

Financial Statements
Financial Statements
December 31, 2000

A n n u a l R e p o r t 2 0 0 0

H Q I T R A N S E L E C C H I L E S . A

C O N T E N T S

Report of independent accountants
Balance sheet
Statement of income
Statement of cash flows
Notes to financial statements

33

Individual Financial Statements

Individual Financial Statements

December 31, 2000

(Translation of the original in Spanish)

Ch\$ - Chilean pesos
ThCh\$ - Thousands of Chilean pesos
US\$ - United States dollars

A n u a l R e p o r t 2 0 0 0

REPORT OF INDEPENDENT ACCOUNTANTS

(Translation of the original in Spanish)

Santiago, February 6, 2001

To the Shareholders and Directors
HQI TRANSELEC CHILE S.A.

- 1 We have audited the accompanying balance sheet of HQI Transelec Chile S.A. as of December 31, 2000 and the related statements of income and cash flows for the period from September 15, 2000 to December 31, 2000. These 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 audit.
- 2 We conducted our audit in accordance with auditing standards generally accepted in Chile. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes the 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 audit provides a reasonable basis for our opinion.
- 3 The financial statements referred to above were prepared to present the individual financial position of HQI Transelec Chile S.A., based on the principles described on Note 2, prior to the consolidation with its subsidiary mentioned in Note 5. Consequently, these individual financial statements should be read and analyzed in conjunction with the consolidated financial statements of HQI Transelec Chile S.A. and subsidiary, which are required by accounting principles generally accepted in Chile.
- 4 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, 2000 and the results of its operations and its cash flows for the period from September 15, 2000 to December 31, 2000 in accordance with accounting principles generally accepted in Chile as described in Note 2 to the financial statements.



Anthony J.F. Dawes



BALANCE SHEET

As of December 31, 2000
(Translation of the original
in Spanish)

ASSETS	ThCh\$	LIABILITIES AND SHAREHOLDERS' EQUITY	ThCh\$
CURRENT ASSETS		CURRENT LIABILITIES	
Cash	61,651	Accrued liabilities	701,251
		Income taxes payable	74,618
Total current assets	61,651	Total current liabilities	775,869
OTHER ASSETS		SHAREHOLDERS' EQUITY	
Investment in subsidiary	194,509,244	Common stock	310,140,471
Goodwill	119,524,165	Net income for the period	3,178,720
Total other long-term assets	314,033,409	Total shareholders' equity	313,319,191
Total assets	314,095,060	Total liabilities and shareholders' equity	314,095,060

The accompanying notes 1 to 11 form an integral part of these financial statements.

36

STATEMENT OF INCOME

For the period September 15
to December 31, 2000
(Translation of the original
in Spanish)

	ThCh\$
NON-OPERATING INCOME	
Equity income in subsidiary	3,933,088
Amortization of goodwill	(1,173,449)
Price-level restatements	493,699
Non-operating income before income taxes	3,253,338
Income taxes	(74,618)
NET INCOME	3,178,720

The accompanying notes 1 to 11 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the period September 15
to December 31, 2000
(Translation of the original
in Spanish)

	ThCh\$
CASH FLOWS FROM OPERATING ACTIVITIES	
Net income	3,178,720
Charges (credits) to income that do not represent cash movements:	
Equity income in subsidiary	(3,933,088)
Amortization of goodwill	1,173,449
Price-level restatements	(493,699)
Increase in current liabilities:	
Increase in income taxes	74,618
Net cash provided by operating activities	-
CASH FLOWS FROM FINANCING ACTIVITIES	
Capital increase	310,140,471
Net cash provided by financing activities	310,140,471
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment in subsidiary	(310,572,519)
Net cash used in investing activities	(310,572,519)
Net cash flow of the period	(432,048)
EFFECT OF INFLATION ON CASH AND CASH EQUIVALENTS	493,699
NET CHANGE IN CASH AND CASH EQUIVALENTS	61,651
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	-
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	61,651

The accompanying notes 1 to 11 form an integral part of this financial statement

NOTES TO THE FINANCIAL STATEMENTS

For the period September 15 to December 31, 2000
(Translation of the original in Spanish)

NOTE 1 - CONSTITUTION AND OBJECTIVES

Inversiones HQ Chile Limitada (the «Company»), was formed as a limited liability company by public deed on September 15, 2000. The objective of the Company was to make investments in shares and public securities. On October 16, 2000 the Company changed its name to Inversiones HQI Transelec Chile Limitada, without any change to the Company's objectives. On November 23, 2000, the Company changed its name to HQI Transelec Chile S.A., as well as changing its status to that of a closed company. 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

a) General

These financial statements have been prepared in accordance with generally accepted accounting principles in Chile («Chilean GAAP»), except for the investment in the subsidiary which is presented as one amount at its equity value and has therefore not been consolidated. This treatment does not affect the results for the period nor the shareholders' equity of the Company.

b) Period of analysis

The accompanying financial statements and the corresponding notes correspond to the period from September 15, 2000 to December 31, 2000.

c) Information provided

These financial statements have been prepared on an individual company basis: as such they should be read or analyzed jointly with the Company's consolidated financial statements, that are also required to be prepared under Chilean GAAP.

d) Price-level restatement

Non-monetary assets and liabilities have been restated to show the effects of changes in the purchasing power of the Chilean peso during the period. Such restatements have been made on the basis of the official Chilean Consumer Price Index prepared by the Instituto Nacional de Estadísticas (Chilean National Institute of Statistics), and correspond to 0.099% for the period from September 15, 2000 to December 31, 2000.

e) Currency translation

At December 31, 2000, all assets and liabilities denominated in US\$ have been translated into Chilean Pesos at the exchange rate of Ch\$573.65 per US\$, the exchange rate at that date.

f) Investment in subsidiary and goodwill

The investment in subsidiary is recorded according to the equity method of accounting and unrealized income has been eliminated.

The amount recorded under Goodwill corresponds to the difference between the acquisition price of the Subsidiary's shares and the book value of those shares at the acquisition date. This difference is amortized over a 20 year period.

g) Income taxes and deferred income taxes

The Company provides for income tax in accordance with current legislation. At period end, the Company did not record the effects of deferred income taxes, as the temporary differences between the financial and tax bases of the assets and liabilities were not significant.

h) Cash equivalents

Cash and cash equivalents in these financial statements related to those amounts held as cash and time deposits.

Cash flows from operating activities include all cash flows related to primary operating activities of the Company and include interest paid, interest income and, in general, all cash flows that are not defined as investing or financing activities. The concept of operations used in this statement is broader than that used in the Income Statement.

NOTE 3 - PRICE-LEVEL RESTATEMENT

The net effects of price-level restatement on the results of the Company totalling ThCh\$ 493.699 are summarized as follows:

	(Charge) Credit to Income		
	US\$	I.P.C.	Total
	ThCh\$	ThCh\$	ThCh\$
Restatements of:			
Current assets	488,938	-	488,938
Other assets	-	3,066,442	3,066,442
Current liabilities	(1,625)	-	(1,625)
Shareholders' equity	-	(3,060,056)	(3,060,056)
Net result of restatements of assets and liabilities	487,313	6,386	493,699
Restatements of statement of income	-	-	-
Net result of price-level restatements	487,313	6,386	493,699

NOTE 4 - INCOME TAX

As of December 31, 2000, the Company recorded income tax expense for the period of ThCh\$ 74,618, based on taxable income of ThCh\$ 497,453.

NOTE 5 - INVESTMENT IN SUBSIDIARY AND GOODWILL

On October 23, 2000, the Company purchased 99.99% of the outstanding shares of Compañía Nacional de Transmisión Eléctrica S.A. («TRANSELEC») for US\$ 537,300,289, (ThCh\$ 307,507,702 - historical). The Company must also pay an additional amount of at least US\$ 1,222,437 (ThCh\$ 701,251) as of December 31, 2000 for the purchase of these shares. This payment is included in the determination of goodwill (Note 6 and Note 10).

a) Investment in Subsidiary:

	Percentage of Ownership %	Total Equity ThCh\$	Equity method value ThCh\$	Total ThCh\$	Net income of the Subsidiary Proportional ThCh\$
TRANSELEC	99.99	194,528,697	194,509,244	3,933,481	3,933,088

b) Goodwill

	Percentage of Ownership %	Gross value ThCh\$	Amortization ThCh\$	Net value ThCh\$
Goodwill	99.99	120,697,614	1,173,449	119,524,165

NOTE 6 - ACCRUED LIABILITIES

As of December 31, 2000 the Company has accrued an additional US\$ 1,222,437, (ThCh\$ 701,251) for purchase of the 99.99% of the outstanding shares of Transelec (Note10).

NOTE 7 - SHAREHOLDERS' EQUITY

a) Changes on shareholders' equity during the period were as follows:

	Capital ThCh\$	Capital subscription receivable ThCh\$	Net income for the period ThCh\$	Total ThCh\$
Initial capital of the Company at September 15, 2000	100	(100)	-	-
Capital increase	340,073,800	(340,073,800)	-	-
Paid-in capital	-	307,049,463	-	307,049,463
Paid-in capital	-	30,952	-	30,952
Capital decrease from change in legal structure	(32,993,485)	32,993,485	-	-
Price-level restatements of equity	3,060,056	-	-	3,060,056
Net income of the period	-	-	3,178,720	3,178,720
Balance as of December 31, 2000	310,140,471	-	3,178,720	313,319,191

On September 15, 2000, Inversiones HQ Chile Limitada (now HQI Transelec Chile S.A.) was founded with a capital of ThCh\$100. On October 16, 2000, the Shareholders changed the Company name to Inversiones HQI Transelec Chile Limitada and agreed to a capital increase of ThCh\$ 340,073,800, payable as the needs of the Company require. On October 20, 2000, Inversiones HQI Chile Holding Limitada, the majority shareholder, contributed US\$ 537,354,025 (ThCh\$ 307,049,463 - historical), while on October 25, 2000 HQ Puno Ltd., the minority shareholder, contributed US\$ 53,735 (ThCh\$ 30,952 - historical). Subsequently on November 23, 2000, the Shareholders agreed to lower paid-in capital to the amount previously contributed as part of the change in the legal structure of HQI Transelec Chile S.A. As a result, the Company, now a Corporation, has paid-in capital of US\$ 537,407,760 (ThCh\$ 310,140,471) corresponding to one million shares with no par value.

b) In accordance with Article No. 10 of Chilean Corporate Law No. 18,046, the Company has included in its paid-in capital the proportional amount corresponding to price-level restatement of such capital as of December 31, 2000.

NOTE 8 - SHAREHOLDERS' STRUCTURE

As of December 31, 2000, the shareholders' ownership interests were as follows:

Percentage of Shareholder	Number of shareholding %	shares
Inversiones HQI Chile Holding Limitada	99.99	999,900
HQ Puno Ltd.	0.01	100
Total	100.00	1,000,000

NOTE 9 - FOREIGN CURRENCIES BALANCES

At December 31, 2000 all assets and liabilities held in foreign currencies have been translated to Chilean pesos at the prevailing exchange rate at that date (see Note 2 e):

	US\$	ThCh\$
Assets		
Cash	107,470	61,651
Liabilities		
Accrual for purchase price adjustment of Transelec shares	1,222,437	701,251

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Detail of commitments and contingencies as of December 31, 2000:

In accordance with the fifth clause of the purchase-sale agreement of Transelec shares, signed by Inversiones HQI Transelec Limitada (now HQI Transelec Chile S.A.), Inversiones HQI Chile Holding Limitada and Hydro-Québec International Inc., as buyers, and Empresa Nacional de Electricidad («ENDESA») and Endesa Inversiones Generales S.A. («ENIGESA»), as sellers, it is agreed that the buyers of those shares should pay to the sellers the difference, if it is positive, between the net equity referred to in the purchase-sale agreement, which was determined to be ThCh\$ 188,019,844 and the net equity on the purchase date, October 23, 2000.

In order to determine the difference in net equity, an audit of the Company's assets and liabilities was performed at the aforementioned closing date. This audit determined that the revised equity was ThCh\$ 188,719,469, indicating an additional payment to sellers of ThCh\$ 699,625 (historical). Subsequent to receipt of the audit report, the sellers disputed the results of the audit and have asserted that Transelec's net equity at October 23, 2000 is as much as ThCh\$5,316,725 higher than that determined in the audit. Prior to resorting to arbitration, the two parties are attempting to negotiate an agreement as to the differences in question. As a result, the financial statements at December 31, 2000 include an accrual for the minimum payment for the difference between the net equity specified in the purchase-sale agreement and the net equity determined by the audit at the closing date. Any additional payment amount up to ThCh\$ 5,316,725 will be recorded in goodwill and will have no direct, immediate effect on earnings.

NOTE 11- SUBSEQUENT EVENTS

On January 18, 2001, the Company purchased from Inversiones HOI Chile Holding Limitada 98,606 shares, representing 0.01% of the outstanding shares of TRANSELEC, resulting in the complete ownership of TRANSELEC. The transaction resulted in the absorption of TRANSELEC by the Company such that it now has full ownership of all the assets, liabilities, rights and obligations of TRANSELEC.



Guillermo Espinosa
CEO



Juan Carlos Rodriguez
Accountant

HQI TRANSELEC CHILE S.A AND SUBSIDIARY

C O N T E N T S

Report of independent accountants
Balance sheet
Statement of income
Statement of cash flows
Notes to the financial statements

43

Consolidated Financial Statements
*Consolidated
Financial Statements*
December 31, 2000
(Translation of the original in Spanish)

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

REPORT OF INDEPENDENT ACCOUNTANTS

(Translation of the original in Spanish)

Santiago, February 6, 2001

To the Shareholders and Directors
HQI Transelec Chile S.A. and subsidiary

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

- 1 We have audited the accompanying consolidated balance sheet of HQI Transelec Chile S.A. and its subsidiary (the «Company») as of December 31, 2000 and the related consolidated statements of income and of cash flows for the period from September 15, 2000 to December 31, 2000. The financial statements of the Company (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 audit.
- 2 We conducted our audit in accordance with auditing standards generally accepted in Chile. Those standards require that we plan and perform the audit 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 audit provides a reasonable basis for our opinion.
- 3 In our opinion, the consolidated financial statements referred above present fairly, in all material respects, the financial position of the Company and its subsidiary at December 31, 2000 and the results of their operations and their cash flows for the period from September 15, 2000 to December 31, 2000 in conformity with accounting principles generally accepted in Chile.



Anthony J.F. Dawes



CONSOLIDATED BALANCE SHEET

At December 31, 2000
(Translation of the original
in Spanish)

ASSETS	ThCh\$
CURRENT ASSETS	
Cash and banks	87,839
Time deposits	18,472,475
Marketable securities	1,958,751
Trade accounts receivable	7,879,130
Miscellaneous receivables	326,936
Inventories	34,185
Recoverable taxes	102,034
Prepaid expenses	439,018
Deferred income taxes	392,140
Other current assets	2,421,309
Total current assets	32,113,817

FIXED ASSETS	
Land	5,221,398
Buildings and infrastructure	262,222,124
Machinery and equipment	215,959,508
Other fixed assets	1,884,531
Increased value from technical appraisal of fixed assets	19,673,363
Accumulated depreciation	(42,678,856)
Total fixed assets, net	462,282,068

OTHER ASSETS	
Investment in other companies	36,025
Goodwill	119,524,165
Long-term accounts receivable	634,357
Intangible assets	22,457,632
Amortization of intangible assets	(944,666)
Other	1,072
Total other assets	141,708,585
Total assets	636,104,470

A n u a l R e p o r t 2 0 0 0

LIABILITIES AND SHAREHOLDERS' EQUITY	ThCh\$
CURRENT LIABILITIES	
Accounts payable	2,776,098
Miscellaneous creditors	1,536,359
Notes and accounts payable to related companies	312,232,302
Accrued liabilities	1,658,844
Withholdings	1,357,732
Other current liabilities	19,978
Total current liabilities	319,581,313

LONG-TERM LIABILITIES	
Miscellaneous creditors-long-term	65,999
Accrued liabilities	1,193,157
Deferred income taxes - long-term	1,890,568
Other long-term liabilities	34,789
Total long-term liabilities	3,184,513

MINORITY INTEREST	19,453
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SHAREHOLDERS' EQUITY	
Common stock	310,140,471
Net income for the period	3,178,720
Total shareholders' equity	313,319,191
Total liabilities and shareholders' equity	636,104,470

The accompanying Notes 1 to 23 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

For the period September 15 to
December 31, 2000
(Translation of the original
in Spanish)

	ThCh\$
OPERATING RESULTS	
Net sales	16,982,155
Cost of sales	(5,558,800)
Gross margin	11,423,355
Sales and administrative expenses	(233,004)
Net operating income	11,190,351

NON-OPERATING RESULTS

Interest income	406,668
Other income	25,147
Amortization of goodwill	(1,173,449)
Interest expense	(5,541,079)
Other expenses	(127,561)
Price-level restatements	(922,451)
Non-operating results	(7,332,725)
Income before minority interest and income taxes	3,857,626
Minority interest	(393)
Income taxes	(678,513)
NET INCOME FOR THE PERIOD	3,178,720

The accompanying Notes 1 to 23 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the period September 15 to
December 31, 2000
(Translation of the original
in Spanish)

CASH FLOWS FROM OPERATING ACTIVITIES	ThCh\$
Net income	3,178,720
Charges (credits) to income that do not represent cash movements:	
Depreciation for the period	3,465,281
Amortization of intangible assets	292,965
Amortization of goodwill	1,173,449
Net price-level restatements	922,451
Minority interest	393
Other credits to income that do not represent cash movements	(66,181)
Decrease (Increase) in assets:	
Increase in trade account receivables and miscellaneous receivables	(5,244,762)
Decrease in inventories	476,120
Decrease in recoverable taxes	644,675
Increase in other current assets	(2,920,450)
Increase (decrease) in liabilities:	
Increase in trade accounts payable and miscellaneous creditors	890,795
Decrease in accrued liabilities and withholdings	(295,728)
Decrease in other liabilities	(121,843)
Net cash provided by operating activities	2,395,885

CASH FLOWS FROM FINANCING ACTIVITIES

Capital increase	310,140,471
Net cash provided by financing activities	310,140,471

CASH FLOWS FROM INVESTING ACTIVITIES

Investment in subsidiary	(310,572,519)
Acquisitions of fixed assets	(1,259,474)
Collection of loans	4,480
Net cash used in investing activities	(311,827,513)

EFFECT OF INFLATION ON CASH AND CASH EQUIVALENTS **697,635****NET CHANGE IN CASH AND CASH EQUIVALENTS** **1,406,478****CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD** **19,112,587****CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD** **20,519,065**

The accompanying Notes 1 to 23 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period September 15 to
December 31, 2000
(Translation of the original
in Spanish)

NOTE 1 - CONSTITUTION AND OBJECTIVES

Inversiones HQ Chile Limitada (the «Company»), was formed as a limited liability company by public deed on September 15, 2000. The objective of the Company was to make investments in shares and public securities. On October 16, 2000, the Company changed its name to Inversiones HQI Transelec Chile Limitada, without any change to the Company's objectives. On November 23, 2000, the Company changed its name to HQI Transelec Chile S.A., as well as changing its status to that of a closed company. 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.

NOTE 2 - CHANGE IN SHAREHOLDER CONTROL AND RELATED TRANSACTIONS

On October 23, 2000, Inversiones HQI Transelec 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.. Additionally on this same date, TRANSELEC, through the related company, Inversiones HQI Holdings Limitada, acquired certain electricity transmission assets from ENDESA for an amount equivalent to ThCh\$ 538,646; such transaction did not generate cash flow effects in TRANSELEC. At December 31, 2000, the note payable to the related company is included in the current liabilities of the Company. At the date of issue of these financial statements, the Company's management is seeking to obtain long-term financing in the local and foreign markets in order to refinance this short-term liability.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

a) Basis of presentation of consolidated financial statements

These financial statements have been prepared in accordance with generally accepted accounting principles in Chile, and include the assets, liabilities and results of the Parent Company and 99.99% of its subsidiary, TRANSELEC.

b) Period of analysis

The accompanying financial statements and corresponding notes relate to the period from September 15, 2000 to December 31, 2000.

c) Price-level restatements

Non-monetary assets and liabilities have been restated to show the effects of changes in the purchasing power of the Chilean peso during the period. Such restatements have been made on the basis of the official Chilean Consumer Price Index prepared by the Instituto Nacional de Estadísticas (Chilean National Institute of Statistics), and correspond to 0.099% for the period from September 15, 2000 to December 31, 2000.

d) Currency translation

At December 31, 2000, all the assets and liabilities denominated in foreign currency are presented in Chilean pesos according to the exchange rate at that date. With respect to the indexed balances, they are restated based on variations in the corresponding index.

	Ch\$ per unit
Unidad de fomento	15,796.92
United States dollars	573.65

e) Operating estimates

The Company has to make accounting estimates to record its accounts receivable from transmission tolls. Final settlements of these accounts receivable can take longer than one fiscal year and can result in losses or gains in amounts that are not expected to be significant.

f) Time deposits

Time deposits are recorded at cost plus price-level indexation and interest accrued to the end of the period.

g) Marketable securities

Marketable securities include investments in mutual funds, which are presented at their quoted market value at the end of the period.

h) Estimation of doubtful accounts receivable

Management believes that it is unnecessary to record an allowance for doubtful accounts receivable at the end of the period, considering the aging of its receivables.

i) Other current assets

Other current assets consist primarily of Chilean government securities purchased under resale agreements. Such securities are recorded at price-level restated cost plus accrued interest.

j) Fixed assets

The fixed assets are presented at acquisition cost or contribution value, plus price-level restatement to the end of the period.

Depreciation of fixed assets has been calculated on a straight-line basis over the estimated useful lives of the assets, considering a residual value of 5%.

k) Goodwill

The amount under Goodwill corresponds to the difference between the acquisition price of the Subsidiary's shares and the book value of those shares at the acquisition date. This difference is amortized over a 20-year period.

l) Intangibles

Intangibles consist of rights-of-way that are amortized on a straight-line basis over 40 years in accordance with Technical Bulletin No. 55 of the Chilean Institute of Accountants.

m) Employee benefits

The provision for severance payments with contracted with personnel, who acquire such rights when they have completed 15 years service, is shown at the present value of the future estimated cost of the benefit, using an annual interest rate of 6.5% and assuming an average tenure in the Company of 35 years. With respect to those employees with less than 15 years of service, an average of 75% of the benefit has been accrued at present value.

According to the Technical Bulletin No. 47 of the Chilean Institute of Accountants, the annual cost of employee's vacations is recorded on an accrual basis.

m) Income taxes and deferred income taxes

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

In accordance with Technical Bulletin No. 47 of the Chilean Institute of Accountants, the Company has recorded the effects of deferred income taxes with respect to temporary differences between the accounting balances of assets and liabilities and the corresponding tax balances. The effect of deferred income taxes and the corresponding complementary accounts as of January 1, 2000, which were not previously recorded by TRANSELEC, the subsidiary acquired on October 23, 2000, have been recorded in net income beginning on the acquisition date, based on the period of reversal.

n) Statement of cash flows

Cash and cash equivalents presented in these financial statements relate to those amounts held as cash and time deposits.

Cash flows from operating activities include all cash flows related to primary operating activities of the Company and include interest paid, interest income and in general, all cash flows that are not defined as investing or financing activities. The concept of operations used in this statement is broader than that used in the Income Statement.

NOTE 4 - PRICE-LEVEL RESTATEMENTS

The net effects of price-level restatements on the results of the Company totalling ThCh\$ 519,700 are summarized as follows:

	(charge) credit to income			
	UF	I.P.C.	US\$	Total
	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Restatements of:				
Current assets	-	-	488,938	488,938
Fixed assets	-	4,949,955	-	4,949,955
Other assets	201,558	1,423,296	-	1,624,854
Current liabilities	-	(4,729)	(1,625)	(6,354)
Long-term liabilities	-	-	(4,517,037)	(4,517,037)
Shareholders' equity	-	(3,060,056)	-	(3,060,056)
Net result of restatements of assets and liabilities	201,558	3,308,466	(4,029,724)	(519,700)
Restatements of income statement	-	(402,751)	-	(402,751)
Net result of price-level restatements	201,558	2,905,715	(4,029,724)	(922,451)

NOTE 5 - TIME DEPOSITS

Time deposits are summarized as follows:

Bank or financial institution	Unit of currency	ThCh\$
Bank of América	Ch\$	1,615,051
Banco Santander	Ch\$	1,835,745
Banco Corp Banca	Ch\$	1,676,927
Banco de Chile	Ch\$	2,221,380
Banco Security	Ch\$	430,241
Banco Sudamericano	Ch\$	1,791,036
Banco Credito e Inversiones	Ch\$	2,212,926
Banco Santiago	Ch\$	2,524,764
Banco Bice	Ch\$	1,089,070
Citibank	Ch\$	746,440
Dresdner Banque Nat.de Paris	Ch\$	1,551,653
Banco del Desarrollo	UF	777,242
Total		18,472,475

NOTE 6 - MARKETABLE SECURITIES

Marketable securities include investments in mutual funds and are summarized as follows:

Bank or financial institution	No. of shares	Share value	ThCh\$
			Ch\$
BHIF	409,444.7825	1,283.9459	525,705
Banchile	402,347.1457	1,438.5694	578,804
Citicorp	475,186.8560	1,290.8070	613,375
Santander	91,675.8011	2,627.3795	240,867
Total			1,958,751

NOTE 7 - TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable are summarized as follows:

	ThCh\$
Tolls and transmission charges	7,657,604
Services provided to other parties	221,526
Total	7,879,130

NOTE 8 - OTHER CURRENT ASSETS

Other current assets are summarized as follows:

Bank or Financial Institution	Currency	ThCh\$
BBVA-BHIF (resale agreement)	Ch\$	2,204,913
Banco Sudamericano (resale agreement)	Ch\$	97,413
Other		118,983
Total		2,421,309

NOTE 9 - SIGNIFICANT BALANCES AND TRANSACTIONS WITH RELATED COMPANIES

Significant balances and transactions with related companies are as follows:

a) Notes and accounts receivable

Company	ThCh\$
Inversiones HQI Chile Holding Limitada	310,123,466
Hydro-Québec	2,108,836
Total	312,232,302

The account payable to Inversiones HQI Chile Holding Limitada relates to a short-term note used to settle the purchase of the injected assets and to extinguish certain liabilities outstanding at October 23, 2000 with Endesa (TRANSELEC's parent company at that time). This note was denominated in US dollars and

accrued interest at LIBOR (30 days) plus 3.5% as of December 31, 2000.

In order to hedge its exposure to exchange rate risk, Transelec entered into a forward contract (US\$ - UF) with Hydro-Québec for ThUS\$ 250,000. This contract was entered into on December 1, 2000 and matures at various dates between April 6 and May 9, 2001.

b) Significant transactions with related parties

Those transactions with related companies that had significant effects on the results of the Company during the period are as follows:

Credit (charge)	Company	Relationship	Nature to results ThCh\$
Inversiones HQI Chile Holding Ltda.	Shareholder	Interest expense	(6,080,320)
Hydro Québec	Ultimate Parent	Exchange loss on forward contract	(2,108,836)

NOTE 10 - FIXED ASSETS

a) Fixed assets are summarized as follows:

	ThCh\$
Transmission lines	219,213,684
Land	5,221,398
Constructions and projects in progress	2,292,743
Non-hydraulic civil projects	15,601,418
Electrical, mechanical and protection equipment	191,087,887
Transportation and loading equipment	541,140
General installations	6,184,929
Furniture, office machinery and equipment	6,976
Increased value from technical reappraisal of fixed assets	19,673,363
Materials and spare parts	1,789,539
Other	668,991
Total	462,282,068

Depreciation expense during the period was ThCh\$ 3,465,281.

On June 26, 1998 the Company signed a capital lease agreement with ENDESA, which included a purchase option, whereby the Company took possession of a group of assets at a cost of ThCh\$ 177,230,517 (historical), which were presented at their net book value of ThCh\$ 183,091,338 in 1999 as Other fixed assets. On October 23, 2000, ENDESA sold this lease contract to Inversiones y Administración de Activos («INAD»). Subsequently, TRANSELEC absorbed INAD, acquired the assets and terminated the capital lease contract.

The Company has obtained the following insurance policies:

1. Physical assets and business interruption, coverage protecting the Company's assets, such

as transmission lines, power substations, buildings, etc., against risk of earthquakes, landslides, fires, explosions, terrorist attacks, floods, etc, and **insurance against damage of equipment and loss of benefits**, which protects important equipment of substations against operational failure, short circuits, broken parts, failure of materials and general mechanical failure (MU\$ 960,133)

2. **Liability insurance** that covers the Company against claims arising from damages to third parties.

3. **The Company also has marine, air and land transportation** insurance for it's machinery, equipment and supplies, including life insurance for it's staff during all work-related travel; in addition, the Company has fire insurance covering its non-operating assets and other insurance as required under Chilean law.

NOTE 11 - GOODWILL

On October 23, 2000, the Company purchased 99.99% of the outstanding shares of TRANSELEC for US\$ 537,300,289, (ThCh\$ 307,507,702 historical). The Company must also pay an additional amount of at least US\$ 1,222,437, (ThCh\$ 701,251) as of December 31, 2000 for the purchase of these shares. This amount is included in the determination of goodwill (Note 18e).

a) Goodwill

	Percentage of ownership	Gross value	Amortization	Net value
	%	ThCh\$	ThCh\$	ThCh\$
Goodwill	99.99	120,697,614	1,173,449	119,524,165

NOTE 12 - ASSETS AND LIABILITIES IN FOREIGN CURRENCY

At December 31, 2000, all assets and liabilities held in foreign currency have been translated to Chilean pesos at the exchange rate at that date and are summarized as follows:

	US\$	ThCh\$
Assets		
Cash	107,470	61,651
Liabilities		
Notes and accounts payable to related companies	540,614,426	310,123,466
Customs duties (short-term)	46,089	26,439
Customs duties (long-term)	115,050	65,999
Accrual for purchase price adjustment of Transelec shares	1,222,437	701,251
Net liability	541,998,002	310,917,155

NOTE 13 - ACCRUED LIABILITIES AND WRITE-OFFS

Accrued liabilities at December 31, 2000 are summarized as follows:

	ThCh\$
Short-term accruals	
Accrued employee severance benefits	39,016
Accrued payroll	487,582
Accrued employee vacations	409,360
Cost of accidents-lines and substations	21,635
Accrual for purchase price adjustment (Note 18e)	701,251
Total Short-term accruals	1,658,844
Long-term accrued liabilities	
Accrued employee severance benefits	1,193,157
Total long-term accrued liabilities	1,193,157

a) Severance obligations:

As indicated in Note 3 k), the Company recorded on accrued liability for employee severance benefits contracted with personnel, who acquire such rights when they have completed 15 years of service. With respect to those employees with less than 15 years of service, an average of 75% of the benefit has been accrued.

The charge to results during the period for severance expense was ThCh\$ 29,740.

b) During the period from September 15, 2000 to December 31, 2000 no write-offs were recorded.

NOTE 14 - INCOME TAXES AND DEFERRED INCOME TAXES

a) Income taxes:

At December 31, 2000, the Company recorded income tax expense of ThCh\$ 915,920 for the period, based on taxable income of ThCh\$ 5,988,166.

b) Deferred income taxes:

i) The accumulated balances as of December 31, 2000 were as follows:

	Deferred assets		Deferred liabilities	
	Current	Long-term	Current	Long-term
	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Temporary differences				
Capital lease assets and liabilities (net)	-	-	-	2,556,790
Accelerated depreciation	-	-	-	837,563
Accrued employee severance benefits	-	-	-	120,904
Accrued employee vacations	61,404	-	-	-
Other	330,736	-	-	-
Subtotal	392,140	-	-	3,515,257

Complementary accounts - net of accumulated amortization				
Complementary assets for long-term deferred tax liabilities	-	-	-	(1,624,689)
Total	392,140	-	-	1,890,568

ii) The opening accumulated balances of deferred income tax assets and liabilities, as of January 1, 2000, of Transelec, the subsidiary acquired on October 23, 2000, were as follows:

	Deferred assets		Deferred liabilities		Period of amortization Years
	Current ThCh\$	Long-term ThCh\$	Current ThCh\$	Long-term ThCh\$	
Timing differences	-	-	-	-	-
Capital lease assets and liabilities (net)	-	-	-	1,196,139	-
Complementary asset	-	-	-	(1,196,139)	26
Accelerated depreciation	-	-	-	462,974	-
Complementary asset	-	-	-	(462,974)	25
Accrued employee severance benefits	-	-	-	32,968	-
Complementary asset	-	-	-	(32,968)	13
Accrued employee vacations	92,318	-	-	-	-
Complementary liability	(92,318)	-	-	-	1
Other accruals	382,007	-	-	-	-
Complementary liability	(382,007)	-	-	-	1
Total	-	-	-	-	

iii) Income tax expense for the period September 15 to December 31, 2000 is summarized as follows:

	ThCh\$
Income tax and Article 21 tax	(915,920)
Variation in deferred income taxes	548,536
Amortization of complementary accounts	(311,129)
Total deferred income taxes	237,407
Total income tax expense	(678,513)

NOTE 15 - SHAREHOLDERS' EQUITY

a) Changes in shareholders' equity during the period were as follows:

	Capital ThCh\$	Capital subscription receivable ThCh\$	Net income for the period ThCh\$	Total ThCh\$
Initial capital of the Company at September 15, 2000	100	(100)	-	-
Capital increase	340,073,800	(340,073,800)	-	-
Paid-in capital	-	307,049,463	-	307,049,463
Paid-in capital	-	30,952	-	30,952
Capital decrease from change in legal structure	(32,993,485)	32,993,485	-	-
Price-level restatements	3,060,056	-	-	3,060,056
Net income for the period	-	-	3,178,720	3,178,720
Balance as at December 31, 2000	310,140,471	-	3,178,720	313,319,191

On September 15, 2000 Inversiones HQ Chile Limitada (now HQI Transelec Chile S.A.) was founded with capital of ThCh\$100. On October 16, 2000 the Shareholders changed the Company name to Inversiones HQI Transelec Chile Limitada and agreed to a capital increase of ThCh\$ 340,073,800, payable as the needs of the Company require. On October 20, 2000, Inversiones HQI Chile Holding Limitada, the majority shareholder, contributed US\$ 537,354,025 (ThCh\$ 307,049,463 - historical), and on October 25, 2000 HQ, Puno Ltd., the minority shareholder, contributed US\$ 53,735 (ThCh\$ 30,952 - historical). Subsequently on November 23, 2000, the Shareholders agreed to lower the paid-in capital to the amount previously contributed as part of the change in the legal structure of HQI Transelec Chile S.A. As a result, the Company, now a Corporation, maintains total paid-in capital of US\$ 537,407,760 (ThCh\$ 310,140,471) corresponding to one million shares with no par value.

In accordance with Article 10 of Chilean Corporate Law No. 18,046, the Company has included in its paid-in capital the proportional amount corresponding to price-level restatement of such capital as of December 31, 2000.

NOTE 16 - SHAREHOLDERS' STRUCTURE

As at December 31, 2000, the shareholders' ownership interests were as follows:

Shareholder	Percentage of shareholding	Number of shares
Inversiones HQI Chile Holding Limitada	99.99	999,900
HQ Puno Ltd.	0.01	100
Total	100.00	1,000,000

NOTE 17 - MINORITY INTEREST

The minority interest at December 31, 2000 was as follows:

Subsidiary	Percentage	
	%	ThCh\$
TRANSELEC	0.01	19,453

NOTE 18 - COMMITMENTS AND CONTINGENCIES

a) Direct commitments

Guarantees received:	ThCh\$
Abengoa Chile S.A.	10,351
Bautista Bosch	159,860
Cobra Chile	61,471
Daniel Pereira Maraboli	1,500
Empresa de Recursos Humanos Ltda.	700
Escatronics Ltda.	631
Garantía de Préstamos Habitacionales Mutuo Hipotecario	102,942
Constructora Duma Tribasa	14,193
Dessin Ltda.	2,922
Ibener S.A.	6,308
Interexport S.A.	2,195
Keeper Ltda.	1,187
Nelson Cortes Gutierrez	25,061
Sabromeals S.A.	1,212
Siemens S.A.	6,581
Sociedad Nacional de Procesamiento de Datos	2,582
Wackenhut Chile S.A.	12,747
Other construction and service contracts	32,810
Total	445,253

b) Indirect commitments - No guarantees have been given for indirect commitments.

c) Forward contract - The Company entered into forward contract to hedge its exposure to fluctuation in the US dollar exchange rate for an amount of ThUS\$ 250,000 and UF 9,227,779 (1999 - ThUS\$ 97,000 and UF 3,471,653).

d) Pending lawsuits - Opposition to the inscription of the trade mark «Translacko.» Claim No. 440,862 was published in the Official Register dated May 12, 1999, by Translack Ltda. to distinguish Transport Service, Class 39. On June 24, 1999 rebuttal to the claim was presented. Case number 994,236. The parties have been instructed to hear sentencing (5-VII-2000) pending the verdict. Claim amounts have not been determined.

Opposition to the inscription of the trade mark «Transelectric,» presented by Transelectric S.A. Claim No. 463,984 to distinguish products Class 12. On January 14, 2000 a response to the claim was presented. The parties have been instructed to hear sentencing (6-VII-2000), pending a verdict. Claim amounts have not been determined.

A claim by TRANSELEC was brought against Mr. Froilan Bluas Pino in the First Civil Court (Temuco) Rol No. 97,394. The partners have been instructed to hear sentencing. Claim amounts have not been determined.

A court claim was made with respect to charges brought by the Superintendency of Electricity and Fuel for not having constituted CDEC in the required time frame. The company presented an appeal on May 11, 1999, Rol 2216, in the 29th Civil Court of Santiago. This case is still in the evidence-gathering stage. Amount of claim : 500 UTM (ThCh\$13,581).

A judicial claim was made, by resolution N° 073 dated January 14, 2000 against the Superintendency of

Electricity and Fuels (Rol 874/2000 of the Santiago Appeals Court) which fined TRANSELEC for its alleged responsibility for the failure on the SIC on May 30, 1999. Presently, the payment of the fine is being processed with the Treasury Department together with the consignment. Original amount claim: 200 UTM (ThCh\$ 5,432).

An appeal was made against resolution N° 876 (dated May 15, 2000) of the Superintendency of Electricity and Fuels which sanctioned the Subsidiary for its alleged responsibility for a failure on the SIC on July 14, 1999. On May 25, 2000 an administrative claim was lodged with the Superintendency seeking that the resolution be dismissed. The claim is pending. Amount of claim: 300 UTA (ThCh\$ 94,997).

A civil suit was brought against METRO S.A. for the public statements concerning power cuts on the central grid system. The case is before the 22th Civil Court of Santiago, Rol 3855-95. A sentence favourable to Transelec was given on December 29, 1997. This sentence was appealed by Metro S.A. before the Appellate Court, Rol 971-98. The Appellate Court ruling is pending. Amount of claim: unknown.

Judicial claim against Exempt Resolution N° 856 dated October 16, 1997 of the Superintendence of Electricity and Fuels which sanctioned TRANSELEC for its alleged responsibility for a failure on the SIC on May 1, 1997. Court: 29th Civil Court. Rol 4134-97. Claim name: «Compañía Nacional De Transmisión Eléctrica con Superintendencia de Electricidad y Combustibles». At the date of emission of these financial statements probation period ended, and parties have been instructed to attend the hearing. (450 UTM or ThCh\$12,223)

Appeal was made against fines imposed by the local Police Court of Cerro Navia, due to accumulation of garbage in public sectors. Jorge Balmaceda was named orator. The case has been on the Court docket twice, but has not been heard. Court: Santiago Appeal Court. Rol 4067-98. The claim is still pending. (20 UTM or ThCh\$543).

Administrative proceedings commenced under CONAMA resolution N° 37 dated April 7, 1999, at the request of CONAF, to establish liability and sanctions relating to a fire in the Ocoa sector of the San Isidro - Los Pluquenes transmission line. On February 2, 2000, TRANSELEC was notified of resolution (E) N° 007/2000 which applied a fine of 100 UTM. On February 14, 2000, TRANSELEC appealed the fine to the La Calera court. CONAMA has contested. The case is in the evidence gathering stage.

Claim for alleged delay in the payment of municipal licenses. Claim initiated by the Municipality of Talcahuano, on November 9, 2000, claim N° 35080. On December 20, 2000 both parties presented their cases and a list of witnesses. Case pending.

Claim made by José Vargas Fritz on behalf of Ricardo Soto Campos against Transelec regarding additional indemnification for the passing of the Charrúa - Ancoa 3 power line through certain property. The Company has been notified on January 9, 2001, that the case is being heard by the Appeals Court of Talca. Both parties are preparing their case.

e) Accrual for purchase Price adjustment - In accordance with the fifth clause of the purchase-sale agreement of TRANSELEC shares, signed by Inversiones HQI Transelec Limitada (now HQI Transelec Chile S.A.), Inversiones HQI Chile Holding Limitada and Hydro-Québec International Inc., as buyers, and Empresa Nacional de Electricidad («ENDESA») and Endesa Inversiones Generales S.A. («ENIGESA»), as sellers, it is agreed that the buyers of those shares should pay to the sellers the difference, if it is positive between the net equity referred to in the purchase-sale agreement, which was determined as ThCh\$ 188,019,844 and the net equity on the purchase date, October 23, 2000.

In order to determine the difference in net equity, an audit of the Company's assets and liabilities was performed at the aforementioned closing date. This audit determined that the revised equity was ThCh\$ 188,719,469 indicating an additional payment to sellers of ThCh\$ 699,625 (historic peso rate). Subsequent to the receipt, the sellers disputed the results of that audit and assert that Transelec's net equity at October 23, 2000 is as much as ThCh\$5,316,725 higher than that determined by the audit. Prior to resorting to arbitration, the two parties are negotiating an agreement as to the differences in question. As a result, the financial statements at December 31, 2000 include the minimum payment for the difference between the net equity specified in the purchase-sale agreement and the net equity determined by the audit at

the closing date. Any additional payment amount up to ThCh\$ 5,316,725 will be recorded in goodwill and will have no direct, immediate effect on earnings.

NOTE 19 - RESEARCH AND DEVELOPMENT EXPENSES

The Company has not incurred any significant research and development expenses as defined in Circular No. 981 of the Superintendency of Securities and Insurance (SVS).

NOTE 20 - BOARD OF DIRECTORS FEES

During the period, the Board of Directors received ThCh\$ 3,414 in compensation. These costs are included under Other non-operating expenses in the statement of income.

NOTE 21 - STATEMENT OF CASH FLOWS

In accordance with the requirements of Circular No. 1312 of SVS, there are no financing or investing activities that comprise cash flows that have not been disclosed in the Notes to the financial statements.

NOTE 22 - SANCTIONS

Neither the Company nor its Directors and Management have been sanctioned by the SVS during the period.

NOTE 23 - SUBSEQUENT EVENTS

On January 18, 2001, the Company purchased from Inversiones HQI Chile Holding Limitada 98,606 shares, representing 0.01% of the outstanding shares of TRANSELEC, resulting in the complete ownership of TRANSELEC. The transaction resulted in the absorption of TRANSELEC by the Company such that it now has full ownership of all the assets, liabilities, rights and obligations of TRANSELEC.



Guillermo Espinosa
General Manager



Juan Carlos Rodriguez
General Accountant