,168,730</u>
Total	2,426,537	6,826,243	9,252,780

NOTE 24 - DERIVATIVE CONTRACTS

The Company maintains forward contracts and swaps to hedge the risk of exchange rate fluctuations of short-term trade accounts receivable and long – term bond payables, as follows:

Type of derivative	Type of contract	Nominal value	Maturity	Contract Description				Value of hedged item	Accounts effected			
				Specific item	Position purchase/sale	Item or transaction hedged			Asset/Liability	Effect in income		
						Name	Amount			Name	Amount	Realized
		ThCh\$					ThCh\$	ThCh\$		ThCh\$	ThCh\$	ThCh\$
S	CCPE	00,000,000	2 nd Quarter 2006	Exchange rate(US\$)	P	US\$ Bonds	67,900,000	71,861,000	Bond Payable	1,959,919	(462,476)	2,559,629
S	CCPE	50,000,000	4 th Quarter 2006	Exchange rate(US\$)	P	US\$ Bonds	35,830,500	35,930,500	Bond Payable	4,089,799	(541,266)	1,362,547
S	CCTE	20,000,000	4 th Quarter 2006	Exchange rate(US\$)	P	US\$ Bonds	14,110,000	14,372,200	Bond Payable	1,307,427	(192,471)	542,341
FR	CCPE	30,000,000	1 st Quarter 2003	Exchange rate(US\$)	P	US\$ Bonds	22,500,000	21,558,300	Other current liabilities	941,700	-	(941,700)
FR	CCPE	30,000,000	2 nd Quarter 2003	Exchange rate(US\$)	P	US\$ Bonds	22,830,000	21,684,000	Other current liabilities	1,146,000	-	(1,146,000)

NOTE 25 - CONTINGENCIES AND RESTRICTIONS

a) Restrictions to Management

As a result of the obligations incurred in the bond offerings, the Company is required to meet specific ratios and obligations, including:

Maintain at all times assets free from any encumbrance, assets with a book value equal to or greater than one point two times the book value of the issuer's total obligations and debts which are not pledged as actual guarantees on goods and assets owned. These obligations include debts arising from the aforementioned bond offering.

Prohibition to sell, assign, transfer, contribute or dispose of the issuer's primary assets in any way.

Maintain an individual and consolidated leverage ratio whereby the proportion of Total liabilities/Total capitalization is not greater than zero point seven times.

Maintain at all times an individual and consolidated minimum equity equal to fifteen million Unidades de Fomento.

b) Direct obligations

There are no direct obligations.

c) Indirect obligations

There are no guarantors or guarantees issued arising from indirect obligations.

d) Pending lawsuits

At December 31, 2002 there are pending lawsuits filed against the Company, in response to which it has instituted the corresponding defense, representing a total of ThCh\$ 30,712.

Management believes that no significant contingencies will result from the pending lawsuits.

e) Others

On December 5, 2002 the Superintendence of Electricity and Gas by notice N° 7183 filed charges against the Company for its alleged responsibility in the interruption of the electricity supply in the Sistema Interconectado Central that occurred on September 23, 2002. As of December 31, 2002, the Company was preparing its answer. The Administration believes that because the event was a "force majeure", the Company does not bear any responsibility with such event.

As of December 31, 2002, the Company had notified in writing to Empresa Eléctrica Guacolda S.A. and Empresa Nacional de Electricidad S.A., its intention of initiating arbitration proceedings with respect to matters dealing with the amounts these companies should pay to HQI Transelec Chile S.A. for basic and additional tolls and in conformity with Article No. 51 G of D.F.L. No. 1 from 1982 of the Ministry of Mining. The effects of this contingent situation, will be recognized in accordance with generally accepted accounting principles, when realized, at the end of the proceedings.

f) Direct guarantees

<u>Creditor of guarantee</u>	<u>Debtor</u>	<u>Type of guarantee</u>	<u>Book value of compromised assets</u>	<u>Balance pending at 12/31/2002</u>	<u>12/31/2001</u>	<u>Guarantees to be released 12/31/2003</u>
			ThCh\$	ThCh\$	ThCh\$	ThCh\$
Banco Santiago	Conama	Guaranty	946,813	946,813	947,176	946,813

NOTA 26 - GUARANTEES OBTAINED FROM THIRD PARTIES

At December 31, 2002 the Company has received financial guarantees from contractors and third parties for the completion of constructions, maintenance work and repayment of housing loans, amounting to ThCh\$ 1,381,561 (ThCh\$ 1,407,876 at December 31, 2001).

NOTE 27 - LOCAL AND FOREIGN CURRENCY

Assets and liabilities held in foreign currency have been translated to Chilean pesos at their respective exchange rates at each year-end and are summarized as follows (see conversion rates in Note 2 f):

a) Assets

		<u>2002</u>	<u>2001</u>
<u>Current assets</u>		ThCh\$	ThCh\$
Cash and banks	Pesos	177,849	112,151
Cash and banks	Dollars	29,569	11,204
Time deposits	Dollars	102,575,396	84,318,703
Marketable securities	Pesos	-	3,048,994
Trade accounts receivable	Pesos	12,041,223	9,202,615
Sundry debtors	Pesos	432,367	285,024
Inventories	Pesos	80,731	81,145
Recoverable taxes	Pesos	-	1,524,266
Prepaid expenses	Pesos	601,535	674,724
Other current assets - resale agreements	UF	14,582,500	4,552,640
Other current assets	Pesos	1,742,810	1,708,769
Other current assets	Dollars	683,359	
Accounts receivable from related companies	Dollars	8,958,412	2,461,069
Deferred taxes	Pesos	42,314	185,306
<u>Fixed assets</u>			
Fixed assets	Pesos	494,948,884	486,853,373
<u>Other assets</u>			
Investments in other related companies	Pesos	55,825	38,256
Goodwill	Pesos	96,052,406	101,897,261
Long-term debtors	UF	212,277	455,114
Accounts receivable from related companies	Dollars	80,276,160	75,003,994
Intangibles	Pesos	23,833,712	23,848,476
Amortization of intangibles	Pesos	(2,276,305)	(1,622,762)
Long-term deferred taxes	Pesos	17,473,664	20,244,468
Other assets	Pesos	<u>10,927,737</u>	<u>12,579,285</u>
Total assets	Pesos	<u>656,134,752</u>	<u>660,661,351</u>
	Dollars	<u>192,522,896</u>	<u>161,794,970</u>
	UF	<u>14,794,777</u>	<u>5,007,754</u>

b) Current liabilities

Item	Currency	Up to 90 days				90 days to 1 year			
		2002		2001		2002		2001	
		Amount	Average annual	Amount	Average annual	Amount	Average annual	Amount	Average annual
			rate		rate		rate		rate
		ThCh\$	%	ThCh\$	%	ThCh\$	%	ThCh\$	%
Interest payable - bonds	UF	3,135,741	6,2	3,136,961	6,2	-	-	-	-
Interest payable - bonds	Dollars	-		-		5,710,634	7,875	5,431,035	7,875
Accounts payable	Pesos	7,008,966		4,047,990		-	-	-	
Sundry creditors	Pesos	3,266,269		2,344,061					
Withholdings	Pesos	981,582		1,343,374					
Other current liabilities	Pesos	-		13,187					
Notes and accounts payable related companies	Pesos	529,021		278,264					
Deferred taxes	Pesos	1,058,564		-					
Provisions	Pesos	1,178,174		1,155,312					
Forward contract	Pesos	<u>2,087,700</u>		<u>610,584</u>					
	UF	3,135,741		3,136,961					
	Dollars					<u>5,710,634</u>		<u>5,431,035</u>	
	Pesos	<u>16,110,276</u>		<u>9,792,772</u>					

c) Long-term liabilities 12/31/2002

<u>Item</u>	<u>Currency</u>	<u>1 to 3 years</u>		<u>3 to 5 years</u>		<u>5 to 10 years</u>		<u>More than 10 years</u>	
		<u>Amount</u>	<u>Average annual rate</u>	<u>Amount</u>	<u>Average annual rate</u>	<u>Amount</u>	<u>Average annual rate</u>	<u>Amount</u>	<u>Average annual rate</u>
		ThCh\$	%	ThCh\$	%	ThCh\$	%	ThCh\$	%
Bonds payable	Dollars			-	-	334,153,650	7,875	-	-
Bonds payable	UF	-		100,464,720	6,2	5,358,118	6,2	48,223,066	6,2
Provisions	Pesos	1,192,343		-	-	-		-	
Other liabilities – long term	Pesos	34,789		-	-			-	
Swap contracts	Dollars	-		7,357,145	7,875			-	
Total long-term liabilities	Dollars			7,357,145		334,153,650			
	UF			100,464,720		5,358,118		48,223,066	
	Pesos	1,227,132							

d) Long-term liabilities 12/31/2001

<u>Item</u>	<u>Currency</u>	<u>1 to 3 years</u>		<u>3 to 5 years</u>		<u>5 to 10 years</u>		<u>More than 10 years</u>	
		<u>Amount</u>	<u>Average annual rate</u>	<u>Amount</u>	<u>Average annual rate</u>	<u>Amount</u>	<u>Average annual rate</u>	<u>Amount</u>	<u>Average annual rate</u>
		ThCh\$	%	ThCh\$	%	ThCh\$	%	ThCh\$	%
Bonds payable	Dollars					313,611,671	7,875	-	-
Bonds payable	UF	-				105,863,411	6,2	48,241,555	6,2
Long-term provisions	Pesos	1,338,278		-	-	-		-	-
Swap contract	Dollars	-		12,634,398	7,875			-	
Other liabilities - long term	Pesos	<u>35,832</u>		<u>-</u>		<u>-</u>		<u>-</u>	
Total long-term liabilities	Dollars			<u>12,634,398</u>		<u>313,611,671</u>			
	UF					<u>105,863,411</u>		<u>48,241,555</u>	
	Pesos	<u>1,374,110</u>							

NOTA 28 - SANCTIONS

During 2002 and 2001, the Company, its Directors and Management have not been sanctioned by the Superintendent of Securities and Insurance Companies.

NOTE 29 - SUBSEQUENT EVENTS

There have been no subsequent events between December 31, 2002 and the date these financial statements were issued, which could significantly affect their interpretation.

NOTE 30 - ENVIRONMENTAL EXPENSES

At December 31, 2002, the Company has made no disbursements related with this concept.

Juan Carlos Rodríguez
Accountant

Guillermo Espinosa
General Manager