

HQI TRANSELEC CHILE S.A AND SUBSIDIARY

Consolidated financial statements

December 31, 2003

(A free translation from the original in Spanish)

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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 

REPORT OF INDEPENDENT ACCOUNTANTS

(A free translation from the original in Spanish)

Santiago, February 2, 2004

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

We have audited the accompanying consolidated balance sheets of HQI Transelec Chile S.A. and subsidiary as of December 31, 2003 and 2002, and the related consolidated statements of income and of cash flows for the years then ended. These financial statements (including the corresponding 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of HQI Transelec Chile S.A. and subsidiary as of December 31, 2003 and 2002 and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Chile.

Luis Perera Aldama
RUT: 14.746.458-1

HQI TRANSELEC CHILE S.A. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEET

(Translation from the original in Spanish)

<u>ASSETS</u>	At December 31,		<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>	At December 31,	
	<u>2003</u>	<u>2002</u>		<u>2003</u>	<u>2002</u>
	ThCh\$	ThCh\$		ThCh\$	ThCh\$
CURRENT ASSETS			CURRENT LIABILITIES		
Cash and banks	3,114,617	209,492	Bonds payable - short term portion	7,887,475	8,934,839
Time deposits	34,060,429	103,601,150	Accounts payable	5,871,148	7,079,056
Trade accounts receivable	15,806,607	12,161,635	Sundry creditors	4,699,731	3,298,932
Sundry debtors	391,773	436,691	Notes and accounts payable to related companies	875,330	534,311
Notes and accounts receivable from related companies	1,988,273	9,047,996	Provisions	1,356,845	1,189,956
Inventories	45,008	81,538	Withholdings	166,577	991,398
Recoverable taxes	1,860,122	-	Income taxes	2,541,386	1,069,150
Prepaid expenses	504,630	607,550	Other current liabilities	3,659,000	2,108,576
Deferred taxes	708,360	42,737			
Other current assets	<u>4,676,498</u>	<u>17,178,757</u>			
Total current assets	<u>63,156,317</u>	<u>143,367,546</u>	Total current liabilities	<u>27,057,492</u>	<u>25,206,218</u>
FIXED ASSETS			LONG-TERM LIABILITIES		
Land	6,368,850	5,568,148	Long-term bonds payable	461,064,638	500,512,266
Buildings and infrastructure	399,660,041	310,488,475	Provisions	1,192,658	1,204,266
Machinery and equipment	257,627,466	237,331,833	Other long-term liabilities	-	<u>35,137</u>
Other fixed assets	1,811,008	1,705,695	Total long-term liabilities	<u>462,257,296</u>	<u>501,751,669</u>
Increase in value from technical reappraisal	21,924,614	22,828,806			
Accumulated depreciation	<u>(93,900,841)</u>	<u>(78,024,584)</u>	MINORITY INTEREST	<u>1,898</u>	<u>-</u>
Total fixed assets, net	<u>593,491,138</u>	<u>499,898,373</u>			
OTHER ASSETS			SHAREHOLDERS' EQUITY		
Investments in other companies	119,635	56,383	Paid-in capital	332,640,946	332,640,946
Goodwill	91,463,046	97,012,930	Accumulated losses	(674,566)	(1,989,002)
Long-term debtors	112,261	214,400	Net income for the year	<u>15,712,920</u>	<u>14,477,119</u>
Notes and accounts receivable from related companies - long term	41,791,692	81,078,922	Total shareholders' equity	347,679,300	345,129,063
Intangibles	24,341,195	24,072,049			
Amortization of intangibles	(2,951,423)	(2,299,068)			
Deferred taxes	16,190,524	17,648,401			
Other	<u>9,281,601</u>	<u>11,037,014</u>			
Total other assets	<u>180,348,531</u>	<u>228,821,031</u>			
Total assets	<u>836,995,986</u>	<u>872,086,950</u>	Total liabilities and shareholders' equity	<u>836,995,986</u>	<u>872,086,950</u>

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

HQI TRANSELEC CHILE S.A.AND SUBSIDIARY

CONSOLIDATED STATEMENT OF INCOME

(Translation from the original in Spanish)

	For the year ended December 31,	
	<u>2003</u>	<u>2002</u>
	ThCh\$	ThCh\$
OPERATING RESULTS		
Revenues	93,927,361	90,563,242
Cost of sales	(28,003,679)	(25,108,802)
Gross margin	65,923,682	65,454,440
Administrative and selling expenses	(3,727,323)	(3,120,779)
Operating income	<u>62,196,359</u>	<u>62,333,661</u>
NON-OPERATING RESULTS		
Financial income	5,633,734	8,875,931
Other non-operating income	764,378	921,045
Goodwill amortization	(5,549,884)	(5,549,884)
Financial expenses	(37,624,482)	(38,530,486)
Other non-operating expenses	(3,969,554)	(5,075,996)
Price-level restatement	(492,200)	39,667
Exchange differences	<u>116,692</u>	<u>(4,137,757)</u>
Non-operating results	<u>(41,121,316)</u>	<u>(43,457,480)</u>
Income before income taxes and minority interest	21,075,043	18,876,181
Income tax	<u>(5,362,006)</u>	<u>(4,399,062)</u>
Income before minority interest	15,713,037	14,477,119
Minority interest	<u>(117)</u>	<u>-</u>
NET INCOME FOR THE YEAR	<u>15,712,920</u>	<u>14,477,119</u>

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

HQI TRANSELEC CHILE S.A. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS

(Translation from the original in Spanish)

	For the year ended December 31,	
	<u>2003</u>	<u>2002</u>
	ThCh\$	ThCh\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	15,712,920	14,477,119
Charges (credits) to income not representing cash flows:		
Loss on sale of fixed assets	97,350	68,288
Depreciation	17,810,831	15,477,795
Amortization of intangibles	666,262	648,989
Amortization of goodwill	5,549,884	5,549,884
Write-offs and provisions	3,371,963	4,140,330
Price-level restatement	492,200	(39,667)
Exchange differences	(116,692)	4,137,757
Other charges to income not representing cash flows	1,756,229	1,750,611
 (Increase) decrease in assets:		
Trade accounts receivable and sundry debtors	(3,600,052)	(3,015,810)
Inventories	36,530	418
Value added tax and other taxes	(1,008,606)	-
Other assets	1,034,964	(6,225,300)
 Increase (decrease) in liabilities:		
Accounts payable and sundry creditors	1,732,010	6,051,017
Interest payable	(1,047,364)	281,163
Income tax payable (net)	1,412,974	5,551,593
Value added tax and other taxes	(1,673,377)	(229,405)
Minority interest	117	-
Net cash flows provided by operating activities	<u>42,228,143</u>	<u>48,624,782</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Other financing sources	1,781	-
Bonds payable	<u>(12,277,926)</u>	<u>-</u>
Net cash flows used in financing activities	<u>(12,276,145)</u>	<u>-</u>
 CASH FLOWS FROM INVESTMENT ACTIVITIES		
Sale of fixed assets	442,319	293,560
Collection of related company loans	28,973,455	-
Purchase of fixed assets	(127,110,729)	(27,555,153)
Other loans to related companies	-	(385,671)
Long term investments	<u>(63,253)</u>	<u>(17,745)</u>
Net cash flows used in investing activities	<u>(97,758,208)</u>	<u>(27,665,009)</u>
 Total net cash flow for the year	<u>(67,806,210)</u>	<u>20,959,773</u>
 EFFECT OF INFLATION AND EXCHANGE ON CASH AND CASH EQUIVALENTS	<u>(11,276,478)</u>	<u>5,305,259</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>(79,082,688)</u>	<u>26,265,032</u>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>119,229,160</u>	<u>92,964,128</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>40,146,472</u>	<u>119,229,160</u>
	=====	=====

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

HQI TRANSELEC CHILE S.A. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AT DECEMBER 31, 2003 AND 2002

(Translation from the original in Spanish)

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 Compañía 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) Accounting period

The consolidated financial statements relate to the twelve-month period between January 1 and December 31, 2003 and 2002.

b) Basis of preparation

The consolidated financial statements of HQI Transelec Chile S.A. at December 31, 2003 and 2002 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 and include the assets, liabilities and results of the Company and its 99.99% owned subsidiary, HQI Transelec Norte S.A. In case of discrepancies, specific instructions and regulations issued by the Superintendent of Securities and Insurance Companies will prevail.

In relation to the Company's subsidiary, the difference between the investment account controlled in pesos and total shareholders' equity of the subsidiary controlled in United States dollars is recorded in the account Cumulative Translation Adjustment under Other reserves.

The Company has considered, as allowed by Technical Bulletin No. 64, bonds issued abroad up to the amount invested of US\$ 30,002,000 as a hedge instrument of the risk associated with foreign currency fluctuations.

c) Price-level restatement

The consolidated 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 1.0% for the year ended December 31, 2003 (3.0% in 2002). In addition, income statement accounts have been restated to their year-end values.

The financial statements of the Company's subsidiary HQI Transelec Norte S.A. are prepared in US dollars and translated to Chilean pesos for consolidation purposes at the exchange rate prevailing at December 31, 2003.

d) 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 expected to be not significant.

e) 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>2003</u>	<u>2002</u>
Unidad de Fomento	16,920.00	16,744.12
United States dollar	593.80	718.61
Euro	744.95	741.75

f) Time deposits

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

g) 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.

h) Allowance for doubtful accounts

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

i) Fixed assets

Fixed assets are valued at restated purchase cost or contribution value at year end. The costs of financing work in progress have been capitalized during construction period. Consequently, financial expenses amounting to ThCh\$ 1,233,019 were capitalized in 2003 and ThCh\$ 2,031,844 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.

j) 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.

k) 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.

l) Staff 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 discount 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.

m) 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 date, based on the period of reversal.

n) 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.

o) 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.

p) 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.

q) 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 Statement of Income.

r) 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, 2003, that could affect significantly the interpretation of these consolidated financial statements.

NOTE 4 - SHORT - AND LONG-TERM DEBTORS

Debtors are summarized as follows:

a) Trade accounts receivable short-term

	<u>2003</u>	<u>2002</u>
	ThCh\$	ThCh\$
Tolls and transmission charges	15,682,159	12,001,059
Services provided to other parties	<u>124,448</u>	<u>160,576</u>
Total	15,806,607	12,161,635
	=====	=====

b) Trade accounts receivable short and long-term

	Current Up to 90 days		Current between 90 and 1 year		Total Current		Long-term	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Tolls and transmission charges	14,955,106	11,488,071	851,501	673,564	15,806,607	12,161,635	-	-
Sundry debtors	<u>391,773</u>	<u>436,691</u>	<u>-</u>	<u>-</u>	<u>391,773</u>	<u>436,691</u>	<u>112,261</u>	<u>214,400</u>
Total	<u>15,346,879</u>	<u>11,924,762</u>	<u>851,501</u>	<u>673,564</u>	<u>16,198,380</u>	<u>12,598,326</u>	<u>112,261</u>	<u>214,400</u>

NOTE 5 - BALANCES AND TRANSACTIONS WITH RELATED COMPANIES

Significant balances and transactions with related companies are as follows:

a) Notes and accounts receivable

1. The receivable balance as of December 31, 2003 originates in a loan granted on April 17, 2001 to Inversiones HQI Chile Holding Ltda. (currently HQI Chile Holding S.A.) for an amount of ThUS\$ 169,354. On July 31, 2001 Inversiones HQI Chile Holding Ltda. prepaid ThUS\$ 62,000 part 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 monthly will be paid mainly from the dividends that Inversiones HQI Chile Holding Ltda. will receive from HQI Transelec Chile S.A., first for payment of accrued interest and then for principal amortization. As such, on April, 17, 2003, Inversiones HQI Chile Holding Ltda., made a partial payment for an amount of ThUS\$ 17,322 of which ThUS\$ 2,288 corresponded to principal and ThUS\$ 15,034 to interests. On May 27, 2003, Inversiones HQI Chile Holding Ltda. made another partial payment of ThUS\$ 40,000 of which ThUS\$ 39,043 corresponded to capital and ThUS\$ 957 to interests.

<u>Tax ID Number</u>	<u>Company</u>	<u>Current</u>		<u>Long-term</u>	
		<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
		ThCh\$	ThCh\$	ThCh\$	ThCh\$
77,498,840-8	Inversiones HQI Chile Holding Ltda.	<u>1,988,273</u>	<u>9,047,996</u>	<u>41,791,692</u>	<u>81,078,922</u>
Total		<u>1,988,273</u>	<u>9,047,996</u>	<u>41,791,692</u>	<u>81,078,922</u>

b) Notes and accounts payable

The balance at December 31, 2003 corresponds to services provided by Hydro Québec not yet paid by the Company.

<u>Tax ID Number</u>	<u>Company</u>	<u>Short-term</u>	
		<u>2003</u>	<u>2002</u>
		ThCh\$	ThCh\$
Foreign	Hydro Québec	<u>875,330</u>	<u>534,311</u>
Total		<u>875,330</u>	<u>534,311</u>

c) Transactions

<u>Company</u>	<u>Tax ID Number</u>	<u>Relationship</u>	<u>Nature of transaction</u>	<u>2003</u>		<u>2002</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\$
HQI Chile Holding S.A.	77,498,840-8	Parent company	Loans granted	-	4,757,646	362,898	13,304,042
			Reimbursement expenses	-	-	33,907	-
			Collection of loans	40,555,235	-	-	-
Hydro Québec	Foreign	Ultimate parent company	Services received	1,610,797	(683,427)	1,112,714	(608,870)

NOTE 6 - DEFERRED TAXES AND INCOME TAXES

a) General Information

At December, 31 2003, the Company made a provision for income taxes amounting to ThCh\$ 4,332,135 (ThCh\$2,199,278 in 2002) considering a tax basis of ThCh\$ 26,255,366 (ThCh\$ 13,745,490 in 2002).

Under this concept, its subsidiary provisioned an amount of ThCh\$ 231,633, considering a tax basis of ThCh\$ 1,403,834 at December 31, 2003.

During 2003, income tax provision is recorded in short-term liabilities and shown under Income tax, according to the following details:

	<u>2003</u>	<u>2002</u>
	ThCh\$	ThCh\$
Income tax provision	(4,563,768)	(2,199,278)
Other taxes	<u>(5,985)</u>	<u>(7,187)</u>
Subtotal	<u>(4,569,753)</u>	<u>(2,206,465)</u>
Provisional monthly payments	1,983,367	1,124,417
Other tax credits	<u>45,000</u>	<u>12,898</u>
Total	<u>(2,541,386)</u>	<u>(1,069,150)</u>
	=====	=====

b) Deferred taxes

As described in Note 2 m), deferred taxes have been adjusted in 2003 and 2002 to recognize the effect of the changes in the rate introduced by the tax reform published in September 2001.

	2003				2002			
Temporary differences	Deferred tax asset		Deferred tax liability		Deferred tax asset		Deferred tax liability	
	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term
	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Accrued employee vacations	78,225	-	-	-	63,131	-	-	-
Fixed asset depreciation	-	-	-	858,173	-	-	-	899,148
Accrued employee severance benefits	-	-	-	199,570	-	-	-	211,488
Other events	26,400	-	-	-	33,547	-	-	-
Capitalization of financial expenses	-	-	-	561,796	-	-	391,313	-
Increase in value of fixed assets (absorption)	-	19,871,583	-	-	-	20,611,587	-	-
Fixed assets (ex leasing)	-	-	-	3,783,072	-	-	-	3,570,085
Write - off of assets	-	268,087	-	-	-	192,927	-	-
Prepaid expenses	-	-	-	1,216,439	-	-	-	1,402,571
Forward contracts	603,735	-	-	-	337,372	-	-	-
Swap contracts	-	957,783	-	-	-	1,136,058	-	-
Complementary accounts - net of amortization	-	-	-	(1,712,121)	-	-	-	(1,791,121)
Total	708,360	21,097,453	-	4,906,929	434,050	21,940,572	391,313	4,292,171

c) Income taxes

<u>Item</u>	<u>2003</u>	<u>2002</u>
	ThCh\$	ThCh\$
Current tax expense	(4,569,753)	(2,206,465)
Deferred tax effect	(713,253)	(2,112,217)
Amortization on deferred tax complementary accounts	<u>(79,000)</u>	<u>(80,380)</u>
Total income tax	(5,362,006) =====	(4,399,062) =====

NOTE 7 - OTHER CURRENT ASSETS

Other current assets is summarized as follows:

	<u>2003</u>	<u>2002</u>
	ThCh\$	ThCh\$
Securities under resale agreements	2,971,426	15,418,518
Bond issue costs	1,094,891	1,094,891
Bond issue discount	610,181	616,221
Others	<u>-</u>	<u>49,127</u>
Total	4,676,498 =====	17,178,757 =====

NOTE 8 - INFORMATION ABOUT PURCHASES UNDER REPURCHASE AND RESALE AGREEMENTS OF SECURITIES

At December 31, 2003 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>value</u>		<u>value</u>
					ThCh\$	%	ThCh\$		ThCh\$
CRV	12/23/2003	01/06/2004	Banco Santander Santiago	Pesos	300,000	0.20	300,280	BCD	300,160
CRV	12/23/2003	01/07/2004	Banco Santander Santiago	Pesos	100,000	0.20	100,100	BCD	100,053
CRV	12/23/2003	01/08/2004	Banco Santander Santiago	Pesos	200,000	0.20	200,000	BCD	200,107
CRV	12/30/2003	04/12/2004	Banco Santander Santiago	Pesos	450,000	0.16	450,312	BCP	450,024
CRV	12/29/2002	01/07/2004	Banco Chile	Pesos	1,808,957	1.70	1,724,534	BCD	1,811,179
CRV	12/16/2003	01/07/2004	Banco Crédito e Inversiones	Pesos	45,000	0.19	45,063	BCP	44,870
CRV	12/23/2003	01/12/2004	Banco Crédito e Inversiones	Pesos	65,000	0.20	65,087	BCP	65,033

NOTE 9 - FIXED ASSETS

Fixed assets are summarized as follows:

	2003			2002		
	Gross value	Accumulated depreciation	Net value	Gross value	Accumulated depreciation	Net value
	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Land, rights and others	<u>6,368,850</u>	<u>-</u>	<u>6,368,850</u>	<u>5,568,148</u>	<u>-</u>	<u>5,568,148</u>
Buildings and infrastructure						
Buildings	7,685,624	(1,449,619)	6,236,005	6,633,854	(1,191,793)	5,442,061
Access roads	360,594	(58,429)	302,165	360,622	(48,155)	312,467
Lines	317,140,690	(36,211,035)	280,929,655	256,163,307	(29,549,445)	226,613,862
Houses and apartments	527,277	(254,832)	272,445	588,954	(242,362)	346,592
Non-hydraulic civil projects	25,169,193	(3,695,331)	21,473,862	19,237,221	(2,941,248)	16,295,973
Work in progress	<u>48,776,663</u>	<u>-</u>	<u>48,776,663</u>	<u>27,504,517</u>	<u>-</u>	<u>27,504,517</u>
	<u>399,660,041</u>	<u>(41,669,246)</u>	<u>357,990,795</u>	<u>310,488,475</u>	<u>(33,973,003)</u>	<u>276,515,472</u>
Machinery and equipment						
Telecommunication equipment	7,769,149	(2,953,967)	4,815,182	6,256,497	(3,519,579)	2,736,918
Furniture, machinery and office equipment	209,492	(112,320)	97,172	203,061	(100,573)	102,488
Service equipment	35,389	(15,373)	20,016	22,452	(14,906)	7,546
Tools and instruments	1,796,462	(1,168,143)	628,319	1,607,107	(1,131,962)	475,145
Power generation unit	542,601	(105,193)	437,408	502,476	(90,626)	411,850
Electrical equipment	208,438,670	(35,977,657)	172,461,013	193,814,227	(29,457,958)	164,356,269
Protection and mechanical equipment	35,980,292	(6,123,077)	29,857,215	32,488,701	(4,727,561)	27,761,140
Transportation and loading equipment	728,263	(382,975)	345,288	687,277	(397,183)	290,094
Computers	563,906	(312,537)	251,369	411,687	(302,271)	109,416
Software	<u>1,563,242</u>	<u>(879,056)</u>	<u>684,186</u>	<u>1,338,348</u>	<u>(559,686)</u>	<u>778,662</u>
Subtotal	<u>257,627,466</u>	<u>(48,030,298)</u>	<u>209,597,168</u>	<u>237,331,833</u>	<u>(40,302,305)</u>	<u>197,029,528</u>
Subtotal fixed assets	<u>663,656,357</u>	<u>(89,699,544)</u>	<u>573,956,813</u>	<u>553,388,456</u>	<u>(74,275,308)</u>	<u>479,113,148</u>
Construction materials	<u>1,811,008</u>	<u>-</u>	<u>1,811,008</u>	<u>1,705,695</u>	<u>-</u>	<u>1,705,695</u>
Increased value from technical reappraisal	<u>21,924,614</u>	<u>(4,201,297)</u>	<u>17,723,317</u>	<u>22,828,806</u>	<u>(3,749,276)</u>	<u>19,079,530</u>
Total fixed assets	<u>687,391,979</u>	<u>(93,900,841)</u>	<u>593,491,138</u>	<u>577,922,957</u>	<u>(78,024,584)</u>	<u>499,898,373</u>
	=====	=====	=====	=====	=====	=====

Depreciation for 2003 totaled ThCh\$ 17,810,831 (ThCh\$ 15,477,795 in 2002). The amount of ThCh\$ 17,439,948 was charged to Cost of sales (ThCh\$ 15,248,692 in 2002) and ThCh\$ 370,883 (ThCh\$ 229,103 in 2002) was recorded in Administrative and selling expenses.

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

On May 29, 2003, the subsidiary purchased electrical transmission assets from Compañía Eléctrica de Tarapacá S.A. (CELTA), for a total amount of US\$ 29,157,000.

On July 17, 2003, the subsidiary purchased electrical transmission assets from GasAtacama Generación Ltda. (GasAtacama), for a total amount of US\$ 77,000,000.

NOTE 10 - INVESTMENT IN OTHER COMPANIES

This balance corresponds to a 7.69% 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. It also includes the 14.29% participation that the subsidiary has in Sociedad Centro de Despacho Económico de Carga del Sistema Interconectado del Norte Grande (SING), whose exclusive objective is to manage, operate and coordinate the direction and operation of the electrical system.

<u>Tax ID Number</u>	<u>Company</u>	<u>Percentage of participation</u>	<u>Book value at</u>	
			<u>2003</u>	<u>2002</u>
		%	ThCh\$	ThCh\$
77,286,570-8	CDEC-SIC Ltda.	7.69	56,383	56,383
77,345,310-1	CDEC-SING Ltda.	14.29	<u>63,252</u>	<u>-</u>
Total investment in other companies			119,635	56,383
			=====	=====

NOTE 11 - GOODWILL

a) Goodwill is summarized as follows:

	<u>Year ended December 31,</u>	
	<u>2003</u>	<u>2002</u>
	ThCh\$	ThCh\$
Opening balance	109,477,162	109,830,581
Transfer to Deferred taxes (1)	<u>-</u>	<u>(353,419)</u>
	109,477,162	109,477,162
Amortization of goodwill	<u>(18,014,116)</u>	<u>(12,464,232)</u>
	91,463,046	97,012,930
	=====	=====

(1) Corresponds to deferred tax credit generated by the adjusted price payment on July, 2001 for a total amount of ThCh\$ 1,968,870 assigned to the taxable fixed assets.

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

<u>Tax ID Number</u>	<u>Company</u>	<u>2003</u>		<u>2002</u>	
		<u>Amortization</u>	<u>Balance of</u>	<u>Amortization</u>	<u>Balance of</u>
		<u>during the year</u>	<u>goodwill</u>	<u>during the year</u>	<u>goodwill</u>
		ThCh\$	ThCh\$	ThCh\$	ThCh\$
96,659,380-6	Compañía Nacional de Transmisión Eléctrica S.A.	<u>5,549,884</u>	<u>91,463,046</u>	<u>5,549,884</u>	<u>97,012,930</u>
Total		<u>5,549,884</u>	<u>91,463,046</u>	<u>5,549,884</u>	<u>97,012,930</u>
		=====	=====	=====	=====

NOTE 12 - INTANGIBLES

Intangibles is summarized as follows:

	<u>2003</u>	<u>2002</u>
	ThCh\$	ThCh\$
Rights-of-way	24,341,195	24,072,049
Accumulated amortization	<u>(2,951,423)</u>	<u>(2,299,068)</u>
Net value	<u>21,389,772</u>	<u>21,772,981</u>
	=====	=====

The amortization charge to income amounted to ThCh\$ 666,262 in 2003 (ThCh\$ 648,989 in 2002).

NOTE 13 - OTHER ASSETS

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

	<u>2003</u>	<u>2002</u>
	ThCh\$	ThCh\$
Prepaid general expenses	301,842	345,911
Deferred expenses on bond placements – UF	1,422,513	1,765,276
Deferred expenses on bond placements - US\$	4,638,122	5,390,250
Discount on bond placements - UF	1,861,102	2,309,545
Discount on bond placements - US\$	1,034,625	1,202,402
Others	<u>23,397</u>	<u>23,630</u>
Total	<u>9,281,601</u>	<u>11,037,014</u>
	=====	=====

NOTE 14 - OTHER CURRENT LIABILITIES

Sundry creditors

The balance of this account at December 31, 2003 amounting to ThCh\$ 2,438,861 corresponds to provisions recorded to compensate differences in amounts received by the Company related with toll income. These differences originate from toll and transmission contracts undersigned by HQI Transelec Chile S.A. and its clients (principally electricity generation companies), that consider the recompensation of toll charges defined in the Electric Law (DFL No. 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, the Company 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. An amount of ThCh\$ 2,260,870 corresponds to guarantees of GasAtacama and Celta.

NOTE 15 - 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, 2003 the risk ratings obtained are the following:

<u>Rating agency</u>	<u>Rating</u>
Fitch Chile Clasificadora de Riesgo Limitada	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 : Expressed 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 semi-annually, 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 semi-annually in two semesters of 180 days each.

Interest payments : Semi-annually payments, upon maturity on March 1 and September 1 yearly, starting September 1, 2001. Interest accrued at December 31, 2003 amounts to ThCh\$ 3,168,679 (ThCh\$ 3,167,099 in 2002) 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, 2003 the risk ratings obtained are the following:

<u>Rating agency</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	:	Expressed 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 December 31, 2003 amounts to ThCh\$ 4,718,796 (ThCh\$ 5,767,740 in 2002) and is presented in Current liabilities.

c) Bonds

Register number or identification of bonds	Series	Nominal amount placed	Currency	Interest rate %	Maturity	Periodicity		Par value 31/12/2003 ThCh\$	Par value 31/12/2002 ThCh\$	Issued in Chile or abroad	
						Payment of interest	Amortization payments				
Long-term bonds (short-term portion)											
249	A1	40,712	UF	6.200	03/01/2004	Semester	At maturity	688,843	688,499	Chile	
249	A2	81,424	UF	6.200	03/01/2004	Semester	At maturity	1,377,687	1,377,000	Chile	
249	B1	4,071	UF	6.200	03/01/2004	Semester	Semester	68,884	68,850	Chile	
249	B2	61,068	UF	6.200	03/01/2004	Semester	Semester	1,033,265	1,032,750	Chile	
First offering	Sole	7,946,777	Dollars	7.875	04/15/2004	Semester	At maturity	4,718,796	5,767,740	Abroad	
Total long-term bonds (short-term portion)									7,887,475	8,934,839	
									=====	=====	
Long-term bonds											
249	A1	2,000,000	UF	6.200	03/01/2007	Semester	At maturity	33,840,000	33,823,122	Chile	
249	A2	4,000,000	UF	6.200	03/01/2007	Semester	At maturity	67,680,000	67,646,245	Chile	
249	B1	200,000	UF	6.200	03/01/2022	Semester	Semester	3,384,000	3,382,312	Chile	
249	B2	3,000,000	UF	6.200	03/01/2022	Semester	Semester	50,760,000	50,734,684	Chile	
First offering	Sole	465,000,000	Dollars	7.875	04/15/2011	Semester	At maturity	276,117,000	337,495,187	Abroad	
Swap contracts	3 contracts	7,315,503	UF	9.160	06/30/2006	Semester	At maturity	29,283,638	7,430,716	Chile	
Total long-term bonds									461,064,638	500,512,266	
									=====	=====	

NOTE 16 - PROVISIONS AND WRITE-OFFS

Provisions at each year-end are as follows:

	<u>2003</u>	<u>2002</u>
	ThCh\$	ThCh\$
a) Short-term provisions		
Employee severance indemnity benefits	119,608	55,701
Accrued payroll	634,704	561,583
Employee vacation benefits	474,096	394,568
Cost of accidents (lines and substations)	<u>128,437</u>	<u>178,104</u>
Total	<u>1,356,845</u>	<u>1,189,956</u>
	=====	=====
b) Long-term provisions		
Employee severance indemnity benefits	<u>1,192,658</u>	<u>1,204,266</u>
Total	<u>1,192,658</u>	<u>1,204,266</u>
	=====	=====

NOTE 17 - STAFF SEVERANCE INDEMNITIES

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

	<u>2003</u>	<u>2002</u>
	ThCh\$	ThCh\$
Opening balance	1,247,492	1,312,292
Price-level restatement	12,475	39,369
Provision for the year	<u>52,299</u>	<u>(91,694)</u>
Total	<u>1,312,266</u>	<u>1,259,967</u>
	=====	=====
Short-term	119,608	55,701
Long-term	<u>1,192,658</u>	<u>1,204,266</u>
Total	<u>1,312,266</u>	<u>1,259,967</u>
	=====	=====

NOTE 18 - MINORITY INTEREST

a) The minority interest corresponds to the other shareholder participation in the subsidiary as follows:

<u>Subsidiary</u>	<u>Equity</u>	<u>Participation</u>	<u>Participation</u>
	ThCh\$	Percentage	ThCh\$
HQI Chile Holding S.A.	18,984,715	0.01%	1,898
	=====	=====	=====

b) The minority interest corresponding to the participation in Net income is as follows:

<u>Subsidiary</u>	<u>Equity</u>	<u>Participation</u>	<u>Participation</u>
	ThCh\$	Percentage	ThCh\$
HQI Chile Holding S.A.	1,167,746	0.01%	117
	=====	=====	=====

NOTA 19 - SHAREHOLDERS' EQUITY

During 2003 and 2002, equity accounts had the following movements:

- (1) In accordance with Technical Bulletin No. 14 of the Chilean Institute of Accountants, the Company restated accumulated losses at January 1, 2002. This restatement relates to the write off of certain fixed assets identified during 2003 for a net amount of ThCh\$ 876,002.

	<u>Originally reported</u>	<u>Adjustment</u>	<u>As restated</u>
	ThCh\$	ThCh\$	ThCh\$
Accrued loss	(1,969,309)	-	(1,969,309)
Fixed assets write-off	<u>-</u>	<u>(876,002)</u>	<u>(876,002)</u>
Accrued loss	(1,969,309)	(876,002)	(2,845,311)
	=====	=====	=====

- (2) At June 30, 2002, the Company adjusted prior year income, making a correction in the deferred taxes of December 31, 2001 for a total amount of ThCh\$ 152,855, shown 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 2001	(5,342,065)	152,855	(5,189,210)
	=====	=====	=====

a) Changes in equity

	<u>12/31/2003</u>			<u>12/31/2002</u>		
	<u>Paid-in capital</u>	<u>Accumulated losses</u>	<u>Net income for the year</u>	<u>Paid-in capital</u>	<u>Accumulated losses</u>	<u>Net income (loss) for the year</u>
	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Opening balance	329,347,471	(1,969,309)	14,333,781	319,754,826	3,277,260	(5,342,065)
Allocation of prior-year income	-	14,333,781	(14,333,781)	-	(5,189,210)	5,189,210
Dividends paid	-	(12,364,472)	-	-	-	-
Correction of errors	-	(876,002)	-	-	-	152,855
Price-level restatement	3,293,475	201,436	-	9,592,645	(57,359)	-
Net income for the year	<u>-</u>	<u>-</u>	<u>15,712,920</u>	<u>-</u>	<u>-</u>	<u>14,333,781</u>
Ending balance	332,640,946	(674,566)	15,712,920	329,347,471	(1,969,309)	14,333,781
	=====	=====	=====	=====	=====	=====
Restated balance				332,640,946	(1,989,002)	14,477,119
				=====	=====	=====

b) Dividends

At April 17, 2003, the Company paid dividends corresponding to 2002 net income, for a total amount of ThCh\$ 12,364,472.

c) Ownership changes

The extraordinary shareholders' of HQI Transelec Chile S.A. meeting held on April 23, 2003 agreed the creation of two new series of shares and exchange for existing ordinary shares in a proportion of one to one. As a result of the exchange, the Company's shareholders are: Inversiones HQI Chile Holding Ltda. with 889,900 series A shares and 110,000 series B shares and HQ Puno Ltd. with 100 series A shares. The series B shares have preference with respect to dividend payments and to its rights in an eventual liquidation of the Company.

On April 30, 2003, International Finance Corporation ("IFC") acquired 110,000 series B shares from HQI Chile Holding Ltda., representing an 11% of capital stock of the Company.

As such, the following institutions remain as shareholders:

1. Inversiones HQI Chile Holding Ltda. with 889,900 series A shares.
2. International Finance Corporation with 110,000 series B, and
3. HQ Puno Ltd. with 100 series A shares.

d) Number of shares

<u>Series</u>	<u>Number of shares</u>	<u>Number of paid-in shares</u>	<u>Voting shares</u>
Series A	890,000	890,000	890,000
Series B	110,000	110,000	110,000

e) Capital

<u>Series</u>	<u>Subscribed capital</u>	<u>Paid-in capital</u>
	ThCh\$	ThCh\$
Series A	296,050,442	296,050,442
Series B	<u>36,590,504</u>	<u>36,590,504</u>
Total	<u>332,640,946</u>	<u>332,640,946</u>
	=====	=====

f) Other reserves

Movements in cumulative translations adjustments are shown as follows:

<u>Concept</u>	<u>Prior year balance</u>	<u>Movement during the current year</u>	<u>Balance at December 31, 2003</u>
	ThCh\$	ThCh\$	ThCh\$
Investment in related company	-	(3,362,000)	(3,362,000)
Liability - hedge instrument	<u>-</u>	<u>3,362,000</u>	<u>3,362,000</u>
Total	<u>-</u>	<u>-</u>	<u>-</u>
	=====	=====	=====

NOTE 20 - OTHER NON-OPERATING INCOME AND EXPENSES

These are summarized as follows:

	<u>2003</u>	<u>2002</u>
	ThCh\$	ThCh\$
<u>Other non-operating income:</u>		
Prior-year income	304,784	615,331
Miscellaneous income	12,101	47
Income on disposal of materials	<u>447,493</u>	<u>305,667</u>
Total	<u>764,378</u>	<u>921,045</u>
<u>Other non-operating expenses:</u>		
Prior-year expenses	324,433	777,271
Directors fees	138,989	19,593
Fiscal and judicial fines	63	-
Loss on fixed assets write-offs	3,460,950	4,239,632
Prepaid expense amortization	<u>45,119</u>	<u>39,500</u>
Total	<u>3,969,554</u>	<u>5,075,996</u>

NOTE 21 - PRICE-LEVEL RESTATEMENT

The net effects of price-level restatements, as described in Note 2 c), resulted in a net charge to income amounting to ThCh\$ 492,200 (credit of ThCh\$ 39,667 in 2002) and is summarized below.

	<u>Index</u>	<u>2003</u>	<u>2002</u>
		ThCh\$	ThCh\$
Assets (charges) / credits			
Inventories	CPI	15,634	51,653
Fixed assets	CPI	4,861,356	13,627,142
Investment in related companies	CPI	(127,272)	-
Rights	CPI	236,837	685,142
Cash and banks	CPI	1,280,680	2,886,848
Goodwill	CPI	960,524	2,987,267
Notes and accounts receivable from related companies	CPI	1,042,286	2,407,044
Deferred taxes	CPI	175,160	579,138
Other non-monetary assets	CPI	67,585	1,466,732
Expense and cost accounts	CPI	<u>(8,182)</u>	<u>998,214</u>
Total (charges)/credits		<u>8,504,608</u>	<u>25,689,180</u>
Liabilities (charges)/credits			
Shareholders' equity	CPI	(3,494,911)	(9,630,639)
Bonds payable	UF	(5,460,999)	(14,132,538)
Non-monetary liabilities	CPI	(1,258)	-
Income accounts	CPI	<u>(39,640)</u>	<u>(1,886,336)</u>
Total (charges)/credits		<u>(8,996,808)</u>	<u>(25,649,513)</u>
Price-level restatement		<u>(492,200)</u>	<u>39,667</u>

NOTE 22 - EXCHANGE DIFFERENCES

The effects of exchange differences during the year 2003 amounted to a net credit to income of ThCh\$ 116,692 (charge of ThCh\$ 4,137,757 in 2002), and is summarized as follows:

<u>Item</u>	<u>Currency</u>	<u>2003</u> ThCh\$	<u>2002</u> ThCh\$
Assets (charges)/credits			
Time deposits	Dollars	(11,159,566)	5,778,990
Notes and accounts receivable from related companies	Dollars	(18,719,439)	4,763,918
Forward contracts	Dollars	(7,039,251)	866,808
Swap contracts	Dollars	<u>-</u>	<u>5,110,455</u>
Total (charges) / credits		<u>(36,918,256)</u>	<u>16,520,171</u>
Liabilities (charges) / credits			
Notes and accounts payable to related companies	Dollars	20,127	(1,923)
Bonds payable	Dollars	58,371,854	(20,498,771)
Accounts payable	Dollars	19,104	-
Swap contracts	Dollars	<u>(21,376,137)</u>	<u>(157,234)</u>
Total (charges) / credits		<u>37,034,948</u>	<u>(20,657,928)</u>
Exchange differences		<u>116,692</u>	<u>(4,137,757)</u>

NOTE 23 - DEBT ISSUE COSTS

Expenses incurred during the year 2001 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>2003</u>		
	<u>Local</u> ThCh\$	<u>Abroad</u> ThCh\$	<u>Total</u> ThCh\$
<u>Composition</u>			
Bond issuance costs	2,108,039	6,142,378	8,250,417
Amortization	<u>(342,763)</u>	<u>(752,128)</u>	<u>(1,094,891)</u>
Total	<u>1,765,276</u>	<u>5,390,250</u>	<u>7,155,526</u>
<u>Balance sheet presentation</u>			
Other current assets	342,763	752,128	1,094,891
Other - others	<u>1,422,513</u>	<u>4,638,122</u>	<u>6,060,635</u>
Total	<u>1,765,276</u>	<u>5,390,250</u>	<u>7,155,526</u>

		<u>2002</u>		
		<u>Local</u>	<u>Abroad</u>	<u>Total</u>
		ThCh\$	ThCh\$	ThCh\$
<u>Composition</u>				
Bond issuance costs		2,450,801	6,894,506	9,345,307
Amortization		<u>(342,762)</u>	<u>(752,128)</u>	<u>(1,094,890)</u>
Total		2,108,039	6,142,378	8,250,417
		=====	=====	=====
<u>Balance sheet presentation</u>				
Other current assets		342,763	752,128	1,094,891
Other - others		<u>1,765,276</u>	<u>5,390,250</u>	<u>7,155,526</u>
Total		2,108,039	6,142,378	8,250,417
		=====	=====	=====

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 Name	Hedged Amount		Asset/Liability		Effect in income	
									Name	Amount	Realized	Unrealized
		ThCh\$					ThCh\$	ThCh\$		ThCh\$	ThCh\$	ThCh\$
S	CCPE	100,000,000	2 nd Quarter 2006	Exchange rate (US\$)	C	US\$ bonds	67,900,000	59,380,000	Bond payable	15,127,498	(1,081,408)	(12,806,108)
S	CCPE	50,000,000	4 th Quarter 2006	Exchange rate (US\$)	C	US\$ bonds	35,830,500	29,690,000	Bond payable	10,337,153	(540,704)	(6,779,327)
S	CCTE	20,000,000	4 th Quarter 2006	Exchange rate (US\$)	C	US\$ bonds	14,110,000	11,878,000	Bond payable	3,818,987	(216,282)	(2,681,541)
FR	CCPE	20,000,000	1 st Quarter 2004	Exchange rate (US\$)	C	US\$ bonds	12,115,000	11,876,000	Other current liabilities	239,000	-	(239,000)
FR	CCPE	30,000,000	1 st Quarter 2004	Exchange rate (US\$)	C	US\$ bonds	21,144,000	17,814,000	Other current liabilities	3,330,000	-	(3,330,000)
FR	CCPE	10,000,000	1 st Quarter 2004	Exchange rate (US\$)	C	US\$ bonds	6,028,000	5,938,000	Other current liabilities	90,000	-	(90,000)

NOTE 25 - CONTINGENCIES AND RESTRICTIONS

a) Restrictions

As a result of the obligations incurred in the bond offerings and the acquisition of series B shares by the International Finance Corporation, 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, 2003 there are pending lawsuits filed against the Company, in response to which it has instituted the corresponding defense, representing a total of ThCh\$ 38,408.

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

e) Others

1. On December 5, 2002 the Superintendence of Combustible and Electricity, through ordinary trade No. 7,183, formed charges against the Company for the supposedly responsibility for an electrical supply interruption in the Central Interconnected System (SIC) on September 23, 2002. On way and time, the Company presented its discharges giving the corresponding proof. By legal resolution No. 1,438, on August 14, 2003, the Superintendency applied several fines to the Company for a total amount of 2,500 UTA equivalent to ThCh\$ 892,170 at December 2003. At year end, the Company presented a reposition, but the judicial claim remains pending. The Company asserts that it can not be held liable for this situation, as it is viewed as a case of force majeure.
2. On February 21, 2003 the Superintendence of Combustible and Electricity, through ordinary trade No. 1,210, formed charges against the Company for the supposedly responsibility for an electrical supply interruption in the Central Interconnected System on January 13, 2003. The Company asserts that it can not be held liable for this situation, as it is viewed as a case of force majeure.

3. On July 30, 2003 the Company's demand against Empresa Nacional de Electricidad S.A. (Endesa), for an amount of US\$ 5,400,000, was rejected. A complaint was presented against the arbitral court because the reason for the arbitral trial is to determine the amount Endesa should pay the Company for tolls and additional concepts. The Company has not recognized nor received earnings related to this demand.
4. On August 11, 2003 the Company's demand (arbitration proceeding) against Sociedad Austral de Electricidad S.A. (Saesa), for a preliminary and annual base amount of US\$ 2,300,000 was rejected. A complaint was presented against the arbitral court because the reason for the arbitration proceeding is to determine the amount Saesa should pay the Company for tolls and additional concepts. At December 31, 2003, the Company has recognized and/or received partial earnings according to a Ministerial Resolution No. 88 in 2001 from the Economy, Furtherance and Reconstruction Ministry.
5. On December 31, 2003 the Company had initiated an arbitration proceeding against Empresa Eléctrica Guacolda S.A. (Guacolda), for a preliminary and annual base amount of US\$ 9,700,000, with the purpose to determine the amount Guacolda should pay to the Company basically for tolls and additional. At December 31, 2003, the Company has recognized and/or received partial earnings according to a Ministerial Resolution No. 52 in 2002 from the Economy, Furtherance and Reconstruction Ministry.

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 12/31/2003</u>	<u>12/31/2002</u>	<u>Guarantees to be released 12/31/2004</u>
			ThCh\$	ThCh\$	ThCh\$	ThCh\$
Banco Santander Santiago	Conama	Surety	956,758	956,758	956,281	956,758
Banco Santander Santiago	D.R. Vialidad IV Región Coquimbo	Surety	135,360	135,360	-	135,360
Banco Santander Santiago	D.R. Vialidad IV Región Coquimbo	Surety	135,360	135,360	-	135,360
Banco Santander Santiago	D.R. Vialidad IV Región Coquimbo	Surety	228,420	228,420	-	228,420
Banco Santander Santiago	D.R. Vialidad IV Región Coquimbo	Surety	228,420	228,420	-	228,420

NOTA 26 - GUARANTEES OBTAINED FROM THIRD PARTIES

At December 31, 2003 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\$ 2,225,531 (ThCh\$ 1,395,377 at December 31, 2002).

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 e):

a) Assets

	<u>Currency</u>	<u>2003</u>	<u>2002</u>
		ThCh\$	ThCh\$
<u>Current assets</u>			
Cash and banks	Pesos	2,055,038	179,627
Cash and banks	Dollars	1,059,579	29,865
Time deposits	Dollars	34,060,429	103,601,150
Trade accounts receivable	Pesos	14,778,578	12,161,635
Trade accounts receivable	Dollars	1,028,029	-
Sundry debtors	Pesos	391,773	436,691
Inventories	Pesos	45,008	81,538
Recoverable taxes	Pesos	1,860,122	-
Prepaid expenses	Pesos	504,630	607,550
Other current assets - resale agreements	UF	1,160,247	14,728,326
Other current assets	Pesos	1,705,072	1,760,238
Other current assets	Dollars	1,811,179	690,193
Accounts receivable from related companies	Dollars	1,988,273	9,047,996
Deferred taxes	Pesos	708,360	42,737
<u>Fixed assets</u>			
Fixed assets	Pesos	530,396,574	499,898,373
Fixed assets	Dollars	63,094,564	-
<u>Other assets</u>			
Investments in other companies	Pesos	119,635	56,383
Goodwill	Pesos	91,463,046	97,012,930
Long-term debtors	UF	112,261	214,400
Accounts receivable from related companies	Dollars	41,791,692	81,078,922
Intangibles	Pesos	23,921,662	24,072,049
Intangibles	Dollars	419,533	-
Amortization of intangibles	Pesos	(2,946,770)	(2,299,068)
Amortization of intangibles	Dollars	(4,653)	-
Long-term deferred taxes	Pesos	16,190,524	17,648,401
Other assets	Pesos	<u>9,281,601</u>	<u>11,037,014</u>
Total assets	Pesos	690,474,853	662,696,098
		=====	=====
	Dollars	145,248,625	194,448,126
		=====	=====
	UF	1,272,508	14,942,726
		=====	=====

b) Short-term liabilities

Item	Currency	Up to 90 days				90 days up to one year			
		2003		2002		2003		2002	
		Amount	Average annual rate	Amount	Average annual rate	Amount	Average annual rate	Amount	Average annual rate
		ThCh\$	%	ThCh\$	%	ThCh\$	%	ThCh\$	%
Bonds interest payable	UF	3,168,679	6.2	3,167,099	6.2	-	-	-	-
Bonds interest payable	Dollars	-	-	-	-	4,718,796	7.875	5,767,740	7.875
Accounts payables	Pesos	5,683,162	-	7,079,056	-	-	-	-	-
Accounts payables	Dollars	187,986	-	-	-	-	-	-	-
Sundry creditors	Pesos	2,438,861	-	3,298,932	-	-	-	-	-
Sundry creditors	Dollars	2,260,870	-	-	-	-	-	-	-
Withholdings	Pesos	166,577	-	991,398	-	-	-	-	-
Other current liabilities	Dollars	3,659,000	-	2,108,576	-	-	-	-	-
Provisions	Pesos	1,356,845	-	1,189,956	-	-	-	-	-
Notes and accounts payable to related companies	Dollars	875,330	-	534,311	-	-	-	-	-
Income tax	Pesos	-	-	-	-	2,541,386	-	1,069,150	-
Total short-term liabilities	Dollars	6,983,186		2,642,887		4,718,796		5,767,740	
		=====		=====		=====		=====	
	UF	3,168,679		3,167,099		-		-	
		=====		=====		=====		=====	
	Pesos	9,645,445		12,559,342		2,541,386		1,069,150	
		=====		=====		=====		=====	

c) Long-term liabilities 2003

<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	-	-	-	-	276,117,000	7.875	-	-
Bonds payable	UF	-	-	101,520,000	6.2	5,414,400	6.2	48,729,600	6.2
Provisions	Pesos	1,192,658	-	-	-	-	-	-	-
Swap contracts	Dollars	<u>29,283,638</u>	7.875	-	-	-	-	-	-
Total long-term liabilities	Dollars	29,283,638		-		276,117,000		-	
		=====		=====		=====		=====	
	UF	-		101,520,000		5,414,400		48,729,600	
		=====		=====		=====		=====	
	Pesos	1,192,658		-		-		-	
		=====		=====		=====		=====	

d) Long-term liabilities 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	-	-	-	-	337,495,187	7.875	-	-
Bonds payable	UF	-	-	101,469,367	6.2	5,411,700	6.2	48,705,296	6.2
Provisions	Pesos	1,204,266	-	-	-	-	-	-	-
Swap contract	Dollars	-	-	7,430,716	7.875	-	-	-	-
Other liabilities - long term	Pesos	<u>35,137</u>		<u>-</u>		<u>-</u>		<u>-</u>	
Total long-term liabilities	Dollars	-		7,430,716		337,495,187		-	
		=====		=====		=====		=====	
	UF	-		101,469,367		5,411,700		48,705,296	
		=====		=====		=====		=====	
	Pesos	1,239,403		-		-		-	
		=====		=====		=====		=====	

NOTA 28 - SANCTIONS

During 2003 and 2002, 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, 2003 and the date these financial statements were issued, which could significantly affect their interpretation.

NOTE 30 - ENVIRONMENTAL EXPENSES

At December 31, 2003, the Company has made no disbursements related with this concept.

Juan Carlos Rodríguez
Accountant

Denis Pelletier
General Manager