



» ANNUAL REPORT  
2008

**transelec**  
Uniendo a Chile con Energía







## » BACKGROUND INFORMATION

### » IDENTITY

Name:	Transelec S.A.
Record Entry at the Securities Registry:	Number 974
Legal Domicile:	Santiago, while not restricting the potential establishment of agencies, branches and offices in other parts of the country and abroad.
Tax N°:	76.555.400-4
Address:	Avenida Apoquindo N° 3721, 6th floor, Las Condes
Telephone:	(56-2) 467 7000
Fax:	(56-2) 650 8517
E-mail:	transelec@transelec.cl
Web Site:	www.transelec.cl

### » OWNERSHIP

Transelec's capital is split up into one million ordinary nominative shares without any nominal value. Transelec Holding Rentas Limitada owns 999,900 shares whilst Rentas Eléctricas I Limitada holds 100 shares.

In June 2006, the BAM Consortium - Brookfield Asset Management (BAM), Canada Pension Plan Investment Board (CPP), British Columbia Investment Management Corp. (bcIMC) and Public Sector Pension Investment Board (PSP) – acquired 100% of the Transelec's shares from Hydro-Québec and from IFC.

On November 16th 2007, BAM sold 10.7% of its participation to Brookfield Infrastructure Partnership (BIP Bermuda Holding III Ltd.), the latter becoming in this manner part of BAM Consortium, controller of Transelec. This Consortium contributes to Transelec a unique group of investors, with a long-term investment horizon and an outstanding and solid financial situation as well as a declared commitment towards Company growth.

\* The Company's Historic Background Information and its Legal Incorporation and Amendments are found on page 32.



## » THE COMPANY

Transec is Chile's largest and most important power transmission company, with the widest national coverage. Its responsibility is mainly that both Chileans and its productive sector may have a reliable supply of electricity they require. The Company's transmission lines transport electricity from its production centres to cities where 99% of the population live and to large industrial and mining end-users.

Although Transec was created in March 1993, the Company and its personnel have a track record of over six decades, with know-how and experience in developing the country's electricity transmission of electricity.

Transec's mission is "to be the leading Company in the development of the country's electric power system by expanding the transmission system in a sustainable and efficient manner and by seeking continuous and profitable improvement of the electric power reliability throughout the territory."

In this context, Transec is a company which throughout its history has contributed towards designing the transmission system with a future vision, thus permitting a potential use of its power transmission infrastructure, satisfying power demand without incurring in higher environmental and financial costs. With such objective, Transec is continuously researching and incorporating new technologies to its solutions of transmission designs. In 1996, for instance, a new 220 kV line between Charrúa and Ancoa was built, design that permitted to transform it into a single-circuit 500 kV line. After 8 years, such line was transformed into a 500 kV line to permit the commissioning of Ralco power plant.

Likewise, Transec is also in favour of developing an integrated system in the Northern Interconnected System (SING) which, responding to an adequate planning will enable the expansion of the transmission system, carrying advantages: lower investment costs, a reduction of environmental impact by avoiding the inorganic growth of transmission lines and reduced building periods of time. This will mean a balanced growth of the system, permitting an adequate operation and greatly improving safety and service quality.

Transec's transmission system - which straddles 2,900 kilometres, between the city of Arica in the Region of Arica & Parinacota and the island of Chiloé in the Region of the Lakes – is a majority stake in trunk electricity transmission lines and substations of the two largest interconnected systems in Chile: the Central Interconnected System (SIC) and the Northern Interconnected System (SING).

The Company has six regional managements (Far North, Near North, Central, Central-South, Biobío and the South), which have the task to safe keep the adequate operation of the lines and of the 49 transmission substations of its property along the country. The latter are mainly engaged in channelling and controlling the flow of electricity and transforming high-tension electricity into intermediate tension for its distribution in cities and consumption centres. Transec's total transforming capacity reaches 10,486 MVA.

The Company is the proprietor of all the high-tension 500 kV lines and of the majority of up to 110 kV voltage lines. Transec's transmission system has a total of 8,204 kilometres of single and double- circuit lines. In the SIC it has 98% of the total transmission lines included in the trunk system, whilst in the SING 100% of it is its property.

## » LETTER FROM THE CHAIRMAN OF THE BOARD



### » DEAR SHAREHOLDERS:

On behalf of the Board of Transelec S.A., it is a great pleasure to submit the Company's Annual Report for the year 2008.

Since the acquisition of Transelec in June of 2006, the shareholders, through a new administration, has promoted a growth-oriented business strategy through consolidating its leadership in the trunk system, to selectively expand its sub-transmission networks and actively participate in the additional systems market.

The shareholders commitment to grow Transelec has been fostered by the stability of the regulatory environment. Short Law I has strengthened the climate of legal certainty that is so necessary for the development of the electrical transmission business, requiring a stable scenario and horizon, given the magnitude of capitals invested.

Considering the stability provided by the regulatory framework, Transelec has declared its readiness to invest in the development of the system. During 2008, this commitment was reflected in a series of initiatives aimed at successfully tackling the challenge of growth. In the trunk system, three important works were commissioned, including the new 500 kV bay-yard at Polpaico Substation allowing the connection of a 500 kV line with two circuits, from Ancoa and Alto Jahuel substations. In this same segment, Transelec additionally began the construction of another four projects. One of them was the double-circuit 220 kV line Polpaico-Nogales, won in an international tender. In addition, the bidding for a number of other expansion projects has begun.

In the sub-transmission market, the Company has committed to five projects. With regards to the business of additional systems, construction of transmission solutions for the Hypogenous project of Carmen de Andacollo Mining Company, in the Region of Coquimbo has begun, and for the connection of the new

Bocamina II power plant for Endesa Chile, in the Region of Biobio. A business agreement involving the connection of AES Gener's Santa Lidia Thermoelectric power plant has also been signed. Its first stage came into service on November 15th 2008 and a contract was signed for the second stage of the Canela Wind Farm Project belonging to Endesa Eco.

In compliance with Law 19,940, in April 2008 the Direction of Tolls of the CDEC-SIC and the CDEC-SING released their corresponding reports on tolls of trunk transmissions for 2008, calculated by applying the new conditions established in the trunk transmission decree. One month later, the same entities released a report on toll resettlements for the period of March 2004 to December 2006.

Transelec's financial performance, including its subsidiary Transelec Norte, showed positive results during 2008 with a net income of Ch\$56,589 million. Operating Income amounted to Ch\$117,266 million, while non operating results increased to Ch\$47,116 million; whilst total incomes for the period, including the resettlements stated in the toll reports mentioned in the previous paragraph, amounted to Ch\$183,832 million.

The Company's commitment to the continuous improvement of system reliability was reflected in the fact that there were only 17 disruptions of installations during 2008 in the SIC due to Transelec's own causes representing a 2.56 minutes-system on the TEI index, decreasing to 46.56% below the mark achieved during the previous year. Also, in the area of occupational health and safety, this was an outstanding year with accident and severity levels records which favourably compare with those found in other activities in the country such as forestry, mining and construction industries.

Regarding financial management, two important milestones should be highlighted. First, a syndicated credit line was completed for UF3.21 million (equivalent to USD130 million at the agreement closing time). This credit line will facilitate the financing of our investment plan over the next two

years. Another important financial protection which was put in place was a comprehensive exchange rate hedging program which permits us to mitigate profit variability for our shareholders.

2008 was a very dynamic year in all the areas of the Company, taking account of the transformation it has had during the last two years. To better reflect what Transelec is today and to develop a closer relationship with our principal stakeholders, we launched, towards the end of the year, a new corporate image. We appreciate the warm welcome given by those who inspired this change.

The board would like to thank Mr. Mario Marcel, for the excellent contribution he made as director until January 2008, before joining the Inter-American Development Bank as manager of Institutional and Financial Training. Additionally, the Board welcomes Mr. Alejandro Jadresic, a leading professional in the electrical sector who joined the Board in July 2008.

At the same time, the members of the Board would like to especially thank all Transelec's workers for their commitment to the development of the Company. Without them, Chile would not have the reliable electrical transmission service it enjoys today, an essential aspect to the well-being of all Chileans and the development of the national economy.

A stylized, handwritten signature in blue ink, consisting of a large, flowing 'J' followed by a series of connected loops and a final horizontal stroke.

» JEFFREY M. BLIDNER

Chairman of the Board



## » OUR HISTORY

### » TRANSELEC: UNITING CHILE WITH ENERGY

'90



#### » 1993

In March, Transelec S.A. was conceived out of the transformation of the up to that date Transmission Division of Endesa in the new subsidiary Compañía Nacional de Transmisión Eléctrica S.A., aimed at separating the electricity service's key links. This latter Company took over the development, operations and maintenance of the transmission facilities, hitherto belonging to Endesa, in the Central Interconnected System (SIC), in order to provide transmission services to the different generators, users of the SIC.

The birth of Transelec coincided with the inauguration of the aerial crossing of the Chacao Channel, which involved two 179-meter-high towers – equal to a 60-story building – that would support conductors in a 2,680 meters span.



#### » 1996

A visionary step was taken in 1996 when Transelec completed the construction of a new 220 kV line between Charrúa and Ancoa to enable the transmission of energy produced by the Pangué Power Plant (460 MW) whose design permitted to be transformed into a single-circuit of 500 kV. This occurred in 2004 coinciding with the inauguration of the Ralco Power Plant.



#### » 2000

Segregation of generation and transport activities at Endesa were perfected when 100% of Transelec was sold to the Canadian Company Hydro-Québec, responsible for the generation, transmission and distribution of electricity in the province of Québec.

#### » 2003

Transelec's coming into the Northern Interconnected System (SING) was materialized when it purchased 924 kilometres of lines and four 220 kV substations from Celta and GasAtacama, thus beginning the Company's first expansion program through purchases.



#### » 2004

The largest electricity transmission project at that time was inaugurated, the so-called 500 kV upgrade between Charrúa and Alto Jahuel, in order to give way to the generation by the Ralco hydro-electric power plant (690 MW). "Serial compensation" technology was introduced to the 500 kV Charrúa-Ancoa and Ancoa-Alto Jahuel lines, as part of that project.



#### » 2006

In January, the so called "fast track" began to materialize with the immediate construction works established by the regulator through Short Law I. The first to be inaugurated was a set of breakers on the 154 kV Itahue-Alto Jahuel line at Punta de Cortés.

In June, the Canadian consortium led by Brookfield Asset Management acquired 100% of Transelec, and impelled through the new management a commercial strategy oriented towards growth, through participation in the development of transmission solutions for third parties and acquisitions, besides upgrades and own new projects in the trunk business and sub-transmission.

#### » 2007

In March, another of the immediate construction works was commissioned - the Cautín substation - necessary to supply the entire zone from Temuco southward, where a new 220 kV Charrúa-Cautín line will be connected.



#### » 2008

The upgrades defined in the first study of the trunk transmission system were commissioned, energizing in 500 kV the Alto Jahuel-Polpaico line – with a new 500 kV yard at Polpaico substation – which had operated with 220 kV and whose aim is to improve the reliability of electricity supply to the Metropolitan Region.



## » CORPORATE GOVERNANCE

### » CORPORATE GOVERNANCE STRUCTURE

#### THE BOARD

The Board provides the general guidelines as to how the Company is to be governed, such as fixing its annual medium and long-term objectives, the Business Plan and the Strategic Plan, having as its base the Company's vision and mission. The Board assigns priority to greatest impact strategic matters which create the best value for shareholders.

According to the corporate by-laws, the Board consists of 9 members appointed by the shareholders at the corresponding Meeting of Shareholders, who remain in office for 2 years while not being restricted from re-election. Each full director has a deputy. The Chairman is appointed by the directors elected by the Shareholders. The size of the Board ensures its agility when it comes to taking decisions, with the directors participating and committed to their duties, acting on behalf of the Shareholders. According to Transelec's by-laws, the quorum necessary for approving and carrying out any resolution is 50% of the directors attending, always provided that the majority of the directors who are in favour of the motion are physically present in Chile during the meeting. At the same time, it is established that Board meetings take place with the physical presence of Directors in Chile, or through video and phone-conferences or any other means authorized by the Regulatory Body for Securities and Insurance,

unless the Chairman, at the request of two Directors, requires them to be physically present.

It is worth mentioning that a new paragraph was added to the corporate by-laws which establishes that should the Company fall into insolvency, any motion aimed at coming to an agreement with the creditors will require a vote in favour of at least one full member of the Board or his corresponding deputy, always provided that they are natural persons not related to the Company; i.e. impartial, in those cases where it is not obligatory in accordance with the law. With this measure a greater level of transparency is obtained and at the same time, Shareholders are guaranteed greater security.

The Board of Transelec consists of outstanding members. Each one of them is an expert on diverse economic, financial and business matters and they comply with their duties properly; actively taking part in meetings and thoroughly debating and reaching decisions on the matters placed before them to be studied in depth. The amount and quality of information Directors receive when preparing their meetings is reflected in their profound analysis prior to taking any decision.

According to the Repertory of the Powers of Decision approved by the Board, the latter is bound to learn of the matters relating to Corporate Governance as



» CHAIRMAN

**JEFFREY BLIDNER**

Lawyer  
Canadian



» DIRECTOR

**BRUNO GUILMETTE**

Accountant  
MBA, McGill University  
Canadian



» DIRECTOR

**SCOTT LAWRENCE**

Economist  
MBA, Harvard Business School  
Canadian



» DIRECTOR

**BRENDA EATON**

Economist  
Master in Economy, University  
of Victoria  
Canadian

well as being able to appoint, evaluate and fix remunerations and dismissals at the highest level of the Company. This is regardless of any other functions the Repertory assigns to it and what is set forth in laws. Likewise, the Board reviews and analyzes the situation of Transelec Norte, as well as all of the reports related to this subsidiary.

In accordance with the law and by-laws, the Board must meet at least once a month. In 2008, Transelec S.A held 12 ordinary and 3 extraordinary Board meetings.

Transelec's Board consists of 9 full members, Canadians and Chileans, together with their respective deputies who will remain in office for a period of 2 years. When this period is up, they may be re-elected. Directors may or may not be shareholders of the Company.

Messrs. Derek Pannell, Patrick Charbonneau, Graeme Bevans, Richard Dinneny, Enrique Munita Luco, Juan José Eyzaguirre Lira, Federico Grebe Lira, Juan Paulo Bambach Salvatore and Juan Irrázabal Covarrubias were elected as deputy directors to Messrs. Jeffrey Blidner, Bruno Guilmette, Scott Lawrence, Ms. Brenda Eaton, Felipe Lamarca Claro, Juan Andrés Fontaine Talavera, Blas Tomic Errázuriz, José Ramón Valente Vías and Alejandro Jadresic Marinovic, respectively.

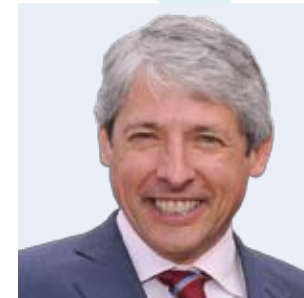
# **THE BOARD'S REMUNERATIONS**

At the First Ordinary Meeting of Shareholders of Transelec S.A., held on April 24 2008, a remuneration was established for the directors of USD70,000 annually, gross, irrespective of the number of meetings they actually attend or which are held. Allowances are paid quarterly.

The directors, Messrs. Jeffrey Blidner, Scott Lawrence, Bruno Guilmette and Ms. Brenda Eaton refused their allowances for 2008. In this manner, the remunerations received by the directors during 2008 were as follows:

Blas Tomic	\$37,651,600
Juan Andrés Fontaine	\$36,885,608
Felipe Lamarca	\$37,651,600
José Ramón Valente	\$37,651,600
Alejandro Jadresic	\$20,785,800

As to Transelec S.A.'s subsidiary, Transelec Norte S.A., according to Article 8 of its corporate By-laws, the directors are not remunerated for their functions.



» DIRECTOR

**FELIPE LAMARCA CLARO**  
Business Management & Administration degree (Commercial Engineer in Chile)  
Tax N° 4.779.125-1

» DIRECTOR

**JUAN ANDRÉS FONTAINE TALAVERA**  
Business Management & Administration degree (Commercial Engineer in Chile)  
Master in Economy, University of Chicago  
Tax N° 6.068.568-1

» DIRECTOR

**BLAS TOMIC ERRÁZURIZ**  
Industrial Civil Engineer  
Ph. D. in Economic Development, Sussex University  
Tax N° 5.390.891-8

» DIRECTOR

**JOSÉ RAMÓN VALENTE VÍAS**  
Business Management & Administration degree (Commercial Engineer in Chile)  
MBA, University of Chicago  
Tax N° 8.533.255-4

» DIRECTOR

**ALEJANDRO JADRESIC MARINOVIC**  
Industrial Civil Engineer  
Ph.D in Economy, University of Harvard  
Tax N° 7.746.199-K

» SECRETARY TO THE BOARD  
**FERNANDO ABARA ELÍAS**

#### THE BOARD'S EXPENSES

No payments were made associated with the directors' expenses during the year.

#### AUDIT COMMITTEE

In April 2007, the creation of an Audit Committee was approved, different to that established in the Limited Companies Act, whose functions among others, are to review auditors' reports, balance sheets and the Company's other financial statements, as well as internal systems. Transelec's Audit Committee consists of four Directors, all of whom are trained in financial matters and are in charge of facing different key topics for the Company, with great depth and specialization. The Committee Members are appointed by the Board and remain in office for two years, albeit they may be re-elected. The Committee appoints a Chairman from among its members and a Secretary who may be one of their members or the Secretary to the Board. In 2008, the Committee held 6 meetings.

To December 31st, the Audit Committee consisted of its Chairman, José Ramón Valente Vías and Directors Scott Lawrence, Brenda Eaton and Juan Andrés Fontaine Talavera and, the Secretary was Fernando Abara Elías.

The Committee members are entitled to receive remuneration corresponding to members of the Committee, as determined by the Ordinary General Meeting of Shareholders.

On the First Ordinary General Meeting of Shareholders of Transelec S.A., held on April 24th 2008, the members of the Committee were awarded a gross remuneration of USD10,000 per annum, irrespective of the number of meetings held or they actually attended.

Remunerations received by the members of the Audit Committee in 2008 were:

Juan Andrés Fontaine	5,303,750 pesos
José Ramón Valente	8,442,750 pesos

#### » GOVERNANCE AND TRANSPARENCY

##### CODE OF ETHICS FOR DIRECTORS AND EXECUTIVES

In order that the society is able to uphold the best standards of ethics and corporate governance, the Board approved a Code of Ethics for Directors and Executives which contains strict rules regarding conflicts of interest and ethical behaviour whilst fulfilling their functions, regardless compliance of applicable legal regulations.

##### CODE OF CONDUCT FOR PERSONNEL BELONGING TO TRANSELEC S.A. AND ITS SUBSIDIARIES

Likewise, a Code of Conduct for all Transelec personnel and its subsidiaries has been duly distributed and is known by them. It includes among other outstanding aspects, an Information Procedure in case any worker should have complaints regarding accounting, internal accounting controls or audit matters, or that they may query aspects that could be questioned. The claim has to be sent, anonymously if so desired, to the Secretary to the Audit Committee or to Transelec General Manager, the chairman of the Audit Committee shall then resolve on measures to be adopted.

##### MANUAL FOR HANDLING INFORMATION OF INTEREST FOR THE MARKET

As approved by the Board at a meeting held on May 29th 2008, this Manual was prepared so as to comply with the precepts contained in the Law on Securities Market, the Limited Companies Act and in General Regulations Standards Nº 210 and Nº 211 of the General Superintendent's Office on Securities and Insurance (SVS), and duly divulged to all of the Company's personnel and published on its web page ([www.transelec.cl](http://www.transelec.cl)), being also available at its headquarters. The Manual sets policies and the Company's internal regulations referred to the type of information that will be placed at the disposal of investors, of potential investors and of general public, as well as of the systems implemented to guarantee that such information is communicated on time, all that in order to keep transparency of transactions carried out by persons in executive positions in the Company, or by personnel who might have access to information of a reserved or confidential nature, thus avoiding that operations take place based in the use of this information and thus granting a level of trust and security required by investors.





## » MANAGEMENT TEAM

Transelec's management team, as of December 31st, consists of executives of excellence in every one of their areas and of renown trajectory within the energy sector:

### **ANDRÉS KUHLMANN JAHN**

General Manager  
Industrial Civil Engineer  
Catholic University of Chile  
Tax N° 6.554.568-3

### **EDUARDO ANDRADE HOURS**

Vice-President Operations  
Electrical Civil Engineer  
University of Chile  
MBA, University of Adolfo Ibáñez  
Tax N° 7.015.734-9

### **MARCELO DE PETRIS ZANETTA**

Vice-President Finance  
Business Management & Administration degree  
(Commercial Engineer in Chile)  
Catholic University of Chile  
Tax N° 7.544.038-3

### **RODRIGO ACKERMANN MARÍN**

Vice-President Commerce and Development  
Business Management & Administration degree  
(Commercial Engineer in Chile)  
Catholic University of Chile  
Tax N° 6.378.560-1

### **SERGI JORDANA DE BUEN**

Vice-President Engineering and Construction  
Electrical Civil Engineer  
University of Chile  
Tax N° 6.865.973-6

### **ALEXANDROS SEMERTZAKIS PANDOLFI**

Vice-President Aysén-SIC Project  
Civil Engineer  
University of Santiago  
Post-graduate degree in Administration from the  
University of Adolfo Ibáñez  
Tax N° 7.053358-8

### **CLAUDIO ARAVENA VALLEJO**

Vice-President Human Resources  
Business Management & Administration degree  
(Commercial Engineer in Chile)  
Catholic University of Chile  
Tax N° 9.580.875-1

### **FERNANDO ABARA ELÍAS**

Vice-President Legal Affairs  
Lawyer  
Catholic University of Valparaíso  
MBA, University of Gabriela Mistral  
Tax N° 8.003.772-4

### **CLAUDIO VERA ACUÑA**

Corporate Affairs Manager  
Journalist  
Catholic University of Chile  
Tax N° 10.963.893-5

## » THE PEOPLE

### » HUMAN RESOURCES

One of the main pillars upon which Transelec's strategic plan is based is the people. Complexity and the high quality standards on which work is being executed, added to the challenges the Company faces leads Transelec to search for the best professionals in the market.

Within this context, Transelec has a policy of benefits and compensations that enables it to remain competitive regarding recruitment and retaining its talents.

The Company has also implemented training programs permitting to keep existing professional high quality standards.

During 2008, special emphasis has been placed on generating spaces for improving its workers' quality of the life, with outreach, cultural and recreational programs, in order to support their integral development, convinced of the direct contribution this generates on productivity.

### » OUR WORKERS AND THE MOST IMPORTANT LANDMARKS

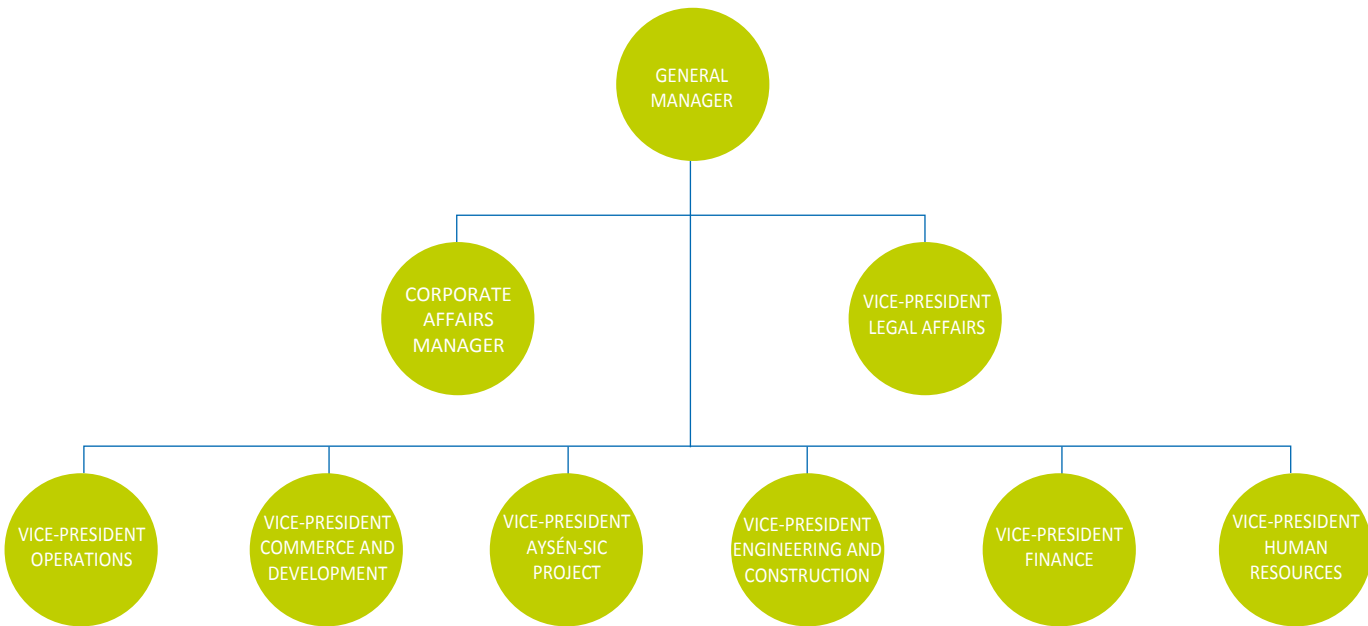
There were a total of 408 workers in the Company as of December 31 2008. Over 95% of them have some or other technical or professional specialization. This just indicates that workers are a key element for the Company to keep the high technical level required to provide the quality of service society needs.

It is thus that 82.2% of the workers worked in areas of operation and engineering and construction.

In 2008, initiatives in some compensation structures were put into practice in order to place the Company's objectives in line with those of its workers, allowing for both professional and personal development of its employees.

Likewise, in May 2008, the Company's cultural model project finalized with the launching of Transelec's Cultural Model. The result of this project was to retrieve the values existing within the Company in order to make them known and potentiate them. Based on these values, Excellence, Commitment, Respect and Integrity, Transelec has based its working models and development, since they are the cornerstones of how the Company acts and views its business.

### » THE COMPANY'S ORGANIZATIONAL CHART



## » WORKING RELATIONSHIPS

During 2008, collective bargaining process was held with SINATRAN, which is one of the two unions to which 15.61% of the Company's total workers belong for a period of 4 years.

Also during 2008, an opinion poll was carried out on working environment using the same measuring instrument as the opinion poll in 2006, showing an increase of 20 points. This tells us that plans and projected development for people had a good response from workers.

## » MANAGEMENT OF KNOWLEDGE

A total of 22,225 training hours were conducted in 2008, representing 2.71% of all the hours worked during such period. All in all, 94.36% of Transelec's workers took part in training programs related to such areas as operations, management support, post-graduate studies, languages and IT, among others.

In 2008, Management of Knowledge was established as a strategic initiative. As from this definition, a multidisciplinary work group was appointed to jointly prepare, among other items, development of forums and technical lectures using the video-conference system which permitted bringing knowledge closer to workers in the different regions, which meant significant gains in productivity and costs.

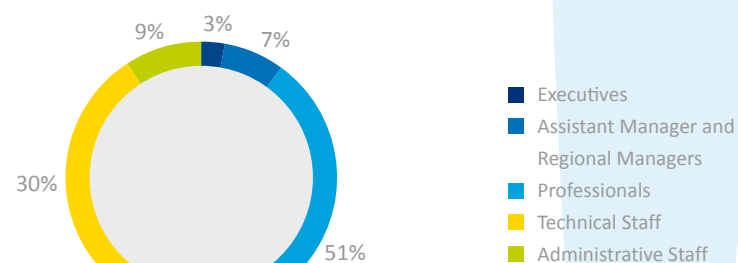
## » VICE-PRESIDENTS AND MANAGERS' REMUNERATIONS

Transelec paid Vice-Presidents and Managers during 2008 financial period a remuneration amounting to \$1,956,613,547. This value includes remunerations of Vice-Presidents and Managers in office as of December 31st 2008 and that of Vice-Presidents and Managers who had retired during that year.

## » INCENTIVE PLANS

Transelec has an annual incentive plan for its executives based on compliance with targets and their personal contribution towards Company results. This includes a definition of ranges depending on the hierarchic level of the executives. Bonuses paid to executives, depending on the Company's results, consider a gross amount of monthly remunerations.

## » DISTRIBUTION BY TYPE OF POSITION





## » THE BUSINESS

### » REGULATORY SCENARIO

The legal framework governing the electricity transmission industry in Chile defined transmission systems and it classifies transmission facilities into three categories (Trunk Transmission Systems, Sub-transmission Systems and Additional Systems) and it establishes a scheme of open access for the first two mentioned and for any additional lines that make use of easements and those that use public land for their layouts, where the corresponding facilities can be used by third parties under non-discriminatory technical and financial conditions. Moreover, it defines the criteria and procedures by means of which the retribution that the owner of the transmission facilities is entitled to receive.

Trunk facilities are defined as the set of essential and economically efficient lines and substations, that makes possible the supply of the whole demand, under different scenarios of generation availability.

Sub-transmission systems consist of facilities interconnected in the electricity system available for the exclusive use of groups of free and regulated price final consumers located in concession areas of the distributors.

Therefore, any additional systems consist of lines and transmission equipment devoted to supplying electricity to non-regulated customers or to withdraw the production from a power plant or a reduced group of generating plants.



» TRUNK TRANSMISSION SYSTEM

Transec's revenue in this area of the business consists of the "annual value of transmission per section" (VATT), which is calculated on the basis of an "annuity of the value of investment" (AVI), plus the "operation, maintenance and administration costs" (COMA) for each one of the sections that belong to the existing trunk system. The VATT is determined every four years by a consultant who carries out a study called a Trunk Transmission Study (ETT). During the four-year period between two consecutive ETT, both the AVI as well as the COMA pertaining to each section are indexed using formulas that are aimed at maintaining the real value of the AVI and the COMA during that period of time. Both indexation formulas and the frequency of application are determined in the ETT.

Additionally, in that ETT, the consultant establishes the trunk system expansion plans together with referential values of investment. These expansion plans contain investments that have to be classified as new projects or as upgrades.

Upgrades of existing facilities must be executed by the owner of the facility who has to call a tender for building the works. In the case of expansions, the operation rights and execution are tendered out by the corresponding Economic Load Dispatch Center (CDEC) by means of an international tender and are awarded to the applicant who submits the lowest VATT for the project tendered out.

Annually, the CDEC analyzes the consistency of the expansion plans and the facilities of the trunk system found in the ETT together with how the system has actually developed as regards generation, transmission and demand. Subsequently, the National Energy Commission (CNE) determines the expansion plan for the next 12 months.

MARKET SHARE

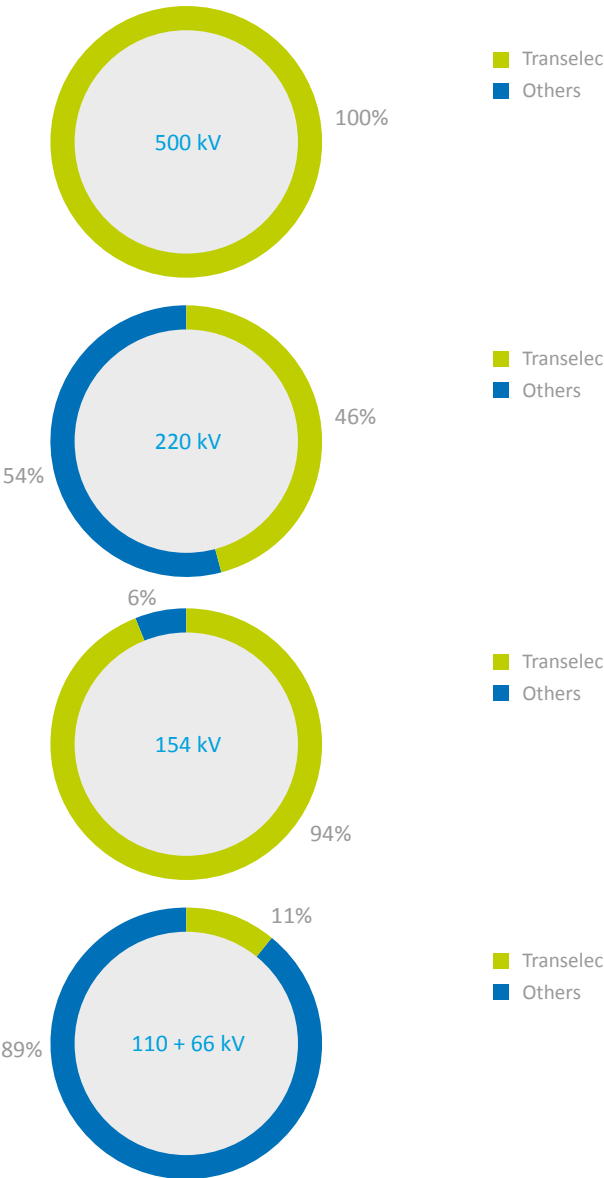
Transec owns 100% of the 500 kV lines, it has a 46% share of the ownership of the 220 kV lines, a market share of 94% of 154 kV lines and 11% of the 110 kV and 66 kV lines.

PROJECTS ALONG THE TRUNK SYSTEM

During 2008, Transec completed the construction of three trunk projects with a total annual investment in these projects of USD35.6 million.

Thus, on April 20th, the 220 kV busbar upgrade project at the Charrúa Substation was commissioned, improving the reliability of the Central Interconnected System. The project modified and upgraded the Charrúa substation in the Biobío Region, splitting up its 220 kV busbar into independent sections providing security of supply.

» TRANSMISSION LINES MARKET SHARE (SING + SIC)



» MAIN PROJECTS IN THE TRUNK SYSTEM

Type of Project	Project	Stage	Date commissioning service
New Projects	2x220 kV El Rodeo-Chena Line 2x220 kV Nogales-Polpaico Line	Under execution Under execution	31/May/09 30/Apr/10
Upgrades	Upgrade of Polpaico 500 kV Polpaico 220 kV, installing 2nd transformer Nogales 220 kV S/S Seccioner 2x 200 kV Alto Jahuel - Chena Line Quillota S/S, replacing breaker Upgrade 220 kV bars at the Charrúa S/S	In operation Under execution Under execution Under execution In operation In operation	4/Sep/08 28/Feb/11 1/Jun/09 31/Jul/10 30/Dec/08 20/Apr/08

Additionally, on September 4th, the “Energizing at 500 kV of Alto Jahuel-Polpaico line” was commissioned. Its construction had begun in December 2005 in order to improve the security of supply to the Metropolitan Region. It consisted in the design, supply of equipment, construction of civil works, assembly and commissioning of the new 500 kV yard at Polpaico substation, its interconnection to the existing 220 kV yard and its connection to the 500 kV lines from the Alto Jahuel and Ancoa Substations.

This project, the last of the works qualified as urgent by the Authorities to preserve security of electricity supply reliability into the SIC and the one of greatest importance due to its volume of investment, meant using 4,000 m3 of reinforced concrete, 336 tons of iron-clad steel, 1,843 tons of galvanized steel for assembly structures, 463 electrical equipment installed in the 500 kV yard, 470 workers permanently employed during the months of greater construction activity, 37,400 men-hours of engineering and 1,206,000 men-hours of construction.

Lastly, on December 30th, the “Quillota 220 kV Substation breaker change” was commissioned, considering removing the old 220 kV busbar coupler and supplying, assembling, testing and commissioning a new breaker with a larger interruption capacity so as to be able to withstand new and future levels of short-circuits at Transelec’s substation in Quillota as a result of an increase in generation in the Valparaiso Region. The total investment in the project, whose construction began in February 2008, amounted to USD0.42 million.

Also, during 2008, Transelec began the construction of four other projects: the “New 2x220 kV Nogales-Polpaico Line”, the “220 kV Nogales Sectioning Substation”, the “Polpaico Substation: the Second 500/220 kV-750 MVA Transformer” and the “2x220 kV Alto Jahuel-Chena Line: Replacing Circuit 1 and 2 Conductors”. It also continued construction of the “2x220 kV El Rodeo-Chena Line Project: First Circuit Laying” and it tendered out another 7 upgrade projects worth an approximate amount of USD66 million.

In this manner, total investments for the year stood at USD45.6 million.



## » MAIN PROJECTS IN SUB-TRANSMISSION SYSTEMS

Type of Project	Project	Stage	Date commissioning service
Sufficiency	San Ambrosio Project	Under execution	30/Jun/11
	2x220 kV Charrúa Lagunillas Line	Under execution	31/Jan/10
	220/110 kV Maitencillo S/S Transformer	Under execution	30/Apr/10
	Diego de Almagro - Chañaral 110/23 kV Project	Under execution	31/Mar/10
	Laja S/S transformer replacement - 2nd stage	Under execution	28/Jul/09
Backup	Temuco S/S, backup transformer	Under execution	31/Jan/09
	Vallenar S/S, backup transformer - 2nd stage	In operation	30/Mar/08
	Charrúa S/S, backup transformer	Under execution	15/May/09
	220/110 kV Diego de Almagro S/S Transformer	Under execution	31/Dec/09
	220/110 kV Cardones S/S Transformer	Under execution	31/Aug/10

## » SUB-TRANSMISSION SYSTEMS

Lines and substations of each sub-transmission system are determined, subject to a previous technical report from the CNE, by means of a Supreme Decree issued by the Ministry of Economy, Development and Reconstruction.

A sub-transmission system is an installation that is connected to the electricity system and is available for its exclusive use by a certain group of final either free or regulated price consumers located inside concession areas belonging to distribution companies.

The annual cost of sub-transmission systems (VASTX) is calculated every four years and it is based on installations economically adapted to demand and it consists of standard costs of investment, maintenance, operation and administration plus average energy and power losses in those adapted installations. In order to calculate the VASTX, all of the companies owning the sub-transmission installations commission a study that is sent to the CNE. The latter generates a Technical Report containing observations and corrections to the reports from the companies, together with tariff formulas.

The CNE published a Decree with the list of the installations that it considered to belong to the sub-transmission system for the purpose of the study. Likewise, the CNE identified the 7 sub-transmission systems that were acknowledged for tariff purposes: one in the SING and 6 in the SIC. Finally, the CNE published the final conditions for undertaking sub-transmission studies which were executed in 2006.

In these studies, for the purpose of calculating annual investment costs both regarding trunk transmission as well as sub-transmission, an economic lifespan per type of component and a discount rate equal to a real annual 10% are used.

Although it refers to 2009, it is worth highlighting the fact that the CNE, incorporating the Panel of Experts Resolution, issued a Technical Report to the Ministry of Economy, where the Minister, in Supreme Decree N° 320, published in the Official Gazette on January 9th 2009 the sub-transmission tariffs and their indexation formulas in force until October 31st 2010 as published in the Official Gazette on January 9th 2009. The provisions in that decree come into force on January 14th 2009.

In this business area, Transelec commissioned the “Vallenar Substation: the Second Stage of the 110/13.2 kV Backup Transformer” project and it began working on important projects. Prominent among them is the San Ambrosio project which considers the designing and building a new substation in the city of Linares in the Maule Region for 220/154 kV-300 MVA (the San Ambrosio Substation) and a 37 km long 220 kV line that will connect the Ancoa substation to the new one. This project will fulfill the demand for electricity transport in the area around Linares until 2016 and will avoid the constraints expected in three years if this investment was delayed. Additionally, the project will improve the supply reliability in that area.

In 2008, Transelec continued developing projects for supplying and installing 220/66 kV backup transformer; 75 MVA at the Temuco Substation and 154/66 kV, 75 MVA at the Charrúa Substation, besides replacing 220/110 kV transformers at Maitencillo, Cardones and Diego de Almagro substations. There was also a lot of progress made with the environmental, engineering and supply stages of the Lagunillas project which envisages designing and building a new 220/154 kV-390 MVA substation in the area of Coronel in the Biobío Region (the Lagunillas Substation) and a new 220 kV line 80 kms long that will connect the Charrúa substation to the new one. This project will take care of the electricity transport demands of the area around Concepción, Coronel and San Vicente until 2016 and it will avoid the restraints that would otherwise occur if they are postponed, besides noticeably improving supplies reliability within the area of Concepción. Finally, due to the recent requirements for power increases by customers of the local distribution Company in the area of Chañaral, Atacama

Region, the “1x110 kV Diego de Almagro-El Salado Line, 110/23 kV-15 MVA Transformer at the El Salado Substation and the 1x23 kV El Salado-Chañaral Line” project was redefined and development progressed.

» ADDITIONAL SYSTEMS

Additional transmission systems consist of transmission installations essentially and principally dedicated to supplying electricity to users not subject to price regulations and to those whose main aim is to enable generators to inject their production into the electricity system.

Transmission using this system is governed by private contracts between the parties involved.

Energy contingencies for the first half of the year and financial contingencies for the second half of 2008 meant doing our utmost to provide reliable transport for electricity throughout the country. Transelec is already prepared to increase its efforts in developing a national electricity system and improving the security and availability of electricity throughout the country. A key step in this direction is the concept of Transelec as a strategic partner in the execution of whatever energy developments the market requires.

In this business area, Transelec began to tackle important projects worth an estimated total of USD25 million, prominent among which was the 220 kV Canela Sectioning Substation project for Endesa that will enable the Canela II Wind Farm to be connected to the SIC in the Atacama Region. Construction also began on the

» MAIN PROJECTS IN ADDITIONAL SYSTEMS

Type of Project	Project	Stage	Date commissioning service
Investment agreement with Endesa	Lagunillas Project	Under execution	31/Dec/09
	Canela II Power Plant Connection	Under execution	2/Oct/09
	3KM-Line extension: 1x220kV Charrúa-Chillán Line	Under execution	31/Dec/09
	Works brought forward	In operation	---
Other Clients	Andacollo Project	Under execution	31/Jul/09
	Connecting up the the New Ventanas Plant	Under execution	1/Jun/09
	Connecting up the Santa Lidia Plant	Under execution	11/Mar/09
	Connecting up the Newen Plant	Under execution	11/Mar/09

220 kV line at the Nogales substation for connecting up the Ventanas Power Plant belonging to AES Gener, installing the second circuit of the Bocamina-Hualpén line for its connection from Endesa's Bocamina II Power Plant, the construction of the connection project to the Santa Lidia Power Plant belonging to AES Gener from the Charrúa substation and a commercial agreement was signed for the transmission solution and connection from the Newen Thermal Power Plant to San Vicente Transelec's substation.

On the other hand, during 2008 Transelec obtained important achievements regarding development of environment, engineering and supply stages of Lagunillas project for Endesa Corporation. Likewise, Transelec began the construction stage of the 220 kV transmission systems from Pan de Azúcar to Andacollo for the Andacollo Mining Company, which will enable it to supply electricity to its Hypogenous copper extraction project. The transmission project consists of a 220 kV line 46 kilometres long from the Pan de Azúcar substation, owned by Transelec to the copper mine located in the town of Andacollo, in the Region of Atacama.

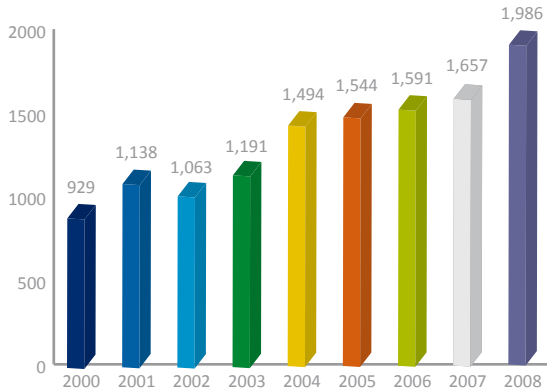
#### » VNR

Current regulatory framework establishes calculation and publishing mechanisms for investment valuation of transmission corporations - at market prices - information being used for the system tariff procedure.

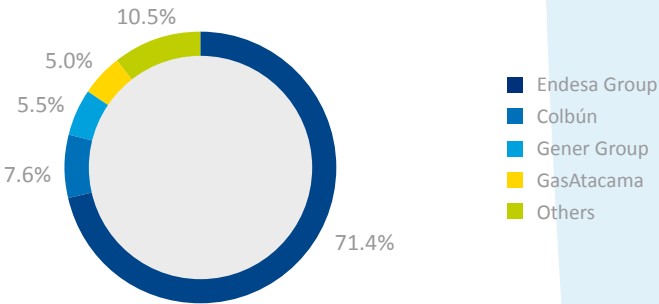
Valuation of Transelec's transmission facilities, to December 31st 2008 amounts to USD1,986.4 millions, of which USD149.1 millions correspond to valuation of Transelec Norte's facilities.

#### » VALOR NUEVO DE REEMPLAZO

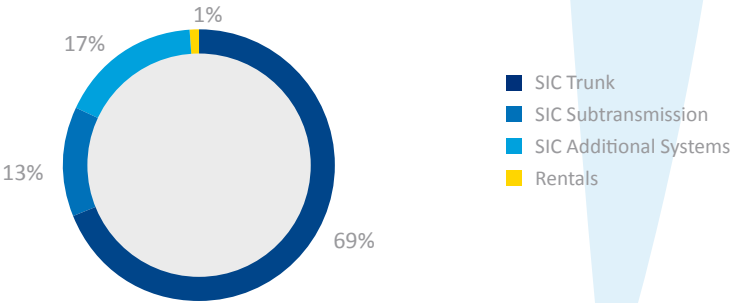
Values in millions of USD as of december 31 of each year



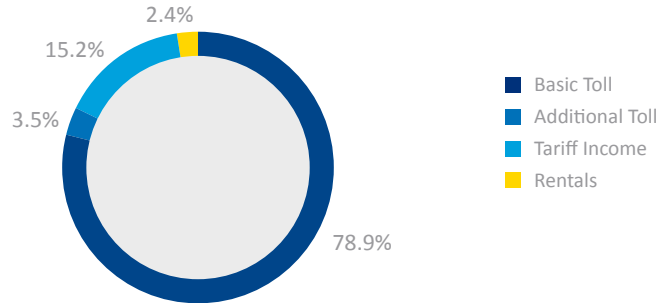
#### » INCOME PER CONSOLIDATED CLIENT



#### » INCOME PER SEGMENT



#### » CONSOLIDATED INCOME



## » THE OPERATION

The Central Interconnected System (SIC), together with the Northern Interconnected System (SING), enables supply of electricity to be brought to the majority of areas in the country, connecting energy generation centers to the majority of homes in the country, as well as to the largest industries. Both systems are marked by their complexity, requiring a deep-seated coordination between the different parties involved and an immediate and direct response by the transmission Company in the event of any contingencies, so as to ensure service is provided on time.

Transelec, as the leading electricity transmission Company in the country, interconnects the systems that provide electricity for the cities where 99% of all Chilean live, establishing itself as an important tool for the country's development.

The Company has personnel with a high level of specialization, maintenance programs and procedures for operating its transmission systems with superior standards as required by current Chilean legislation and advanced telecommunications and control equipment for operating its networks. This has enabled it to reach levels of quality and security on a par with countries with higher levels of development than ours.





In 2008, operation and maintenance of Transelec's facilities were adjusted to come into line with the commitments established in the annual programs that, in turn, were adapted to the provisions of the Technical Norm of Security and Quality of Service (NTS&CS), in force since March 21st 2005. Prominent in particular, is the progress made with the program for replacing protections and power breakers and improving the remote supervision capacity of the electrical system with the incorporation of new signals to the information system in real time (SITR). Among those projects of greatest importance is the breaker replacement project at the Rapel Substation, replacing the control and protection system at the Hualpén substation and replacing distance protections along different lines of the system in accordance with the year's program.

In the field of substation tele-control projects, remote supervision and operation was initiated by means of Transelec's facilities in the SING, through the start-up of Transelec's North Operations Center, located in the country's central zone, incorporating technology and innovation to the Company's operational process.

2008 saw the Company consolidating its use of external engineering resources in the area of Electrical System applied to operation, in particular when it comes to conducting coordination and protections adjusting studies, which will enable the Company's growth to be enhanced and thus improve the management of the new connections to the transmission system.

Regarding maintenance, the annual compliance index of execution of preventive maintenance activities, which compares the level of works conducted with the programming made at the beginning of each year, was 98.6% in 2008, a figure that has remained consistently high as from 2001 onward.

During 2008, Transelec began a risk analysis of its transformers and reactors due to copper sulphate forming on the windings, a phenomenon that over the last few years, worldwide, has caused numerous failures in these types of equipment. For this reason, Transelec put into practice a program for testing its dielectric oil, which results enabled an important amount of oil to be detected with corrosive compounds in transformers and reactors, which lead to develop a corrective action plan that will be carried out during 2009.

On the other hand, in March 2008, there were several failures in components in the equipment on compensation series platforms located at the Ancoa substation – which serve the 500 kV line – which meant putting one of them out of service for over three months. An investigation into this occurrence

by Transelec's specialists, together with technical assistance provided by the supplier, enabled solutions to be found necessary for eliminating the failures which meant changing the design of the platforms in a process that will begin as from January 2009.

In order to maintain lines and substation equipment, Transelec has continued to be supported by contractors, with whom it pursues a long term relationship that enables it to compete and obtain efficient and safe services. It was in this context that in 2008, the Company brought on board a new maintenance contractor who, besides improving the efficiency of operations, laid the foundations for a better sustainability of external resources for the Company's growth.

The correct and timely control of contingencies that occur along a complex transmission system, such as Transelec's, as well as the investments, improvements and modernizations - such as the ones mentioned – have enabled the Company to maintain its Equivalent Interruption Time (TEI), an indicator that measures how secure the system is, in a substantially low level. The TEI, which represents the total amount of energy not supplied to free and regulated customers over a period of 12 months, has its origins in unavailability at points where energy is withdrawn from the interconnected system and which is expressed as "equivalent interruption minutes" during the system peak demand time.

In 2008, in the SIC there were 17 self-caused disconnections from facilities that generated an unavailability of energy supply, representing 2.56 system-minutes on the TEI index. Among the failures with the greatest impact was the one corresponding to the tertiary winding of transformer Nº 3 at San Vicente, which represents 56% of the annual TEI and which was resolved by replacing the failed cables. Among the disconnections due to external reasons are the ones produced by the theft of conductors which, just like in 2007, affected the 110 kV lines Sauzal-Alto Jahuel, the 154 kV Itahue-Rancagua-Alto Jahuel and Itahue-Parral lines and the 66 kV San Javier-Constitución line. Although the total thefts of conductors which affected Transelec during 2008 increased from 22 to 36 events, the quantity of copper robbed decreased to 50%.

On the other hand, the TEI for Transelec in the SING reached a rate of 0.045 system-minutes without any relevant disconnections worth mentioning.

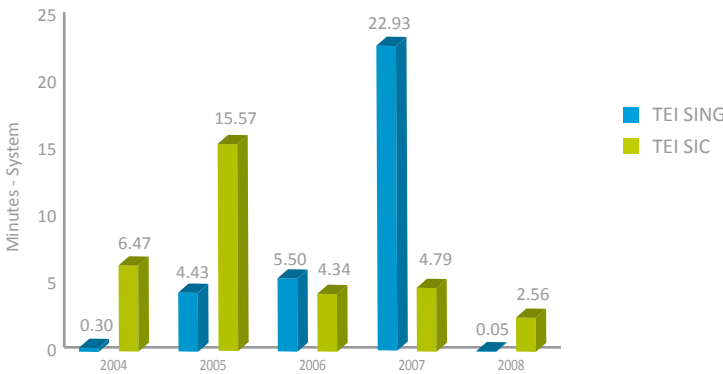
Results such as those described and their consistency over time have driven other companies to rely on Transelec and include them in different aspects such as the design of projects or the operation and maintenance of lines, equipment



and control systems and protections, meaning that over 60% of our customers' installations that were connected up to Transelec's system in 2008 were finally handed over to our Company for operation and maintenance.

During the last few months of the year, the Company participated in the establishment of new Economic Load Dispatch Centers for the SIC and the SING in accordance with what is set forth in Decree 391 of October 3rd 2007. In the CDEC-SING, Transelec chose three out of the ten directors, whereupon one of them was chosen by the Panel of Experts due to differences in interpretation of the regulations with another Company that was part of the body. The process in the CDEC-SIC has been since suspended because of an injunction pending at the Court of Appeal in Santiago concerning the election mechanism on the inside of the CDEC.

» TEI



## » THE ENVIRONMENT AND OCCUPATIONAL HEALTH

In its search for ongoing improvement on 2008, Transelec, decided to modify its Environmental Policy, establishing a Sustainability Policy aimed at providing the guidelines for our own personnel as well as those belonging to contractors when it comes to dealing with environmental, security and occupational health issues as well as relations with the communities.

With the above, the Company took the decision to create an Integrated Management System (SIG) which included the Environmental Management System as per ISO 14,001 standard currently existing at Operations which besides contains a Safety and Occupational Health Management System based upon OHSAS 18,001 standards. It also decided that the SGI would be extended to cover activities undertaken in Operations and Projects, both with its own personnel as well as those belonging to contractors, by defining the following scope for Transelec's SGI: "The Integrated Management system involving Security, Occupational Health and the Environment applies to all of Transelec's electricity transmission processes, starting with systems and ending with customer delivery".

The SGI is also a management tool oriented toward continuously improving all of the activities undertaken in Transelec, caring for the environment, and the safety and occupational health of all of its workers. At the same time, this SGI seeks to heighten an awareness of these topics within the organization, providing a structured and systematic basis for identifying and controlling environmental impact and risks to workers, facilitating compliance with current legislation. To achieve this ongoing improvement of the SGI, periodic audits will be carried out that will enable us to check whether the standards established are being complied with and, if not, then the SGI Committee will see to it that the corresponding preventive or corrective action is taken, both as regards the procedures established as well as with operational practices.

Whilst being implemented, work was carried out on identifying the hazards and risks of the different works, an activity in which both our own personnel, contractors, representatives from the workers' peering committee and the corresponding mutual safety society took an active part.

Furthermore, a decision was made to involve the Company's management in accident statistics, envisaging a reduction of the different indicators compared to the previous year. This job is related to the suggested aim of taking action that enables us to move forward in 2009 towards a process of certification that will consolidate Transelec's sustainability affairs, paving the way to making sure that the practices extant are carried out as well as putting any deficiencies right.

On the other hand, the Company since the outset of each one of its works, has always required its contractors to take care of the environment. Thus, at the beginning of any construction project, they have to comply with the general

technical specifications -"Minimum Environmental Conditions for Contractors" which have to be adhered to by contractors whilst executing a job or a service for Transelec. This enables performance levels and control of the environment to be standardized.

Additionally, Transelec defines itself as a Company avowing excellence, something that is demonstrated in its active concern for the environment surrounding it; participating from the very beginning in Environmental Impact Evaluation Systems (SEIA) and voluntarily submitting to the different initiatives required by the environmental authorities.

The largest projects are submitted to an Environmental Impact Assessment System, so as to be granted a Favourable Environmental Qualification Resolution (RCA), together with the corresponding permits in the sector. Thus, every one of these works is initiated once all requisites demanded by environmental legislation in force are complied with.

In 2008, the Company obtained the following RCAs regarding projects lodged with the SEIA:

- Environmental Impact Study for the "2X220 kV El Rodeo – Chena electricity transmission line".
- Environmental Impact Declaration for the "Nogales 220 kV Sectioning Substation".
- Application for Provisional Approval of the "2X220 kV Charrúa – Lagunillas Electric Transmission Line and Associated Works".

Likewise, and for the eighth year running, Transelec celebrated Sustainability Week that is aimed at providing the fundamental knowledge concerning the environment and prevention through talks and activities scheduled for all of its workers nationwide. At the time, the general manager informed everybody of Transelec's Sustainability Policy.

### » SAFETY AND OCCUPATIONAL HEALTH MANAGEMENT INDICATORS OF OWN WORKERS AND CONTRACTORS

Index	CIER 2008*	Transelec 2008	Transelec 2007
Frequency Index	6.72	3.93	7.46
Severity Index	684.92	157.62	273.31

Frequency Index: N° Lost time accident x 1 million / Total worked hours.

Severity Index: N° Lost days x 1 million / Total worked hours.

(\*) Report by Work Group "Safety and Health at Work" Regional Energy Integration Committee Management January - May 2008.

## » FINANCE

### » ACQUISITION OF TRANSELEC BY THE BAM CONSORTIUM

In June 2006, 100% of the stock of the then operative Company HQI Transelec Chile S.A. owned by Hydro-Québec and IFC was acquired by the consortium led by Brookfield Asset Management Inc. (BAM) and composed, on that date, by the Canada Pension Plan Investment Board, British Columbia Investment Management Corporation and the Public Sector Pension Investment Board and Brookfield Asset Management Inc. (collectively the “BAM Consortium”).

### » CONSOLIDATING FAIR VALUES

Since the acquisition of Transelec, in June 30th 2006, Technical Bulletin N° 72 of the Chilean Association of Accountants was totally applied in the consolidation processes so that both the Company’s non-monetary assets as well as liabilities and also those of its subsidiary Transelec Norte were recognized at their fair

value. In particular, both the debts as well as the swaps were recognized at their Mark-to-Market value as of June 30th 2006, and the fixed assets and rights of way were recognized at the market value of each, those values were estimated on the basis of the values considered in the Trunk Transmission Study and Subtransmission Studies. In the case of the facilities and assets of additional systems, the valuation methodology used in Subtransmission Studies was applied.

The consolidation process of Transelec Norte still includes, and will continue to include, recognition of the adjustments required to establish at Transelec the fair value of the fixed assets and the rights of way of Transelec Norte, instead of just their book values.





## » AMORTIZATION OF GOODWILL

In accordance with the provisions of Title I N° 3, 3.1 letter b) of SVS Circular N° 1,697 dated December 30 2003 and paragraph N° 75 of Technical Bulletin N° 72, the Regulatory Body for Securities and Insurance (SVS), in Official Notification N° 07749 dated July 23rd 2007, authorized Transelec S.A. to amortize the goodwill within a period of 40 years.

## » INDEBTEDNESS AS OF DECEMBER 31 2008

### » BONDS ISSUED IN CHILE

SERIES	ISSUE DATE	INTEREST RATE	MATURES ON	AMOUNT IN FORCE	CURRENCY
Series B	Apr-12-2001	6.200%	Mar 01-2022	3,104,000	UF
Series D	Dec-14-2006	4.250%	Dec 15-2027	13,500,000	UF
Series C	Mar-21-2007	3.500%	Sep 01-2016	6,000,000	UF

UF: Unidad de Fomento (indexation unit fixed by the Central Bank of Chile (Act 18,840))

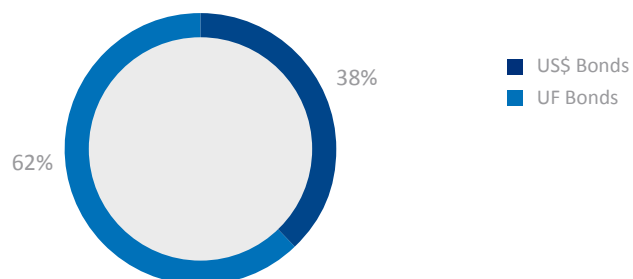
### » BONDS ISSUED IN THE UNITED STATES OF AMERICA

SERIES	ISSUE DATE	INTEREST RATE	MATURES ON	AMOUNT IN FORCE	CURRENCY
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Global Note	Apr-17-2001	7.875%	Apr-15-2011	465,000,000	USD
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USD: United States of American dollars

### » DEBT STRUCTURE PER CURRENCY



## » DEBT SERVICE RESERVE

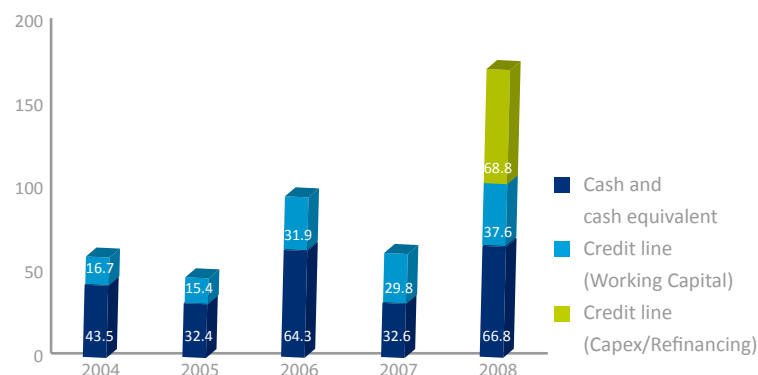
Since December 2006, Transelec holds a Debt Service Reserve required by the issuance of Series D and C bonds. This reserve amounts to the interest and principal amortizations— not final payments — corresponding to a period of 6 months over the debts corresponding to B, C and D series bonds and Yankee Bonds, in force in Transelec as of March 30 2007.

## » AVAILABLE CREDIT LINES

In order to ensure availability of funds to cover working capital needs, and to finance investment projects in fixed assets (those being developed and potential ones), the acquisition of transmission lines and possible debt refinancing, the Company has contracted the following committed credit lines. As of December 31, 2008, no disbursements from these credit lines were made, and committed amounts were fully available:

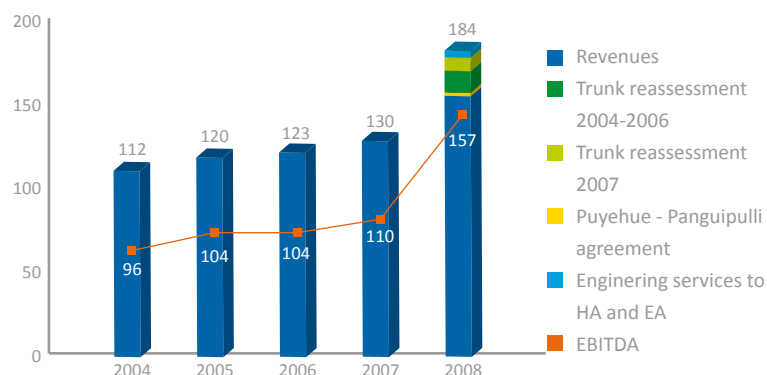
Bank	Amount (up to)	Expiring on	Type of Credit
Scotiabank Sudamericano	USD15,000 thousand	November 6 2009	Working Capital
BCI	USD30,000 thousand	February 28 2010	Working Capital
Santander	\$9,000,000 thousand	March 31 2009	Working Capital
Corpbanca/ Scotiabank Sudamericano	UF3,206,453	September 15 2015	Financing Projects and Refinancing Debt

## » LIQUIDITY



NB: Historic values as of December 31st of each year.

## » INCOME EVOLUTION AND EBITDA



Note 1: Information used for 2004 and 2005 is taken from the corresponding Consolidated Financial Statements of HQI Transelec Chile as of December 31 of each year.

Note 2: For 2006, EBITDA, Operating Revenues and Costs and Administrative and Sales Costs information for 2006 is Pro-forma and corresponds to the sum, line by line, of the results of HQI Transelec Chile S.A. during the period January 1 2006 to June 30 2006, price-level restated to December 2006, plus Transelec S.A.'s FECU results between July 1 2006 and December 31 2006. It is worth mentioning that although Transelec S.A. (formerly the New Transelec) started up operations on June 6, 2006, it only began to record operating movements as of July 1, 2006.

Note 3: EBITDA = Operating Income + Depreciation + Amortization of Intangibles.

## » PERFORMANCE INDICATORS

### LIQUIDITY

Given the positive results in 2008 – which were increased by the non-recurring income corresponding to the reassessment of revenues for the period between March 14th 2004 and December 31st 2007 in accordance with the trunk tariff decree, whose application envisages a retroactivity in income corresponding to that period –, as of December 31st 2008, Transelec presents a high level of liquidity that allow, together with the availability of credit lines and the partial reinvestment of its own cash generated, to finance its future investment plans in new transmission and subtransmission assets, take into account in addition the solid commitment of its shareholders.

### OPERATING RESULTS IN 2008

The Company has two main sources for generating revenues: regulated revenues coming from the service rendered by those assets belonging to the Trunk System and the Subtransmission Systems and the contractual revenues stipulated in bilateral contracts which include, among others, those additional transmission assets, as per these terms are defined in Short Law I.

Its revenue structure properly sheltered, market conditions, the law, the current regulatory framework and its customers' solvency, have allowed the Company to obtain stable results over time, despite the meltdown of the global financial situation, which became more evident from the second half of 2008.

Worth mentioning is the fact that income from operation recorded in 2008 includes non-recurring revenues which are associated with: (i) reassessment of tolls from the Trunk Transmission System corresponding to the March 2004 – December 2007 period as per Decree 207 published on January 15th 2008, amounting to Ch\$ 20,971 million, and, (ii) other non recurrent revenues amounting to Ch\$ 5,759 million.

### » RISK FACTORS

Due to the characteristics of the Chilean electricity market and the regulations governing this sector, Transelec S.A. is not exposed to significant risks related to the development of its main business. However, the following risk factors should be mentioned and considered.

### REGULATORY FRAMEWORK

The legal rules governing the electricity transmission business in Chile were amended by the enactment of Act 19,940, referred to as the Short Law I, published March 13, 2004. In May 2005, the Electricity Law was amended updating the regulations for the generation sector.

Decree 207 published on January 15th 2008, which fixes the Annual Transmission Value per Section (VATT) and its indexation formulas for the four year period started January 1st, 2007, and ended December 31, 2010, also fixes, among others, the conditions for determining the payment for transmission services in trunk transmission systems. The provisions in that Decree define a set of matters that were pending and which allow the owners of trunk transmission facilities to receive the VATT from their assets.

In the case of subtransmission, Decree N° 320 of the Ministry of Economy, Development and Reconstruction was published on January 9th 2009. This decree fixed subtransmission tariffs and their indexation formulas beginning on the date of publication and until October 2010, and includes a new method to calculate the subtransmission tariffs and payments to transmission companies that could affect Transelec's revenues.

#### CONCENTRATING INCOME IN ONE SOLE CUSTOMER

71.4% of Transelec's income is generated by a single customer, Empresa Nacional de Electricidad S.A., Endesa (BBB according to S&P, BAA3 according to Moody's) and its subsidiary generating companies. The transmission tolls to be paid by Endesa and its subsidiaries Pangue and Pehuenche will generate a large part of Transelec's future cash flow and any substantial change in its business model, financial condition or operating results could negatively affect Transelec.

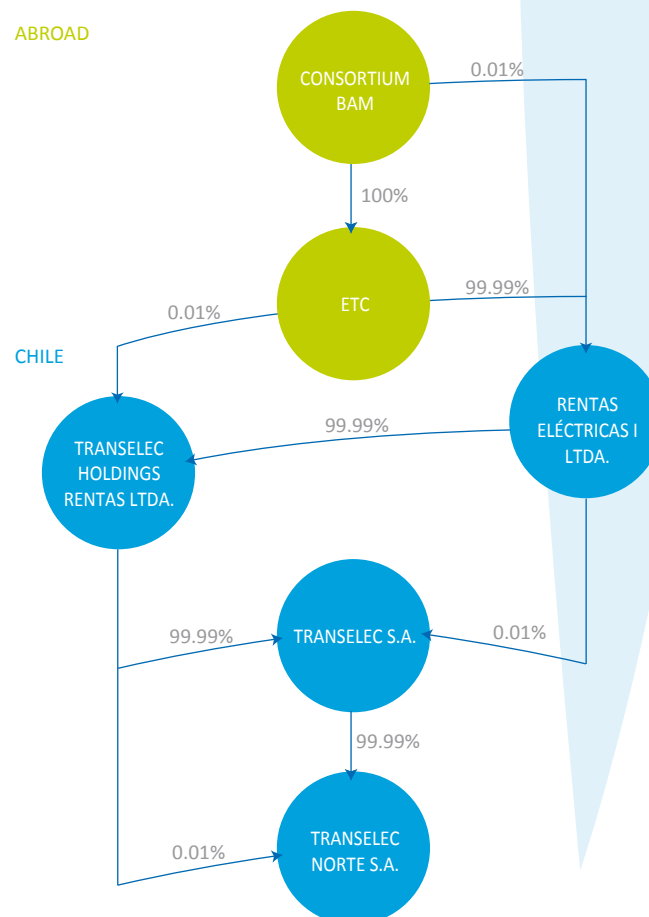
#### OPERATING RISKS

Notwithstanding that management believes that Transelec maintains adequate risk coverage in accordance with industry practices, it is not possible to assure that insurance policy coverage will be enough to cover certain operating risks, mainly associated with transmission lines, which Transelec is exposed to.

#### LABOR CONFLICTS

Delays, stoppages or other labour conflicts affecting Transelec could have a material adverse effect on its business, financial position, operating results and expectations. Approximately 31% of Transelec's labour force is covered by collective agreements with two workers unions, which expire in 2010 and 2012. Although Transelec's Administration deems that the current labour relations reflect a mutual collaboration between the Company and the workers and there have been no strikes, delays or stoppages since its incorporation, it is not possible to assure that such events will not take place prior to or at the time of the expiration of the current collective agreements. The management cannot estimate the effects of such events on Transelec's operations.

#### » CORPORATE STRUCTURE



#### FINES APPLICABLE TO INTERRUPTIONS OF TRANSMISSION SERVICES

Transelec has certain procedures pending before the Superintendence of Electricity and Fuels (SEC) resulting from charges made by the Authorities regarding forced disconnections of electricity transmission services. Some of these procedures have still not been resolved by SEC and other resolutions have been appealed by Transelec, whilst others are still pending in court.

#### APPLYING ENVIRONMENTAL REGULATIONS AND/OR POLICIES

Transelec is also subject to environmental regulations, which, among others things, require it to carry out environmental impact studies in connection with future projects and to obtain the corresponding regulatory authorizations. Notwithstanding rigorous compliance by the Company of all legal and regulatory procedures established to obtain the corresponding permits and authorizations, it is not possible to guarantee that these environmental impact studies will be approved by government authorities nor that the observations made by entities or organizations affected will not cause any delays in obtaining the permits or introducing modifications into the proposed projects, nor that the laws and regulations will not change or be construed in a sense that could imply changes in the way in which such studies have to be submitted by the Company.

#### DELAYS IN THE CONSTRUCTION OF NEW TRANSMISSION ASSETS

The success of the Upgrades and New Projects programme along the transmission networks will depend on numerous factors including costs and funding availability. Although Transelec has experience in large-scale construction projects, construction of new facilities could be negatively affected by factors that are commonly associated with such projects, including delays in obtaining regulatory authorizations, scarcity of equipment, materials or labour or changes in their prices, adverse weather conditions, natural catastrophes and unforeseen circumstances or difficulties in obtaining funding at reasonable terms and rates. Any of the aforementioned factors could cause delays in the partial or total completion of the capital investment programme, and could increase the costs of the envisaged projects.

#### FOREIGN EXCHANGE RATE RISKS

Depending on the market, the specific financial characteristics of its business and other considerations, Transelec has carried out, when deemed necessary, certain hedging activities such as cross currency swaps and currency forwards in order to cover the risks of fluctuations in the UF-dollar exchange rate for its bonds denominated in United States dollars.

However, it is not possible to assure that Transelec will be fully protected by maintaining foreign exchange hedge contracts. In addition, cross-currency swaps and forward contracts contain counterparty credit risks, cash requirements on the maturity dates and other associated risks.

#### TECHNOLOGICAL CHANGES

The investments that Transelec carries out in electricity transmission facilities whose remuneration is regulated, will generate annual revenues based on the value of existing facilities (A.V.I.) at market price levels, which are periodically recalculated according to the process established in the current legislation. Important changes in those values would prevent Transelec from the fully recovering of its investments.

#### » RISK RATING

Transelec's risk rating ("Investment Grade") and the rating of its bonds issued and outstanding have been confirmed by the following Rating Agencies in their recent reports available in the market.

##### LOCAL MARKET

Rating Agencies	Actual Rating
Humphrey's	A+
Feller- Rate	A+
Fitch Ratings Chile	A

##### INTERNATIONAL MARKET

Rating Agencies	Actual Rating
Moody's	Baa3
Standard & Poor's	BBB-
Fitch Ratings International	BBB-

#### » INSURANCE

During 2008, the Company continued with its policy of maintaining insurance coverage for its property, assets and other operating risks. Cover is provided through an industrial multi-risk policy that includes property damages, machinery breakdown, earthquake and risks of nature, including business interruptions associated with those risks. It was deemed unnecessary to purchase property damages coverage for transmission lines because they are built following best international practices and Chilean standards, which are sufficiently effective.

Furthermore, Transelec maintained its liability insurance for the Company, as well as the risks of terrorism and sabotage were covered; all vehicles, materials and equipment transportation and imports were duly insured. The Company also continues to maintain insurance contracts covering its workers.



## » INFORMATION TECHNOLOGY

In 2008, Transelec continued evolving and consolidating its SAP technological platform, whose latest version MYSAP ECC 6.0 was implemented successfully at the beginning of 2008, keeping in this way the emphasis on an efficient administration of the information technologies resources thus insuring the security, and connectivity of its information network systems, that, in turn, will assure continuous support for the business.

## » IFRS PROJECT IMPLEMENTATION

The Chilean Superintendence of Securities and Insurances (“SVS”) established an adoption plan of the international financial reporting standards (IFRS) for the companies under its supervision. Transelec must initiate this IFRS adoption in 2010, since it is a Corporation with public debt emitted but with no shares being openly traded in the market. With the exact purpose to give compliance to the new regulation, the Company designed a work plan, which consults activities initiated since the year 2007, and is destined to comply with said request. The action plan considers a first phase to complete with the essential themes in May 2009, with the emission of financial statements under IFRS for comparative purposes with the financial statements to be emitted under IFRS from January 2010. The above-mentioned work plan comprises activities of: i) training of the personnel, ii) recommendation of accounting politics for Transelec’s Board approval, iii) analysis of the impacts that would affect the Company upon electing one or another alternative at the moment of the adoption as well as in operation, and, iv) establishment and development of changes in the administrative-accounting procedures and in the information system (SAP). To the date, the phase of training of the direct users of the new financial norms is completed; likewise a document with suggestions that include the main financial norms and politics to be applied by Transelec has already been submitted to the consideration of the Board of Directors. As for our system of accounting information (SAP), the necessary modifications have already been evaluated and determined, and the required changes have been initiated to allow the emission of the financial information of the Company under IFRS using this technological platform.





## » DIVIDEND POLICY IN 2008

In 2008, the Dividend Policy established that, during any given financial year, the Board may recommend to distribute as dividends the maximum amount as possible, taking into account the Company's financial situation, its capital expenditure program and the commitments entered into by Transelec. The dividends to be distributed correspond to the Distributable Surplus, which refers to the total consolidated net income for the corresponding year, after taxes and any extraordinary items, plus any undistributed and accumulated net profits, less any losses from previous years. The abovementioned is subject to the Relative Limits of Dividends, which establishes that, in relation to any given fiscal year, no dividends may be declared if its effect would cause the Company to default on its financial agreements.

In any given fiscal year, if the Board considers it appropriate, it may declare interim dividends to be distributed depending on conditions at the time. Total interim dividends may not exceed 75% of the Company's net consolidated profits projected in its Annual Business Plan for the corresponding year.

## » DIVIDENDS DISTRIBUTED IN 2008

The Ordinary General Meeting of Shareholders of Transelec S.A., held on April 24th 2008, agreed to distribute a remainder of the total and final dividends corresponding to 2007, which amounted to \$8,894,151,513.

The Board of Directors Meeting held on May 29th, 2008 agreed to the distribution of \$12,040,000,000 as an interim dividend for the net profit of the year 2008.

## » TOTAL DIVIDENDS PAID IN EACH YEAR

Year	Historic value MM\$
2006	2,339
2007	34,955
2008	20,934

( \* ): Amounts as of December of each year.

## » NET INCOME PAID AS DIVIDEND

(amount distributed as dividend asociated to net income of each year)

Year	MM\$( * )	% Net income
2006	14,849	100%
2007	31,774	100%
2008	12,510	22%

( \* ): Amounts as of December of each year.

## » ESSENTIAL FACTS

- 1) In letter J N° 691 dated January 25 2008, it was reported that at meeting N°15, held on January 24 2008, the Company's board learnt of the resignation submitted by the director Mario Marcel Cullell which was accepted as from March 1 2008.
- 2) In letter G N° 671 dated March 20 2008, it was reported that at a meeting held on March 20 2008, the board agreed to summon an extraordinary meeting of shareholders for April 4 2008, in order to deal with the following matter: paying the indexation on the Value of Investment (VI) in accordance with the purchase and sale contract of the shares belonging to HQI Transelec Chile S.A. signed in June 2006.
- 3) In letter G N° 678 dated March 27 2008, it was reported that at a meeting held on March 27 2008, the board agreed to summon an ordinary meeting of shareholders for April 24 2008.
- 4) In letter G N° 685 dated April 7 2008, it was reported that at an extraordinary meeting of shareholders held on April 4 2008, in accordance with the purchase and sale contract of the shares belonging to HQI Transelec Chile S.A. signed in June 2006, the parties reached an agreement regarding the partial value of the indexation of the price mentioned in number 1.7 of the contract.
- 5) In letter J N° 733 dated April 25 2008, the motions carried at the ordinary meeting of shareholders held on April 24 2008 were reported.
- 6) In letter G N° 708 dated May 30 2008, it was reported that at a meeting held on May 29 2008, the board agreed to distribute as a provisional dividend for the period ending on March 31 2008, the sum of \$12,040,000,000.
- 7) In letter G N° 719 dated June 27 2008, it was reported that at a meeting held on June 26 2008, the board agreed to summon an extraordinary meeting of shareholders for July 21 2008 in order to remove all of the members of the board and proceed to elect new full and deputy directors.
- 8) In letter G N° 730 dated July 21 2008, it was reported that at an extraordinary meeting of shareholders held on July 21 2008, it was agreed to remove all of the members of the Board, both full ones and their deputies and to elect in their place the following Full Directors: Messrs. Jeffrey Blidner, Bruno Guilmette, Scott Lawrence, Brenda Eaton, Felipe Lamarca Claro, Juan Andrés Fontaine Talavera, Blas Tomic Errázuriz, José Ramón Valente Vías and Alejandro Jadresic Marinovic, and as their respective Deputy Directors, Messrs. Derek Pannell, Patrick Charbonneau, Graeme Bevans, Richard Dinneny, Enrique Munita Luco, Juan José Eyzaguirre Lira, Federico Grebe Lira, Juan Paulo Bambach Salvatore and Juan Irarrázabal Covarrubias.
- 9) In letter G N° 733 dated July 24 2008, it was reported that at a meeting held on July 24 2008, the board agreed to elect Jeffrey Blidner as Chairman.
- 10) In letter G N° 757 dated September 25 2008, it was reported that, at a meeting held on September 25 2008, the board agreed to summon an extraordinary meeting of shareholders for October 16 2008 in order to approve disbursements from the CAPEX credit line.
- 11) In letter G N° 774 dated October 16 2008, the motions carried at the extraordinary meeting of shareholders held on October 16 2008 were reported.

## » LEGAL INCORPORATION AND AMENDMENTS

Transelec S.A. is an open limited Company with an indefinite duration that was originally incorporated as a limited liability Company under the registered corporate name of “Rentas Eléctricas III Limitada” in a public deed dated June 6th 2006, granted at the Notary Public of Santiago María Gloria Acharán Toledo. The corresponding extract of the corporate registration is found on folio 22.031; N° 15.264 in the Trade Register of the Property Register of Santiago for 2006, and it was published in Official Gazette N° 38.485 on June 9th 2006.

In a public deed dated June 15th 2006, granted at the Notary Public of Santiago María Gloria Acharán Toledo, the Company’s rights were assigned, and the companies Rentas Eléctricas I Limitada and Rentas Eléctricas II Limitada remained as partners. Moreover, the corporate capital was increased and the Company’s administration was modified. The corresponding extract of this corporate modification is found on folio 25.168; N° 17.510 in the Trade Register of the Property Register of Santiago for 2006, and it was published in Official Gazette N° 38.501 on June 30th 2006. The previously mentioned extract was corrected in an extract that was registered on folio 28.355, N° 19.800 in the Trade Register of the Property Register of Santiago for 2006, and it was published in Official Gazette N° 38.518 dated July 20th 2006.

In a public deed dated December 11th 2006, granted at the Notary Public of Santiago María Gloria Acharán Toledo, the Company was once again modified, increasing its capital. The corresponding extract of this corporate modification is registered on folio 53.096; N° 37.999 in the Trade Register of the Property Register of Santiago for 2006, and it was published in Official Gazette N° 38.650 on December 29th 2006.

In a public deed dated March 26th 2007, granted at the Notary Public of Santiago María Gloria Acharán Toledo, the Company was transformed into a limited Company under the registered corporate name of “Rentas Eléctricas III S.A.”. The corresponding extract of the transformation of the Company is found on folio 12.696; N° 9.344 in the Trade Register of the Property Register of Santiago for 2007, and it was published in Official Gazette N° 38.727 on March 30th 2007.

At the First Extraordinary General Meeting of Company Shareholders held on April 24th 2007, it was agreed to convert the Company into an open limited Company by means of its voluntary registration and that of its shares in the Securities Register of the Regulatory Body for Securities and Insurance. The Minutes of that First Extraordinary General Meeting were drafted into a public deed on April 25th 2007.

At the Second Extraordinary General Meeting of Company Shareholders held on June 30th 2007, the Corporate By-laws were amended; changing the registered name to “Transelec S.A.” and a new Board was elected. The Minutes of that Second Extraordinary General Meeting were drafted into a public deed on June 30th 2007 at the Notary Public of Santiago María Gloria Acharán Toledo. The extract of the reform was registered on folio 27.530, N° 19.941 for 2007 in the Trade Register of the Property Register of Santiago and it was published in Official Gazette N° 38.812 dated July 13th 2007.

In June 2007, Transelec S.A., TAX N° 76.555.400-4 absorbed Transelec S.A., TAX N° 76.555.430-6, as per the public deed dated June 30th 2007 granted at the Notary Public of Santiago María Gloria Acharán Toledo, whose extract was registered on folio 27.509, N° 19.936 for 2007 and was published in Official Gazette N° 38.812 dated July 13th 2007.

At the Third Extraordinary General Meeting of Company Shareholders held on April 4th 2008, it was agreed, as established in the Purchase and Sale Contract dated June 30th 2006 between HQ Puno Ltd. and Hydro-Québec International Transmission Sudamérica S.A. and Rentas Eléctricas IV Limitada, and in the Purchase and Sale Contract dated June 27th 2006 between IFC and Rentas Eléctricas IV Limitada, to ratify the agreement relating to the Adjustment of the VI reached between Transelec and the Vendors and to authorize the management of Transelec to proceed to pay the VI Adjustment, among other matters.

At the Fourth Extraordinary General Meeting of Company Shareholders held on July 21st 2008, it was decided to remove all of the Members of the Board, both full as well as Deputy Members, and to elect as their replacements and as Full Directors: Messrs. Jeffrey Blidner, Bruno Guilmette, Scott Lawrence, Ms. Brenda Eaton, Felipe Lamarca Claro, Juan Andrés Fontaine Talavera, Blas Tomic Errázuriz, José Ramón Valente Vías and Alejandro Jadresic Marinovic, and as their respective Deputies, Messrs. Derek Pannell, Patrick Charbonneau, Graeme Bevans, Richard Dinneny, Enrique Munita Luco, Juan José Eyzaguirre Lira, Federico Grebe Lira, Juan Paulo Bambach Salvatore and Juan Irrarázabal Covarrubias.

At the Fifth Extraordinary General Meeting of Company Shareholders held on October 16th 2008, it was agreed to expressly ratify what had been done by Transelec’s representatives when the Contract for Opening the Financing Committed was entered into with the banks Corpbanca and Scotiabank Sudamericano for an amount of up to UF 3,206,453.



## » THE COMPANY'S HISTORIC BACKGROUND INFORMATION

Transelec S.A., formerly called Rentas Eléctricas III S.A., is heir to the following companies whose incorporation, merger or transformation is summarized hereafter:

DISSOLUTION BY ABSORPTION OF COMPAÑÍA NACIONAL DE TRANSMISIÓN ELÉCTRICA S.A. BY HQI TRANSELEC CHILE S.A. The Compañía Nacional de Transmisión Eléctrica S.A. was dissolved by virtue of article 103 N°2 of Act 18.046 concerning Limited Companies, because it meant that all of its shares were now in the hands of HQI Transelec Chile S.A., its successor. This dissolution was made known at Board Meeting N°113 on January 30 2001, which was drafted into a public deed on that same date in the Notary Public of Santiago of Fernando Opazo Larraín. CHANGE OF REGISTERED NAME FROM HQI TRANSELEC CHILE S.A. TO TRANSELEC S.A. The change in the registered name of HQI TRANSELEC CHILE S.A., TAX N° 77.498.870-K, to that of TRANSELEC S.A., same Tax N°, was recorded at the 8th Extraordinary General Meeting of Shareholders of the Company HQI TRANSELEC CHILE S.A. held on August 16 2006 and drafted into a public deed on August 23 of that same year in the Notary Public of Santiago of Iván Tamargo Barros, thereby changing the name of the Company to TRANSELEC S.A.

DISSOLUTION BY ABSORPTION OF TRANSELEC S.A. BY NUEVA TRANSELEC S.A. Subsequently, at extraordinary meeting of the Board N° 101 of Transelec S.A., on November 30 2006, the declaration was recorded of the dissolution by absorption of the aforementioned Company because all of its shares were now in the hands of Nueva Transelec S.A., TAX N° 76.555.430-6. This declaration was drafted into a public deed on that same date in the Notary Public of Santiago of Iván Tamargo Barros. The extract was registered on folio 49.292, N° 35.195 in the Trade Register of the Property Register of Santiago for 2006, where the corporate dissolution is recorded and a note was made of it in the margin of the registration of the incorporation of the Company. The publication was made in the Official Gazette on December 6 2006.

CHANGE OF REGISTERED NAME FROM NUEVA TRANSELEC S.A. TO TRANSELEC S.A. The change of the registered name of Nueva Transelec S.A. to Transelec S.A., TAX N° 76.555.430-6, was agreed at the 3rd Extraordinary General Meeting of Company Shareholders held on November 30 2006, which was drafted into a public deed on that same date in the Notary Public of María Gloria Acharán Toledo. The extract was registered on folio 49.963, N° 35.710 in the Trade Register of the Property Register of Santiago for 2006, where the change of the registered name is recorded and a note made of it in the margin of the registration of the incorporation of the Company. The publication was made in the Official Gazette on December 9 2006.

DISSOLUTION BY ABSORPTION OF TRANSELEC S.A. BY RENTAS ELÉCTRICAS III S.A. In a public deed dated June 30 2007 granted in the Notary Public of Santiago of María Gloria Acharán T., the minutes were recorded of the 16th Extraordinary Meeting of the Board of Transelec S.A., which was held on June 6 2007, and in which there is a record of the dissolution by absorption of Transelec S.A., TAX N° 76.555.430-6, by Rentas Eléctricas III S.A., TAX N° 76.555.400-4, as a result of the latter acquiring all of the Company's shares. The public deed of protocolization of the extract of the public deed of the 16th Extraordinary Meeting of the Board of Transelec S.A. was registered on folio 27.509, N° 19.936 in the Trade Register of the Property Register for 2007 and published in the Official Gazette on July 13 2007. In a public deed dated June 30 2007 granted in the Notary Public of Santiago of María Gloria Acharán T., the minutes of the 5th Extraordinary Meeting of the Board of Rentas Eléctricas III S.A. have been recorded. In that meeting held on that same date, the dissolution by absorption is reported of Transelec S.A., TAX N° 76.555.430-6 by Rentas Eléctricas III S.A., TAX N° 76.555.400-4 due to the latter having acquired all of the Company's shares. Rentas Eléctricas III S.A. declares being the legal heir to Transelec S.A., assuming all of its rights and obligations and declaring being joint and severally responsible for all taxes owed or that might be owed.



## » TRANSELEC NORTE

### » IDENTIFICATION

Name:	Transec Norte S.A.
Corporate Registration:	Folio 14.386 Nº 11018 Trade Register of the Property Register of Santiago for 2003.
Tax Nº:	99.521.950-6
Domicile:	Avenida Apoquindo Nº 3721, 6th floor, Las Condes, Santiago
Legal Nature:	Open Limited Liability Company
Capital Subscribed:	USD30,005,000
Capital Paid in:	USD30,005,000

### » CORPORATE AIM

Its exclusive aim is to operate and develop electricity systems, owned by it or by third parties, dedicated to the transport and transmission of electricity; being able for that purpose to obtain, acquires, and benefit the corresponding concessions and permits and exercise all of the rights and powers that current legislation confers on electricity companies. Included in the corporate aim are the commercialization of lines transport capacities and transformation and equipment associated capacities at substations so that power plants, both national and foreign, may transmit the electricity they produce and thus reach centers where it is consumed.

Likewise, Transec Norte provides consultancy services with its specialties in engineering and management to companies working in areas related to its exclusive aim, as well as also developing other commercial and industrial activities related to using the infrastructure dedicated to the transmission of electricity. Whilst going about its corporate aim, the Company may act directly or through subsidiary or associate companies both inside the country as well as abroad. Transec Norte undertakes electricity transmission activities especially in the Northern Interconnected System (SING).

## » CAPITAL

Transelec Norte's capital is split up into 750,125 shares: 750,050 were subscribed and paid for by Transelec S.A., equal to 99.99% of the corporate capital, whilst 75 shares were subscribed and paid for by Transelec Holdings Rentas Limitada, equal to 0.01% of the corporate capital.

So, on December 31 2008, the Company's paid-in corporate capital amounted to 30,005,000 United States of American dollars (USD).

## » ADMINISTRATION

### CHAIRMAN

**JEFFREY BLIDNER**

### DIRECTORS

**BRUNO GUILMETTE**

**SCOTT LAWRENCE**

**BRENDA EATON**

**JUAN ANDRÉS FONTAINE TALAVERA**

**JOSÉ RAMÓN VALENTE VÍAS**

**FELIPE LAMARCA CLARO**

**BLAS TOMIC ERRÁZURIZ**

**ALEJANDRO JADRESIC MARINOVIC**

### TOP EXECUTIVES

**ANDRÉS KUHLMANN JAHN**

General Manager

Civil Industrial Engineer

Catholic University of Chile

Tax N° 6.554.568-3

**EDUARDO ANDRADE HOURS**

Vice-President Operations

Civil Electrical Engineer

University of Chile

MBA, University of Adolfo Ibáñez

Tax N° 7.015.734-9

**SERGI JORDANA DE BUEN**

Vice-President Engineering and Construction

Civil Electrical Engineer

University of Chile

Tax N° 6.865.973-6

**FERNANDO ABARA ELÍAS**

Vice-President Legal Affairs

Lawyer

Catholic University of Valparaíso

MBA, University of Gabriela Mistral

Tax N° 8.003.772-4

### SECRETARY TO THE BOARD

**FERNANDO ABARA**

## » COMMERCIAL RELATIONS WITH TRANSELEC S.A.

Transelec Norte has entered into a general contract with Transelec S.A. for providing operation and maintenance services at Transelec Norte's facilities. Moreover, that contract includes a series of services of an administrative nature such as treasury, accountancy, IT, legal counsel, tax and commercial, among others.

» CONSOLIDATED FINANCIAL STATEMENTS TRANSELEC S.A. AND SUBSIDIARY

» (TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN SPANISH—SEE NOTE 2)

December 31, 2008 and 2007

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Consolidated Statement of Income	40	ThCh\$: Thousand of Chilean pesos
Consolidated Statement of Cash Flows	41	UF: Unidad de Fomento (an inflation-indexed, Chilean-peso denominated
Notes to the Consolidated Financial Statements	42	monetary unit set daily in advance on the basis of the previous
Reasoned Analysis of the Consolidated Financial Statements	70	month's inflation rate)
Relevant Events of the Consolidated Financial Statements	76	ThUS\$: Thousands of United States dollars





## » REPORT OF INDEPENDENT AUDITORS

» (TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN SPANISH—SEE NOTE 2)

### » TO THE SHAREHOLDERS AND DIRECTORS OF TRANSELEC S.A. (FORMERLY - RENTAS ELÉCTRICAS III LIMITADA):

We have audited the accompanying consolidated balance sheets of Transelec S.A. and subsidiary (the “Company”) as of December 31, 2008 and 2007, and the related statements of income and cash flows for the years then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audit. The attached Detailed Analysis and Relevant Events are not a part of these financial statements and therefore this report does not include them.

We conducted our audit in accordance with generally accepted auditing standards in Chile. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Transelec S.A. and subsidiary as of December 31, 2008 and 2007, and the results of its operations and cash flows for the years then ended, in conformity with generally accepted accounting principles in Chile.



MIGUEL VICENCIO T.

Santiago, Chile  
January 21, 2009

ERNST & YOUNG LTDA.

## » CONSOLIDATED BALANCE SHEETS

» (TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN SPANISH—SEE NOTE 2)

### » TRANSELEC S.A. AND SUBSIDIARY

As of December 31,

ASSETS	NOTE	2008 ThCh\$	2007 ThCh\$
CURRENT ASSETS			
Cash		1,953,863	513,563
Time deposits	(32)	48,160,189	19,692,635
Marketable securities	(4)	16,677,165	13,078,743
Trade accounts receivable, net	(5)	32,691,339	25,443,312
Miscellaneous receivables	(5)	528,737	522,401
Notes and accounts receivable from related companies	(6)	48,204	48,896,808
Inventory, net		42,270	46,169
Recoverable taxes	(7)	2,319,462	3,153,218
Prepaid expenses		94,942	107,824
Deferred taxes	(7)	6,899,371	6,284,868
Other current assets	(8)	1,254,668	3,192,244
<b>Total current assets</b>		<b>110,670,210</b>	<b>120,931,785</b>
PROPERTY PLANT AND EQUIPMENT			
Land		19,051,979	17,775,461
Buildings and infrastructure		810,873,358	802,400,782
Machinery and equipment		357,002,368	326,412,434
Other property, plant and equipment		1,506,567	1,560,614
Less: Accumulated depreciation		(89,509,886)	(51,982,697)
<b>Total property, plant and equipment</b>	<b>(9)</b>	<b>1,098,924,386</b>	<b>1,096,166,594</b>
OTHER ASSETS			
Investments in other companies	(10)	319,220	231,881
Goodwill	(11)	338,897,614	278,730,829
Long-term receivables	(5)	1,563,240	1,669,528
Notes and accounts receivable from related companies	(6)	19,602,660	32,774,493
Long-term deferred taxes	(7)	50,808,019	54,579,126
Intangibles	(12)	161,883,833	160,404,835
Less: Amortization	(12)	(10,146,472)	(6,072,129)
Others	(13)	9,403,701	10,329,793
<b>Total other assets</b>		<b>572,331,815</b>	<b>532,648,356</b>
<b>Total Assets</b>		<b>1,781,926,411</b>	<b>1,749,746,735</b>
The accompanying notes numbers 1 to 33 are an integral part of these financial statements			

## » CONSOLIDATED BALANCE SHEETS

» (TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN SPANISH—SEE NOTE 2)

### » TRANSELEC S.A. AND SUBSIDIARY

As of December 31,

	NOTE	2008 ThCh\$	2007 ThCh\$
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Short-term bonds	(15)	16,321,031	9,510,957
Accounts payable	(33)	36,790,378	55,393,073
Miscellaneous payables		-	1,227,060
Notes and accounts payable to related companies	(6)	-	127,428
Provisions	(16)	3,516,101	2,949,114
Withholdings		2,727,557	1,538,434
Other current liabilities	(14)	90,917	244,948
<b>Total current liabilities</b>		<b>59,445,984</b>	<b>70,991,014</b>
LONG-TERM LIABILITIES			
Long-term bonds	(15)	815,013,648	807,852,917
Long-term provisions	(16)	1,959,421	1,619,191
Other long-term liabilities		2,943,390	1,648,664
<b>Total long-term liabilities</b>		<b>819,916,459</b>	<b>811,120,772</b>
<b>Minority interest</b>	<b>(18)</b>	<b>5,504</b>	<b>4,670</b>
SHAREHOLDERS' EQUITY			
Paid-in capital		857,944,548	857,944,548
Other reserves		374,490	-
Retained earnings		160,095	95,362
Net income		56,588,891	34,506,783
Interim dividends		(12,509,560)	(24,916,414)
<b>Total shareholders' equity</b>	<b>(19)</b>	<b>902,558,464</b>	<b>867,630,279</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>1,781,926,411</b>	<b>1,749,746,735</b>

The accompanying notes 1 to 33 form an integral part of these financial statements

## » CONSOLIDATED BALANCE SHEETS

» (TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN SPANISH—SEE NOTE 2)

### » TRANSELEC S.A. AND SUBSIDIARY

For the years ended December 31,

	NOTE	2008 ThCh\$	2007 ThCh\$
OPERATING INCOME			
Revenues		183,832,383	142,005,544
Cost of sales		(60,114,461)	(55,485,966)
Gross margin		123,717,922	86,519,578
Less: Administrative and selling expenses		(6,451,563)	(5,038,398)
<b>Net operating income</b>		<b>117,266,359</b>	<b>81,481,180</b>
NON-OPERATING INCOME			
Interest income		10,613,399	6,887,833
Other non-operating income	(20)	237,064	2,574,263
Interest expenses		(40,466,862)	(38,501,987)
Amortization of goodwill (less)	(11)	(9,033,560)	(7,308,148)
Other non-operating expenses	(20)	(2,405,062)	(5,672,517)
Price-level restatement, net	(21)	(6,181,821)	(1,400,911)
Foreign exchange rate differences, net	(22)	120,956	459,979
<b>Non-operating income</b>		<b>(47,115,886)</b>	<b>(42,961,488)</b>
<b>Income before income taxes</b>		<b>70,150,473</b>	<b>38,519,692</b>
Income taxes	(7)	(13,561,348)	(4,012,723)
Income before minority interest		56,589,125	34,506,969
<b>Minority interest</b>	(18)	<b>(234)</b>	<b>(186)</b>
<b>Net income</b>		<b>56,588,891</b>	<b>34,506,783</b>

The accompanying notes numbers 1 to 33 are an integral part of these financial statements



## » CONSOLIDATED STATEMENT OF CASH FLOWS

» (TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN SPANISH—SEE NOTE 2)

### » TRANSELEC S.A. AND SUBSIDIARY

For the years ended December 31,

	NOTE	2008 ThCh\$	2007 ThCh\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income		56,588,891	34,506,783
Income from sale of assets		380,144	(36,838)
Income on sale of property, plant and equipment		380,144	(36,838)
<b>CHARGES (CREDITS) TO INCOME THAT DO NOT REPRESENT CASH FLOWS</b>			
Depreciation	(9)	35,566,027	34,061,906
Amortization of intangible assets	(12)	3,875,573	3,852,572
Write-offs and provisions		1,481,154	4,005,110
Amortization of goodwill	(11)	9,033,560	7,308,148
Price-level restatement, net	(21)	6,181,821	1,400,911
Foreign exchange rate differences, net	(22)	(120,956)	(459,979)
Other credits to income other than cash flows		(6,572,819)	(6,712,933)
<b>(INCREASE) DECREASE IN ASSETS THAT AFFECT CASH FLOWS</b>			
Trade accounts receivable		(7,254,364)	(11,535,630)
Inventory		3,900	3,456
Other assets		(1,401,038)	4,941,942
<b>(INCREASE) DECREASE IN LIABILITIES THAT AFFECT CASH FLOWS</b>			
Accounts payable related to operating income		(8,158,820)	(4,329,266)
Interest payable		6,810,074	(699,159)
Income taxes payable		8,058,603	1,834,612
VAT and other taxes payable		1,201,666	(233,267)
Minority interest	(18)	234	186
<b>Net cash provided by operating activities</b>		<b>105,673,650</b>	<b>67,908,554</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Bonds		-	125,135,825
Dividends paid		(21,750,584)	(39,452,288)
Payment of Bonds		(1,360,655)	(128,765,218)
<b>Net cash flows used in financing activities</b>		<b>(23,111,239)</b>	<b>(43,081,681)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Sale of property, plant and equipment		10,392,335	2,370,843
Collection of documented loans to related companies		78,253,577	41,608,110
Additions to property, plant and equipment		(41,920,660)	(27,184,295)
Payment of capitalized interest		(2,231,128)	(986,293)
Permanent investments		-	(84,016)
Documented loans to related companies		(18,931,213)	(74,769,938)
Other investment disbursements		(76,439,600)	-
<b>Net cash flows used in investing activities</b>		<b>(50,876,689)</b>	<b>(59,045,589)</b>
Total positive (negative) net cash flows for the year		31,685,722	(34,218,716)
Effect of price-level restatement on cash and cash equivalents		(347,987)	(5,639,165)
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>31,337,735</b>	<b>(39,857,881)</b>
Cash and cash equivalents, beginning of the year		35,453,482	75,311,363
<b>Cash and cash equivalents, end of the year</b>		<b>66,791,217</b>	<b>35,453,482</b>

The accompanying notes 1 to 33 form an integral part of these financial statements

## » NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

» TRANSELEC S.A. AND SUBSIDIARY • DECEMBER 31, 2008 AND 2007

### » NOTE 1 - BUSINESS DESCRIPTION

Rentas Eléctricas III Limitada was formed as a limited liability company by public instrument on June 6, 2006.

On March 26, 2007, the Company changed its name to Rentas Eléctricas III S.A. and became a corporation. On June 30, 2007, it changed its name to its current name, Transelec S.A..

On May 16, 2007, the Company was listed as number 974 in the Securities Registry of the Chilean Superintendency of Securities and Insurance ("SVS") and is subject to the supervision of the SVS. Simultaneously, it registered 1,000,000 shares, which corresponds to the total number of shares issued, subscribed and fully paid.

Its subsidiary Transelec Norte S.A. was listed as number 939 in the SVS and is subject to its supervision.

According to public deed dated May 9, 2007, the Company acquired 100 shares owned by Transelec Holdings Rentas Limitada, corresponding to 0.01% of the share capital of Transelec S.A. (formerly Nueva Transelec S.A.), leaving the Company with 100% ownership. Thus, the merger took place by absorption, and the assets, liabilities, rights and obligations of Transelec S.A. (formerly Nueva Transelec S.A.) passed to the Company. In this way, the Company directly assumed operation of the electrical transmission business previously conducted by the above mentioned subsidiary.

The Company has the exclusive objective of exploiting and developing electric systems, on its own, or on behalf of third parties, to transport or transmit electrical energy. For this purpose it may obtain, acquire and use the respective concessions and permits and exercise all the rights and faculties that the prevailing legislation confers on electrical companies. Its line of business also includes: commercialization of the capacity to transport the electricity of the lines and the capacity of the substations and equipment associated with them in order for the generating stations, both domestic and foreign, to be able to transmit the electrical energy they produce and have it reach their withdrawals; providing engineering or management consulting services related with the company's business line; and developing other business and industrial activities related to the facilities associated with the transmission of electricity. The Company may act directly or through subsidiaries or other related companies, both in Chile and abroad.

### » NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

#### A) PERIOD COVERED

These consolidated financial statements cover the years ended December 31, 2008 and 2007.

#### B) BASIS OF PREPARATION

These consolidated financial statements as of December 31, 2008 and 2007 have been prepared in accordance with generally accepted accounting principles in Chile ("Chilean GAAP") issued by the Chilean Association of Accountants and specific instructions and regulations issued by the SVS. In case of discrepancies, the specific instructions and regulations issued by the SVS will prevail. Certain accounting practices applied by the Company that conform to Chilean GAAP may not conform to generally accepted accounting principles in the United States ("US GAAP") or International Financial Reporting Standards ("IFRS").

For the convenience of the reader, these consolidated financial statements and their accompanying notes have been translated from Spanish to English.

#### C) BASIS OF PRESENTATION

For comparison purposes, the figures of the consolidated financial statements for the previous year were restated off-balance sheet by the percentage variation of the Consumers Price Index for the twelve-month period ended on December 31, 2008, which was 8.9%.

For the purpose of recognizing deferred taxes associated to consolidation adjustments due to the valuation of the property, plant and equipment of the subsidiary at fair value, a reclassification was performed in the financial statements for the year ended December 31, 2007, consisting of increasing goodwill by ThCh\$4,608,243 to recognize a liability for the same amount in long-term deferred taxes.

#### D) BASIS OF CONSOLIDATION

The effects on unrealized income and transactions and balances with the subsidiary have been eliminated, and the participation percentage of the minority investor has been recognized and presented as Minority Interest.

With respect to this investment, the difference between the investments maintained in Chilean pesos and the shareholders' equity of the subsidiary in United States dollars has been recognized with a charge to Accumulated Foreign Currency Translation, in Other Shareholders' Equity Reserves.

In accordance with Technical Bulletin No. 64 issued by the Chilean Association of Accountants, the Company has considered bonds issued abroad up to an amount of US\$30,002,000 as a foreign exchange fluctuation hedge instrument. Foreign exchange rate differences, net of price-level restatement, has been recorded against Accumulated Foreign Currency Translation, in the Other Shareholders' Equity Reserves account.

These consolidated financial statements include the balances of the following subsidiary whose participation is detailed as follows:

Corporation	Direct Participation	
	2008 %	2007 %
Transelec Norte S.A.	99,99	99,99

E) PRICE-LEVEL RESTATEMENT

These financial statements have been restated in order to reflect variations in the purchasing power of the Chilean peso during the respective period. For this purpose, and in conformity with current Chilean regulations, non-monetary assets and liabilities and shareholders' equity accounts have been restated in constant year-end pesos and reflected in income. In accordance with Chilean tax regulations and accounting practices, the restatements were calculated based on the official Chilean Consumer Price Index (CPI) for the year ended as informed by the National Institute of Statistics, applied with a one-month lag, which was 8.9% for the 2008 year (7.4% for the 2007 year). In addition, income and expense accounts have been restated to period- end values.

F) BASIS OF CONVERSION

Balances in foreign currency have been considered as monetary items and have been converted at the current exchange rate as of financial statement closing date. Indexed balances have been adjusted by the item's adjustability index or by the index agreed upon for that purpose.

As of December 31, 2008 and 2007, assets and liabilities in foreign currency and Unidades de Fomento ("UF") have been translated into Chilean pesos as of the closing exchange or conversion rates, detailed as follows:

	Ch\$ per unit	
	2008	2007
Unidad de Fomento	21,452.57	19,622.66
United States dollar	636.45	496.89
Euro	898.81	730.94

G) TIME DEPOSITS

Investments in time deposits are recorded at price-level restated cost plus accrued interest as of year-end.

H) MARKETABLE SECURITIES

Marketable securities include investments in mutual funds valued at the unit price as of year-end.

I) ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Company deems that it is unnecessary to record an allowance for doubtful accounts as of year-end.

J) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at acquisition cost based on fair value as of June 30, 2006, price-level restated at year-end. Financing costs for property, plant and equipment at construction sites are capitalized during the construction period. During the 2008 year, financial costs amounting to ThCh\$2,231,128 have been capitalized (ThCh\$986,293 in 2007).

## » NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

» TRANSELEC S.A. AND SUBSIDIARY • DECEMBER 31, 2008 AND 2007

K) DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

The depreciation of property, plant and equipment has been calculated using the straight-line method, based on the estimated useful lives of the respective assets.

L) LEASE CONTRACT

The financial leasing operation corresponds to assets that were constructed by the Company, at the express request of the lessee. Upon termination of the contract, ownership will be transferred to the lessee, upon payment of an amount equal to the last installment. This contract has been recorded in conformity with Technical Bulletin No. 22 of the Chilean Association of Accountants and is classified in miscellaneous receivables and long-term receivables.

M) INTANGIBLES

Intangibles include rights-of-way, valued at acquisition cost based on their fair value as of June 30, 2006, price-level restated as of the end of the period. These assets are amortized using the straight-line method over a period of 40 years, in conformity with Technical Bulletin No. 55, issued by the Chilean Association of Accountants.

N) GOODWILL

This account presents goodwill from the acquisition of shares of HQI Transelec Chile S.A. (dissolved company) and Transelec Norte S.A. in relation to its equity value calculated as of the purchase date, in accordance with Technical Bulletin No. 72 of the Chilean Association of Accountants.

This goodwill is amortized over a 40-year period, term which was authorized by the SVS on July 23, 2007, through Official Letter No. 7749 of the same date.

As per the Purchase Agreement of the shares of HQI Transelec Chile S.A. and the publication in the Official Gazette of January 15, 2008 of Decree No. 207 issued by the Ministry of Economy, Economic Development and Reconstruction that sets the installations of the trunk system, areas of common influence, annual transmission value; by segment and its components with their indexation formulas for the four-year period from 2007 to 2010, the sum of ThUS\$160,808 was recognized as of March 31, 2008 as goodwill, due to the price adjustment related to the valuation of certain trunk assets. In addition, as of June 30, 2008 the sum of ThCh\$3,100,000 was recognized as goodwill; this amount corresponds to a price adjustment considered in the referred Purchase Agreement of the shares of HQI Transelec Chile S.A. agreed on June 30, 2006 and associated to recalculation of regulated trunk income for the period from March 13, 2004 to June 30, 2006.

O) RESALE AGREEMENTS

Other current assets include purchase commitments with resale agreements valued at the investment value plus price-level restatements and interest.

P) BONDS PAYABLE

The long-term portion of this item includes the liability determined based on the fair value as of June 30, 2006, for the placement of bonds issued by the Company at their par value plus price-level restatement, and the short-term portion includes accrued interest at period-end. The difference between the book value and the placement value is recognized over the term of these liabilities and is shown in Other Current Liabilities and Other Long-term Liabilities.

Q) CURRENT AND DEFERRED INCOME TAXES

The Company has recognized its tax liabilities in accordance with current Chilean tax regulations.

The effects of deferred taxes originated from differences between the financial and tax balance sheets, are recorded for all temporary differences considering the tax rate that will be effective on the estimated date of reversal, as established in Technical Bulletin No. 60 issued by the Chilean Association of Accountants.

R) STAFF SEVERANCE INDEMNITIES

The provision for staff severance indemnities to cover the contractual obligations for personnel having completed 15 years of service is shown based on the present value by applying the accrued cost method, at an annual interest rate of 6.5%, and an average period of service of 40 years, plus an average of 75% of the benefit for staff with less than 15 years of service.

S) VACATION PROVISION

In accordance with Technical Bulletin No. 47 issued by the Chilean Association of Accountants, the Company records personnel vacation on an accrued basis.



- T) **OPERATING INCOME**  
 Operating income is mainly income arising from the sale of electric transmission capacity of the Company’s facilities, which includes the transmission service provided but not billed at each period-end, which is valued at the selling prices as stipulated in current contracts and toll reports issued by the “Centro de Despacho Económico de Carga del Sistema Interconectado Central” (CDEC - SIC) and by the Centro de Despacho Económico de Carga del Sistema Interconectado del Norte Grande (CDEC-SING), which are entities that coordinate the operation of electricity generation companies in the SIC and in the SING, two of Chile’s major interconnected electricity systems. Since January 1, 2008, operating income also includes income received from recalculation of tolls and tariff income from previous years. Those amounts are shown in Trade Accounts Receivable within Current Assets.
- U) **ACCOUNTING ESTIMATES**  
 In the process of its operations, the Company must make accounting estimates to determine its accounts receivable and payable for the concept of tariff income. The final billing of these accounts receivable and payable can exceed one year and originate eventual losses or gains in amounts that are estimated to be insignificant.
- V) **DERIVATIVE CONTRACTS**  
 Foreign exchange forward and swap contracts have been recorded at their fair value, in accordance with Technical Bulletin No. 57 of the Chilean Association of Accountants.
- W) **COMPUTER SOFTWARE**  
 Computer software has been acquired in computer packages, which are amortized over a 3-year period.
- X) **STATEMENTS OF CASH FLOWS**  
 Cash and cash equivalents presented in the statements of cash flows correspond to cash, time deposits, marketable securities and financial titles with resale agreements.
- Cash flows from operating activities include all cash flows related to the Company’s line of business, and in general all cash flows that are not defined as from investment or financing. It should be noted that the operating concept used in these statements is broader than that used in the statements of income.
- Cash flows from financing and investing activities include all those cash flows not defined as operational.
- Y) **DEBT SECURITY ISSUANCE AND PLACEMENT EXPENSES**  
 The Company has recorded the expenses for issuance and placement of debt instruments incurred in the current period under Other Current Assets and Other Long-term Assets. These expenses are amortized using the straight-line method over the duration of the liabilities.

Companies Included in Consolidation:

Taxpayer No.	Company Name	PARTICIPATION PERCENTAGE				2007
		2008	2008		Total	
		Direct	Indirect			Total
99521950-6	Transelec Norte S.A.	99.99	-		99.99	99.99

## » NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

» TRANSELEC S.A. AND SUBSIDIARY • DECEMBER 31, 2008 AND 2007

### » NOTE 3 - ACCOUNTING CHANGES

During the year from January 1 to December 31, 2008, there have been no accounting changes in relation to the previous period that could significantly affect their interpretation.

### » NOTE 4 - MARKETABLE SECURITIES

Details of marketable securities are as follows:

	2008 ThCh\$	2007 ThCh\$
FM Banco Scotiabank	-	4,621,360
FM Banco Santander Santiago	720,216	1,718,966
FM Banco Crédito e Inversiones	1,101,861	717,006
FM Banchile	4,624,182	6,021,411
FM Banco Estado	5,258,087	-
FM BBVA	3,302,073	-
FM ITAU	1,670,746	-
<b>Total marketable securities</b>	<b>16,677,165</b>	<b>13,078,743</b>

### » NOTE 5 - SHORT AND LONG-TERM RECEIVABLES

Short and long-term receivables correspond to transactions, detailed as follows:

#### SHORT-TERM TRADE ACCOUNTS RECEIVABLE

	2008 ThCh\$	2007 ThCh\$
Trade accounts receivable from tolls	32,691,339	25,443,312
<b>Total</b>	<b>32,691,339</b>	<b>25,443,312</b>

The following table details receivables between 90 days and 1 year, which include the accruals receivable related to tariff income differences in the amount of ThCh\$21,498,397 as of December 31, 2008 (ThCh\$15,860,752 in 2007). Accounts Payable includes provisions payable for the differences in value related to tariff income for the amount of ThCh\$13,764,249 as of December 31, 2008 and includes a reassessment for ThCh\$2,624,000 of certain agreement with Endesa for the year 2007 (ThCh\$23,826,447 in 2007).

#### SHORT AND LONG-TERM RECEIVABLES

	Up to 90 days		Current		Subtotal	Total current (net)		Long-Term	
	2008	2007	2008	2007	2008	2008	2007	2008	2007
Trade Receivable	11,192,942	9,582,560	21,498,397	15,860,752	32,691,339	32,691,339	25,443,312	-	-
Misc. Receivables	528,737	522,401	-	-	528,737	528,737	522,401	1,563,240	1,669,528
<b>Total Long-term Receivables</b>								<b>1,563,240</b>	<b>1,669,528</b>

» NOTE 6 - BALANCES AND TRANSACTIONS WITH RELATED COMPANIES

The most significant transactions and balances with related companies are as follows:

NOTES AND ACCOUNTS RECEIVABLE

**Rentas Eléctricas I Limitada**

Corresponds to expenses and payments made on behalf of Rentas Eléctricas I Limitada for the amount of ThCh\$32,215 as of December 31, 2007.

**Transec Holdings Rentas Limitada**

The balance receivable as of December 31, 2008 is mainly due to a series of loans, credited to a mercantile account, which has a short-term balance of ThCh\$48,204 (ThCh\$29,622,216 in 2007) and a long-term balance of ThCh\$19,602,660 (ThCh\$32,774,493 in 2007).

The loan is expressed and will be paid in US dollars and accrues interest at Libor rate.

There are some credits in the mercantile current account in Chilean pesos for an accumulated amount as of December 31, 2007 of ThCh\$19,189,122, which accrues an interest of 6.5% considering a 360-day year.

**ETC Holdings Ltd.**

The balance receivable corresponds to expenses and payments totaling ThCh\$53,255 made on behalf of ETC Holdings Ltd in 2007.

NOTES AND ACCOUNTS PAYABLE

**ETC Holdings Ltd.**

The balance as of December 31, 2007 of ThCh\$127,428 corresponds to payments made on the Company's behalf.

A) NOTES AND ACCOUNTS RECEIVABLE

Taxpayer ID	Company	Short-term		Long-term	
		2008 ThCh\$	2007 ThCh\$	2008 ThCh\$	2007 ThCh\$
76.559.580-0	Rentas Eléctricas I Limitada	-	32,215	-	-
76.560.200-9	Transec Holdings Rentas Limitada	48,204	48,811,338	19,602,660	32,774,493
0-E	ETC Holding Ltd	-	53,255	-	-
Total		48,204	48,896,808	19,602,660	32,774,493

B) NOTES AND ACCOUNTS PAYABLE

Taxpayer ID	Company	Relationship	Short-term	Short-term
			2008 ThCh\$	2007 ThCh\$
0-E	ETC Holding Ltd	Parent	-	127,428
Total			-	127,428

## » NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

» TRANSELEC S.A. AND SUBSIDIARY • DECEMBER 31, 2008 AND 2007

### C) TRANSACTIONS WITH RELATED COMPANIES

Company	Taxpayer ID	Relationship	Description of the Transaction	2008		2007	
				Amount ThCh\$	(Charge)/credit to income ThCh\$	Amount ThCh\$	(Charge)/credit to income ThCh\$
Transec Holdings Rentas Ltda.	76.560.200-9	Parent	Loans Granted	18,779,934	-	89,781,943	-
Transec Holdings Rentas Ltda.	76.560.200-9	Parent	Loans Collected	78,350,925	-	41,608,098	-
Transec Holdings Rentas Ltda.	76.560.200-9	Parent	Interest Earned	2,051,111	(2,051,111)	3,649,226	(3,649,226)
Rentas Electricas I Ltda.	76.559.580-0	Indirect Parent	Loans Granted	5,655	-	31,137	-
Rentas Electricas I Ltda.	76.559.580-0	Indirect Parent	Interest Earned	6,620	(6,620)	1,078	(1,078)
ETC Holdings Ltd.	0-E	Indirect Parent	Loans Paid	117,014	-	-	-
ETC Holdings Ltd.	0-E	Indirect Parent	Services Rendered	-	-	53,256	(53,256)

### » NOTE 7 - CURRENT AND DEFERRED INCOME TAXES

#### A) GENERAL INFORMATION

As of December 31, 2008 and 2007, the Parent Company has not accrued any income tax due to a tax loss of ThCh\$39,945,443 for the period. In the 2007 period, there was a tax loss of ThCh\$35,599,238.

On June 30, 2007, the Company absorbed its subsidiary Transec S.A. (formerly Rentas Eléctricas IV S.A.), which at that date recorded a loss of ThCh\$2,747,532.

Its subsidiary as of December 31, 2008, has accrued income tax on accrued income for the period for the amount of ThCh\$474,387 (ThCh\$435,695 in 2007) considering a taxable base of ThCh\$2,790,514 (ThCh\$2,562,910 in 2007).

As of December 31, 2008 and 2007, the provision is presented under Current Assets under the concept of Recoverable Taxes, according to the following detail:

Recoverable taxes	2008 ThCh\$	2007 ThCh\$
First category tax	(474,387)	(435,695)
Non-deductible expenses Art. 21	(33,050)	(17,613)
<b>Sub-total</b>	<b>(507,437)</b>	<b>(453,308)</b>
Prepaid tax installments due to absorbed net income (third parties)	-	351,711
Monthly prepaid tax installments	2,826,899	3,254,815
<b>Total</b>	<b>2,319,462</b>	<b>3,153,218</b>

# B) DEFERRED TAXES

SVS Circular No. 1,466 establishes the application of Technical Bulletin No. 60 issued by the Chilean Association of Accountants starting January 1, 2000.

As described in Note 2q), deferred taxes have been restated as of December 31, 2008 to recognize the effect of the income tax rate changes introduced by the tax reform published in September 2001.

## DESCRIPTION 2008

	Deferred tax assets		Deferred tax liabilities	
	Short-term ThCh\$	Long-term ThCh\$	Short-term ThCh\$	Long-term ThCh\$
Temporary differences				
Vacation provision	159,804	-	-	-
Leased assets	-	104	-	-
Staff severance indemnity provision	-	-	-	271,801
Other events	12,505	43,211	-	-
Tax loss	6,790,725	-	-	-
Income from bond placement premiums	-	280,273	-	-
Revaluation of property, plant and equipment (absorption)	-	52,758,761	-	-
Fair value bonds and swaps	-	3,834,300	-	-
Bond placement discount	-	247,397	-	-
Forward contracts	-	-	63,663	-
Bond issuance expenses	-	-	-	1,350,086
Fair value adjustment for subsidiary property, plant and equipment	-	-	-	4,734,140
<b>Total</b>	<b>6,963,034</b>	<b>57,164,046</b>	<b>63,663</b>	<b>6,356,027</b>

## DESCRIPTION 2007

	Deferred tax assets		Deferred tax liabilities	
	Short-term ThCh\$	Long-term ThCh\$	Short-term ThCh\$	Long-term ThCh\$
Temporary differences				
Vacation provision	127,130	-	-	-
Leased assets	-	41,738	-	-
Staff severance indemnity provision	-	-	-	246,114
Other events	79,744	77,879	-	-
Tax loss	6,051,870	-	-	-
Income from bond placement premiums	-	295,088	-	-
Revaluation of property, plant and equipment (absorption)	-	54,859,625	-	-
Fair value bonds and swaps	-	4,771,353	-	-
Bond placement discount	-	296,491	-	-
Forward contracts	26,124	-	-	-
Bond issuance expenses	-	-	-	1,448,691
Fair value adjustment for subsidiary property, plant and equipment	-	-	-	4,068,243
<b>Total</b>	<b>6,284,868</b>	<b>60,342,174</b>	<b>-</b>	<b>5,763,048</b>



## » NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

» TRANSELEC S.A. AND SUBSIDIARY • DECEMBER 31, 2008 AND 2007

### C) INCOME TAX

Item	2008 ThCh\$	2007 ThCh\$
Income tax expense (income tax provision)	(507,437)	(453,308)
Tax expense adjustment (previous period)	-	-
Effect of deferred tax assets or liabilities for the period	(13,053,911)	(3,559,415)
<b>Total</b>	<b>(13,561,348)</b>	<b>(4,012,723)</b>

### » NOTE 8 - OTHER CURRENT ASSETS

Details of other current assets are as follows:

	2008 ThCh\$	2007 ThCh\$
Securities under resale agreements	-	2,168,541
Bond issuance expenses	580,038	579,985
Bond placement discount	284,101	284,101
Forward contracts	374,490	-
Other	16,039	159,617
<b>Total</b>	<b>1,254,668</b>	<b>3,192,244</b>

### » NOTE 9 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is detailed as follows

The depreciation expense for the 2008 amounted to ThCh\$35,566,027 (ThCh\$34,061,906 in 2007), Th\$35,325,687 (ThCh\$33,869,020 in 2007), was charged to Operating Costs and ThCh\$240,340 (ThCh\$192,886 in 2007), was charged to administrative and selling expenses.

As of December 31, 2008, the Company has planned and agreed to property, plant and equipment additions over the course of the next year for which corresponding purchase orders have been placed both nationally and internationally for approximately ThUS\$28,600.

As a result, the Company has received bank guarantees to ensure their reliability and the delivery date for the respective assets.

Description	2008			2007		
	Gross value ThCh\$	Accumulated depreciation ThCh\$	Net value ThCh\$	Gross value ThCh\$	Accumulated depreciation ThCh\$	Net value ThCh\$
Land	19,051,979	-	19,051,979	17,775,461	-	17,775,461
BUILDINGS AND INFRASTRUCTURE						
Buildings	15,184,292	(1,045,488)	14,138,804	14,854,306	(633,679)	14,220,627
Access roads	652,128	(29,136)	622,992	652,206	(12,834)	639,372
Lines	631,565,945	(41,274,913)	590,291,032	620,245,407	(23,270,903)	596,974,504
Houses and apartments	96,883	(6,053)	90,830	96,895	(3,632)	93,263
Non-hydraulic civil projects	125,705,780	(8,396,978)	117,308,802	124,020,754	(5,073,479)	118,947,275
Works in progress	37,668,330	-	37,668,330	42,531,214	-	42,531,214
<b>Total Buildings and infrastructure</b>	<b>810,873,358</b>	<b>(50,752,568)</b>	<b>760,120,790</b>	<b>802,400,782</b>	<b>(28,994,527)</b>	<b>773,406,255</b>
MACHINERY AND EQUIPMENT						
Telecommunications equipment	8,396,755	(2,360,245)	6,036,510	8,401,576	(1,471,810)	6,929,766
Furniture, machinery and office equipment	163,126	(55,222)	107,904	157,976	(30,833)	127,143
Service furniture and equipment	47,689	(8,381)	39,308	36,248	(4,194)	32,054
Tools and instruments	1,551,595	(225,996)	1,325,599	1,331,701	(129,350)	1,202,351
Power generation unit	1,246,558	(208,386)	1,038,172	1,223,587	(124,829)	1,098,758
Electrical equipment	304,855,689	(24,050,449)	280,805,240	277,321,501	(14,523,740)	262,797,761
Mechanical, protection and measurement equipment	36,760,065	(9,763,513)	26,996,552	34,935,607	(5,739,627)	29,195,980
Transport and loading equipment	397,530	(131,389)	266,141	373,380	(75,406)	297,974
Computers	776,577	(533,866)	242,711	716,795	(272,069)	444,726
Software and computer programs	2,806,784	(1,419,871)	1,386,913	1,914,063	(616,312)	1,297,751
<b>Total machinery and equipment</b>	<b>357,002,368</b>	<b>(38,757,318)</b>	<b>318,245,050</b>	<b>326,412,434</b>	<b>(22,988,170)</b>	<b>303,424,264</b>
<b>Subtotal plant, property and equipment</b>	<b>1,186,927,705</b>	<b>(89,509,886)</b>	<b>1,097,417,819</b>	<b>1,146,588,677</b>	<b>(51,982,697)</b>	<b>1,094,605,980</b>
OTHER PROPERTY, PLANT AND EQUIPMENT						
<b>Construction materials</b>	<b>1,506,567</b>	<b>-</b>	<b>1,506,567</b>	<b>1,560,614</b>	<b>-</b>	<b>1,560,614</b>
<b>Total property, plant and equipment</b>	<b>1,188,434,272</b>	<b>(89,509,886)</b>	<b>1,098,924,386</b>	<b>1,148,149,291</b>	<b>(51,982,697)</b>	<b>1,096,166,594</b>

## » NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

» TRANSELEC S.A. AND SUBSIDIARY • DECEMBER 31, 2008 AND 2007

### » NOTE 10 - INVESTMENTS IN OTHER COMPANIES

The following receivables correspond to Transelec S.A.'s 6.25% participation in Centro de Despacho Económico de Carga del Sistema Eléctrico Interconectado Central Limitada (CDEC-SIC Ltda.), whose exclusive objective is to administrate and operate the power stations and transmission lines that are interconnected within the electric system and coordinate the direction and operation of that electrical system. The value of that investment as of December 31, 2008 is ThCh\$31,331 (ThCh\$34,987 in 2007). It also includes the 14.29% participation of Transelec Norte S.A. in the CDEC-SING, whose exclusive objective is to manage and operate the Center for Economic Dispatch of the interconnected electrical system in the SING and to manage and operate this electrical system. The value of this investment as of December 31, 2008 amounts to ThCh\$287,889 (ThCh\$196,894 in 2007).

Taxpayer No.	Company	Participation percentage	2008 ThCh\$	Book Value 2007 ThCh\$
77.286.570-8	CDEC – SIC LTDA	6.2500	31,331	34,987
77.345.310-1	CDEC - SING LTDA	14.2900	287,889	196,894
<b>Total</b>			<b>319,220</b>	<b>231,881</b>

### » NOTE 11 - GOODWILL

A) GOODWILL IS SUMMARIZED AS FOLLOWS:

	2008 ThCh\$	2007 ThCh\$
HQI Transelec Chile S.A.	290,898,005	297,685,657
Adjustment for deferred taxes fair value of subsidiary's PP&E	4,785,013	-
Price adjustment as of 03/31/2008 (net of deferred taxes)	65,213,075	-
Price adjustment provision as of 06/30/2008	3,270,500	-
Absorption adjustment as of 06/30/2007	-	(2,719,408)
Accumulated amortization of goodwill	(25,268,979)	(16,235,420)
<b>Total</b>	<b>338,897,614</b>	<b>278,730,829</b>

This account corresponds to goodwill on the acquisition of HQI Transelec Chile S.A., by the Company, after adjusting the financial statements of the subsidiary in accordance with Technical Bulletin No. 72 of the Chilean Association of Accountants. As of March 30, 2008 the sum of ThUS\$160,808 was provisioned due to a price adjustments related to valuation of certain trunk segments; on June 30 the sum of ThCh\$3,100,000 was provisioned for the concept of price adjustment due to reassessment of regulated trunk income, for the period from March 13, 2004 to June 30, 2006. Both adjustments are considered in the share purchase agreement dated June 2006 between Hydro-Québec, IFC and Rentas Eléctricas IV Ltda, currently Transelec, S.A.

This difference will be amortized over a maximum period of 40 years.

The total amount paid on this operation amounted to ThCh\$ 942,160,997 (historical value).

B) THE ORIGIN OF GOODWILL AND ITS AMORTIZATION IS AS FOLLOWS:

Taxpayer No.	Company	2008		2007	
		Amortization during the period ThCh\$	Balance of goodwill ThCh\$	Amortization during the period ThCh\$	Balance of goodwill ThCh\$
77.498.870-K	HQI Transelec Chile S.A.	9,033,560	338,897,614	7,308,148	278,730,829
<b>Total</b>		<b>9,033,560</b>	<b>338,897,614</b>	<b>7,308,148</b>	<b>278,730,829</b>

» NOTE 12 - INTANGIBLES

The composition of intangibles as of December 31, 2008 and 2007 is detailed as follows:

	2008 ThCh\$	2007 ThCh\$
Rights of way	161,883,833	160,404,835
Less: Accumulated amortization	(10,146,472)	(6,072,129)
<b>Total</b>	<b>151,737,361</b>	<b>154,332,706</b>

The amortization charge to income amounted to ThCh\$3,875,573 (ThCh\$3,852,572 in 2007).

» NOTE 13 - OTHER ASSETS

The balance as of December 31, 2008 and 2007 is as follows:

	2008 ThCh\$	2007 ThCh\$
Discount on Issuance of UF Bonds	1,894,007	2,178,108
Deferred expenses UF Bonds Series C	1,796,290	2,065,660
Deferred expenses UF Bonds Series D	5,565,353	5,876,072
Deferred expenses general facilities	124,654	152,569
Other	23,397	57,384
<b>Total</b>	<b>9,403,701</b>	<b>10,329,793</b>

» NOTE 14 - OTHER CURRENT LIABILITIES

The balance as of December 31, 2008 and 2007 is as follows:

	2008 ThCh\$	2007 ThCh\$
Forward contracts	-	153,673
Premium on placement of UF series D Chilean peso bonds	87,154	87,154
Other	3,763	4,121
<b>Total</b>	<b>90,917</b>	<b>244,948</b>

## » NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### » NOTE 15 - SHORT AND LONG-TERM PROMISSORY NOTES AND BONDS

- A) During 2001, the Company made a public offering of bonds in the local market according to the following details:  
On April 2, 2001 the Company registered the first bond issuance for a maximum of UF 10,000,000 with the SVS under No. 249. From this initial amount, UF 9,200,000 was finally placed on April 11, 2001.

As of December 31, 2008 the risk ratings for this bond issuance are as follows:

Rating Agency	Rating
Fitch Chile Clasificadora de Riesgo Ltda.	A
Feller-Rate Clasificadora de Riesgo Ltda.	A+
Clasificadora de Riesgo Humphreys Ltda.	A+

#### TERMS OF ISSUANCE

Issuer: HQI Transelec Chile S.A.

Securities issued: Bearer bonds in Chilean pesos denominated in Unidades de Fomento,

Maximum issued: Ten million Unidades de Fomento (UF 10,000,000) divided as follows:

#### SERIES A

- Series A-1: Up to UF3,000,000, (3,000 bonds of UF1,000 each).

- Series A-2: Up to UF4,000,000, (400 bonds of UF10,000 each).

#### SERIES B

- Serie B-1: Up to UF1,000,000, (1,000 bonds of UF1,000 each).

- Serie B-2: Up to UF3,000,000, (300 bonds of UF10,000 each).

Indexation: Variation of the Unidad de Fomento

Amortization period: Series A, 6 years and Series B, 21 years (6-year grace period and 1 and 15 years for capital amortization, respectively).

Amortization of capital: Series A, in a single installment, upon expiration and Series B, biannual, increasing since September 1, 2007.

Early redemption: Series A without early redemption and Series B effective as of 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 a 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-annual payments, maturing on March 1 and September 1 yearly, beginning on September 1, 2001. The interest accrued during the 2008 period amounts to ThCh\$1,355,474 (ThCh\$1,378,037 in 2007) and is presented in Current liabilities.

Guarantees: This issuance has no special guarantees, except the general guarantee on all the issuer's assets.

Placement term: 36 months, as of the date of registration with the SVS.

As of March 1, 2007, the capital of the Series A-1 and A-2 Bonds was paid.

- B) THE COMPANY ISSUED AND PLACED NOTES IN THE INTERNATIONAL MARKET ON APRIL 17, 2001, DETAILED AS FOLLOWS:

The risk ratings obtained as of December 31, 2008 are as follows:

Rating Agency	Rating
Standard and Poor's Rating Group	BBB-
Fitch Ibca, Duff & Phelps	BBB-
Moody's Investors Service Inc.	BAA3

Issuer: HQI Transelec Chile S.A.

Securities issued: US\$ Yankee Bonds traded in the United States

Issue value: Four hundred and sixty five million dollars (ThUS\$465,000) in a single series.

Indexation: Variation of the United States dollars.

Capital amortization: At maturity on April 15, 2011.

Nominal interest rate: 7.875% annual.

Interest payments: Interest payments are due every six months, on April 15 and October 15 of each year, starting October 15, 2001. Interest accrued for the 2008 period amount to ThCh\$4,855,417 (ThCh\$4,300,106 in 2007) and is presented in Current liabilities.



c) DURING 2006, THE COMPANY ISSUED BONDS FOR PUBLIC OFFERING IN THE CHILEAN MARKET, AS FOLLOWS:

On November 9, 2006, the Company registered the first bond issuance for a maximum of UF 19,500,000 with the SVS under No. 481. From this amount, UF 13,500,000 was finally placed on the market on December 14, 2006.

The bond issuance risk ratings, as of December 31, 2008, are as follows:

Rating Agency	Rating
Fitch Chile Clasificadora de Riesgo Ltda.	A
Feller-Rate Clasificadora de Riesgo Ltda.	A+
Clasificadora de Riesgo Humphreys Ltda.	A+

TERMS OF ISSUANCE

Issuer: Nueva Transelec S.A.

Securities issued: Bearer bonds in Chilean pesos, denominated in Unidades de Fomento.

Maximum Issuance: Thirteen million five hundred thousand Unidades de Fomento (UF 13,500,000).

Series D: Up to UF 13,500,000, (13,500 bonds of UF1,000 each).

Amortization period: 21 years.

Capital Amortization: in one single installment, as of maturity on December 15, 2027.

Early redemption: Total or partial, from December 15, 2011.

Interest Rate: On the outstanding capital expressed in Unidades de Fomento at an annual interest rate of 4.25%, calculated based on a 360-day year, compound semi-annually, each semester consisting of 180 days.

Payment of interest: Interest payments will be due every six months – expiring on June 15, and December 15 of each year starting on June 15, 2007.

Interest accrued for the 2008 period amounts to ThCh\$507,514 (ThCh\$539,242 in 2007) and is presented in Current Liabilities.

These bonds have no specific guarantee, except a general guarantee on all of the Issuer's assets.

Placement term: 36 months from the date of registration in the Securities Registry of the SVS.

d) ON MARCH 2007, THE ABSORBED COMPANY ISSUED BONDS FOR PUBLIC OFFERING IN THE CHILEAN MARKET, AS FOLLOWS:

On January 22, 2007 the company registered in the Securities Registry of the SVS under No. 480, the first issuance of bonds for a maximum of UF 6,000,000. On March 21, 2007, UF 6,000,000 was finally placed.

As of December 31, 2008 the bond issuance risk ratings obtained are as follows:

Rating Agency	Rating
Feller-Rate Clasificadora de Riesgo Ltda.	A+
Humphreys Clasificadora de Riesgo Ltda.	A+
Fitch Ratings Clasificadora de Riesgo Ltda.	A

TERMS OF ISSUANCE

Issuer: Transelec S.A.

Securities issued: Bearer bonds in Chilean pesos, denominated in Unidades de Fomento.

Maximum issuance: six million Unidades de Fomento (UF 6,000,000).

Series C: Up to UF 6,000,000, (6,000 bonds of UF1,000 each).

Amortization period: 9.5 years

Capital Amortization: in one single installment, as of maturity on September 1, 2016.

Early redemption: total or partial, from March 1, 2010.

Interest rate: on the outstanding capital expressed in UF at an annual interest rate of 3.5%, calculated based on a 360-day year, expired, compounded semi-annually, with each semester consisting of 180 days.

Interest payment: interest payment will be due every six months, on March 1, and September 1 of each year beginning on September 1, 2007.

Interest accrued as of 2008 period-end amounts to ThCh\$1,488,766 (ThCh\$1,482,971 in 2007) and is presented in Current liabilities.

It has no specific guarantee, except a general guarantee on all of the issuer's assets.

Placement term: 36 months from the date of registration in the Securities Registry of the SVS

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E) THE DETAIL OF BONDS IS AS FOLLOWS:

Registration or identification No. of the instrument	Series	Current nominal amount placed	Bond Indexation unit	Interest rate	Maturity date	Periodicity		Par value 2008 ThCh\$	Par value 2007 ThCh\$	Placement in Chile or abroad
						Interest payment	Amortization payment			
LONG TERM BONDS - SHORT TERM PORTION										
249	B1	3,949	UF	6.20%	03-01-2009	Semiannually	Semiannually	104,938	86,117	Chile
249	B2	59,236	UF	6.20%	03-01-2009	Semiannually	Semiannually	1,574,078	1,291,920	Chile
First issuance	Single	7,946,777	US\$	7.88%	04-15-2009	Semiannually	Upon final payment	8,713,157	4,300,106	Abroad
Swap Contracts	11 Contracts	1,596	UF	6.94%	04-15-2009	Semiannually	Upon final payment	2,231,896	442,979	Chile
249	B1	2,000	UF	6.20%	03-01-2009	Semiannually	Semiannually	53,146	85,477	Chile
249	B2	30,000	UF	6.20%	03-01-2009	Semiannually	Semiannually	797,195	1,282,145	Chile
249	B1	2,000	UF	6.20%	09-01-2009	Semiannually	Semiannually	53,146	-	Chile
249	B2	30,000	UF	6.20%	09-01-2009	Semiannually	Semiannually	797,195	-	Chile
481	D	23,658	UF	4.25%	06-15-2009	Semiannually	Upon final payment	507,514	539,242	Chile
480	C	69,398	UF	3.50%	03-01-2009	Semiannually	Upon final payment	1,488,766	1,482,971	Chile
Total - short-term portion								16,321,031	9,510,957	

### LONG-TERM BONDS

249	B1	190,000	UF	6.20%	03-01-2022	Semiannually	Semiannually	4,581,393	4,729,461	Chile
249	B2	2,850,000	UF	6.20%	03-01-2022	Semiannually	Semiannually	68,720,893	70,941,911	Chile
First issuance	Single	465,000,000	US\$	7.88%	04-15-2011	Semiannually	Upon final payment	300,823,157	261,977,198	Abroad
481	D	13,500,000	UF	4.25%	12-15-2027	Semiannually	Upon final payment	289,609,695	288,482,536	Chile
480	C	6,000,000	UF	3.50%	09-01-2016	Semiannually	Upon final payment	128,715,420	128,214,461	Chile
Swap contracts	4 Contracts	3,885,548	UF	6.54%	04-14-2011	Semiannually	Upon final payment	10,462,828	23,807,549	Chile
Swap contracts	4 Contracts	2,718,397	UF	6.28%	04-14-2011	Semiannually	Upon final payment	4,020,892	14,060,142	Chile
Swap contracts	3 Contracts	2,317,275	UF	6.06%	04-14-2011	Semiannually	Upon final payment	8,079,370	15,639,659	Chile

Total - long-term	815,013,648	807,852,917
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## » NOTE 16 - PROVISIONS AND WRITE-OFFS

Details of provisions as of December 31, 2008 and 2007 are as follows:

	2008 ThCh\$	2007 ThCh\$
A) SHORT-TERM PROVISIONS		
Staff severance indemnities provision (Note 17)	604,250	506,490
Accrued payroll	1,971,827	1,694,802
Vacation accrual	940,024	747,822
Total	3,516,101	2,949,114
B) LONG-TERM PROVISIONS		
Staff severance indemnities provision (Note 17)	1,959,421	1,619,191
Total	1,959,421	1,619,191

## » NOTE 17 - STAFF SEVERANCE INDEMNITIES

The balance of the account as of December 31, 2008 and 2007 is detailed as follows:

	2008 ThCh\$	2007 ThCh\$
Opening balance	2,125,681	1,870,304
Price-level restatement, net	25,287	138,402
Provisions	635,364	785,930
Payments	(222,661)	(668,955)
<b>Total</b>	<b>2,563,671</b>	<b>2,125,681</b>
Short-term	604,250	506,490
Long-term	1,959,421	1,619,191
<b>Total</b>	<b>2,563,671</b>	<b>2,125,681</b>

## » NOTE 18 - MINORITY INTEREST

A) AS OF DECEMBER 31, 2008 AND 2007, THE MINORITY INTEREST IS THE PARTICIPATION OF THE OTHER SHAREHOLDERS ACCORDING TO THE FOLLOWING DETAIL:

	Equity		Participation percentage		Participation	
	2008 ThCh\$	2007 ThCh\$	2008 ThCh\$	2007 ThCh\$	2008 ThCh\$	2007 ThCh\$
Transelec Holdings Rentas Ltda.	55,101,869	46,908,761	0.01%	0.01%	5,504	4,670

B) THE MINORITY INTEREST CORRESPONDING TO THE PARTICIPATION OF THE OTHER SHAREHOLDERS IN THE RESULTS OF THE SUBSIDIARY TRANSELEC S.A. IS AS FOLLOWS:

	2008 ThCh\$	2007 ThCh\$	2008 ThCh\$	2007 ThCh\$	2008 ThCh\$	2007 ThCh\$
Transelec Holdings Rentas Ltda.	2,304,831	1,862,868	0.01%	0.01%	234	186

## » NOTE 19 - CHANGES IN SHAREHOLDERS' EQUITY

As of December 31, 2008 and 2007, equity accounts had the following movements:

### A) CAPITAL

On June 6, 2006, Rentas Eléctricas III Ltda, was formed with paid-in capital of US\$1,600 in its equivalent in local currency, contributed by the partners as follows: Brookfield Power Inc, contributed the sum of US\$16.00 corresponding to 1.0% of the company's equity interests, and Brookfield Asset Management Inc, contributed US\$1,584, corresponding to 99.0% of the company's equity interests.

On June 15, 2006, Brookfield Asset Management Inc, sold, ceded and transferred 99.0% of the Company's equity interests to Rentas Eléctricas II Ltda, for US\$1,584. Brookfield Power Inc, sold, ceded and transferred to 0.99% of the Company's equity interests to Rentas Eléctricas II Ltda, for US\$15.84. Brookfield Power Inc, sold, ceded and transferred, 0.01% of the Company's equity interests to Rentas Eléctricas I Ltda for US\$0.16. Due to the aforementioned transfers, Brookfield Asset Management Inc, and Brookfield Power Inc, withdrew from the Company, leaving Rentas Eléctricas II Ltda, with 99.99% and Rentas Eléctricas I Ltda, with 0.01% of the equity interests of Rentas Eléctricas III Ltda. In addition, on that date capital was increased to US\$ 1,332,441,365.

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On September 30, 2006, Rentas Eléctricas II Ltda, and Rentas Eléctricas I Ltda, agreed to increase the company's capital by US\$14,156,270. The partners are obligated to contribute pro rata to their participation in the Company, US\$14,154,854 and US\$1,416 respectively. As of December 31, 2007, those contributions were fully paid.

As per public deed dated March 26, 2007, the Company was transformed from a limited liability company to a corporation, under the name Rentas Eléctricas III S.A., with capital amounting to ThCh\$733,545,501, divided in 1,000,000 common shares, with no par value. The referred capital has been subscribed and paid in full by the limited liability company that was transformed, who became shareholders of Rentas Eléctricas III S.A. The beginning schedule of shareholders is as follows: a) Transelec Holdings Rentas Limitada, 999,900 shares, equivalent to Ch\$733,472,146,050, and b) Rentas Eléctricas I Limitada, 100 shares, equivalent to Ch\$73,354,551. Total shares subscribed and paid in full amounted to 1,000,000.

### B) DIVIDENDS

The first Ordinary Shareholders' Meeting held on April 30, 2007, agreed to distribute ThCh\$12,509,756 as a final dividend for the year ended December 31, 2006, which would be paid on May 10, 2007. As of December 31, 2007 this dividend was fully paid.

The third Extraordinary Board Meeting held on May 4, 2007 agreed to distribute ThCh\$7,130,147 (historical value) as an interim dividend with a charge to net income for the period ended March 31, 2007, to be paid as of May 14, 2007. As of December 31, 2007 this dividend is fully paid.

The Company's Board, in a meeting on October 24, 2007, agreed to distribute a second interim dividend of ThCh\$15,315,000 charged to 2007 income. The Company began paying the dividend on November 22, 2007. As of December 31, 2007 all shareholders were paid in full.

The Ordinary Shareholders' Meeting held on April 24, 2008 approved the distribution of ThCh\$8,894,152 as remainder of the final dividend for 2007, equivalent to Ch\$8,894.15153 per share, dividend that will be paid as of May 20, 2008 to the shareholders registered in the respective registry on May 13, 2008.

The Company's Board of Directors Meeting held on May 29, 2008 agreed to the distribution of ThCh\$12,040,000 as an interim dividend for the period ended March 31, 2008, which will be paid as of June 23, 2008 to the shareholders registered in the respective registry on June 17, 2008.

### C) OWNERSHIP

The current and sole owners of the Company are:

Transelec Holdings Rentas Limitada, with 99.99%, corresponding to 999,900 shares subscribed and paid in full and Rentas Eléctricas I Limitada, with 0.01%, corresponding to 100 shares subscribed and paid in full.

Details of the Company's equity as of December 31, 2008 and 2007 are as follows:

A) THE COMPANY'S EQUITY AS OF DECEMBER 31, 2008 IS AS FOLLOWS:

Changes in Equity	Paid capital ThCh\$	Other reserves	Retained earnings ThCh\$	Interim dividends. ThCh\$	Net income ThCh\$	Total ThCh\$
Opening balance	787,827,868	-	87,568	(22,880,086)	31,686,669	796,722,019
Distribution of prior year income	-	-	8,806,583	22,880,086	(31,686,669)	-
Final dividend prior year	-	-	(8,806,583)	-	-	(8,806,583)
Other reserves	-	374,490	-	-	-	374,490
Price-level restatement of capital	70,116,680	-	72,527	-	-	70,189,207
Net income	-	-	-	-	56,588,891	56,588,891
Interim dividends	-	-	-	(12,509,560)	-	(12,509,560)
<b>Final balance</b>	<b>857,944,548</b>	<b>374,490</b>	<b>160,095</b>	<b>(12,509,560)</b>	<b>56,588,891</b>	<b>902,558,464</b>

B) THE COMPANY'S EQUITY AS OF DECEMBER 31, 2007 IS AS FOLLOWS:

Changes in Equity	Paid capital ThCh\$	Other reserves	Retained earnings ThCh\$	Interim dividends. ThCh\$	Net income ThCh\$	Total ThCh\$
Opening balance	733,545,501	-	-	(2,338,890)	14,848,646	746,055,257
Distribution of prior year income	-	-	12,509,756	2,338,890	(14,848,646)	-
Final dividend prior year	-	-	(12,509,756)	-	-	(12,509,756)
Price-level restatement of capital	54,282,367	-	87,568	-	-	54,369,935
Net income	-	-	-	-	31,686,669	31,686,669
Interim dividends	-	-	-	(22,880,086)	-	(22,880,086)
<b>Final balance</b>	<b>787,827,868</b>	<b>-</b>	<b>87,568</b>	<b>(22,880,086)</b>	<b>31,686,669</b>	<b>796,722,019</b>
<b>Restated balances</b>	<b>857,944,548</b>	<b>-</b>	<b>95,362</b>	<b>(24,916,414)</b>	<b>34,506,783</b>	<b>867,630,279</b>

NUMBER OF SHARES

Series	N° of shares subscribed	N° of paid shares	N° of voting shares
Single	1,000,000	1,000,000	1,000,000

CAPITAL (AMOUNT THCh\$)

Series	Subscribed capital ThCh\$	Paid-in capital ThCh\$
Single	857,944,548	857,944,548



## » NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

» TRANSELEC S.A. AND SUBSIDIARY • DECEMBER 31, 2008 AND 2007

### » NOTE 20 - OTHER NON-OPERATING INCOME AND EXPENSES

Other non-operating income and expenses as of December 31, 2008 and 2007 are detailed as follows:

	2008 ThCh\$	2007 ThCh\$
OTHER NON-OPERATING INCOME		
Prepaid tax installments for first category income taxes due to absorbed profits	-	351,711
Prior year income	22,172	1,381,525
Income from sale of materials	104,058	36,838
Miscellaneous extraordinary gains	110,834	804,189
<b>Total</b>	<b>237,064</b>	<b>2,574,263</b>
OTHER NON-OPERATING EXPENSES		
Prior year expenses	(77,490)	(473,943)
Directors' fees	(131,074)	(248,375)
Loss from write-off of property, plant, and equipment	(1,771,762)	(1,707,512)
Loss on obsolescence of property plant and equipment	(86,432)	(250,774)
Amortization of prepaid expenses	(57,213)	(57,214)
Fiscal and judicial fines	(278,591)	(2,046,823)
Miscellaneous exceptional losses	(2,500)	(887,876)
<b>Total</b>	<b>(2,405,062)</b>	<b>(5,672,517)</b>

## » NOTE 21 - PRICE-LEVEL RESTATEMENT

Price-level restatement generated a net charge to income as of December 31, 2008 for the amount of ThCh\$6,181,821, and in the 2007 period generated a net charge to income of ThCh\$1,400,911 detailed as follows:

	Indexation	2008 ThCh\$	2007 ThCh\$
ASSETS (CHARGES) / CREDITS			
Inventory	CPI	127,971	115,366
Property, plant and equipment	CPI	79,991,318	67,699,030
Investments in related companies	CPI	3,750,869	3,596,075
Notes and accounts receivable from related companies	UF	5,432,066	11,222,425
Goodwill	CPI	28,057,597	19,296,147
Deferred taxes	CPI	5,306,675	4,719,164
Rights of way	CPI	12,613,925	10,546,204
Cash	CPI	892,737	1,485,195
Other non-monetary assets	CPI	968,050	874,779
Expense and cost accounts	CPI	2,748,616	2,796,030
<b>Total credits</b>		<b>139,889,824</b>	<b>122,350,415</b>
LIABILITIES (CHARGES) / CREDITS			
Shareholder's equity	CPI	(69,807,215)	(58,735,211)
Notes and accounts payable to related companies	UF	-	(4,198,507)
Bonds	UF US\$	(68,514,399)	(54,656,026)
Non-monetary liabilities	CPI	(25,287)	(11,791)
Income accounts	CPI	(7,724,744)	(6,149,791)
<b>Total charges</b>		<b>(146,071,645)</b>	<b>(123,751,326)</b>
<b>(Loss) gain from price-level restatement</b>		<b>(6,181,821)</b>	<b>(1,400,911)</b>

## » NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

» TRANSELEC S.A. AND SUBSIDIARY • DECEMBER 31, 2008 AND 2007

### » NOTE 22 - FOREIGN CURRENCY TRANSLATION

The effect of foreign currency translation generated a net credit to income in the 2008 period of ThCh\$120,956, and a net credit to income in the 2007 period of ThCh\$459,979, detailed as follows:

	Currency	2008 ThCh\$	2007 ThCh\$
ASSETS (CHARGES) / CREDITS			
Time deposits	US\$	220,559	(694,359)
Banks	US\$	2,474,357	(2,271,804)
Notes and accounts receivable from related companies	US\$	8,562,516	(9,460,188)
Investments in related companies	US\$	7,818,848	(6,837,835)
Forward contracts	US\$	630,929	(964,700)
Accounts receivable	US\$	144,642	(5,826)
<b>Total credits (charges)</b>		<b>19,851,851</b>	<b>(20,234,712)</b>
LIABILITIES (CHARGES) / CREDITS			
Notes and accounts payable to related companies	US\$	(53,626)	73,255
Bonds	US\$	(47,003,469)	38,781,655
Swap contracts	US\$	27,524,286	(18,371,611)
Lease contracts	US\$	287,384	(82,007)
Accounts payable	US\$	(485,470)	293,399
<b>Total (charges) credits</b>		<b>(19,730,895)</b>	<b>20,694,691</b>
<b>(Loss) gain on foreign currency translation</b>		<b>120,956</b>	<b>459,979</b>

### » NOTE 23 - DEBT ISSUANCE AND PLACEMENT COSTS

The expenses for issuance and placement of bonds in the local market during the 2008 and 2007 period mainly includes the following concepts: stamp tax expenses, placement commissions, legal advisory expenses, financial advisory expenses, risk rating reports and printing expenses.

	2008 Domestic ThCh\$	2007 Domestic ThCh\$
DETAIL		
Placement and issuance expense	8,521,717	8,696,251
Price-level restatement accumulated amortization	(24,145)	-
Less: amortization	(555,891)	(174,534)
<b>Total</b>	<b>7,941,681</b>	<b>8,521,717</b>
BALANCE SHEET PRESENTATION		
Other current assets	580,038	579,985
Other assets - others	7,361,643	7,941,732
<b>Total</b>	<b>7,941,681</b>	<b>8,521,717</b>

## » NOTE 24 - STATEMENTS OF CASH FLOWS

In order to project future cash flow, there are no transactions or events other than those that are disclosed in these financial statements and their notes.

## » NOTE 25 - DERIVATIVE CONTRACTS

As of December 31, 2008, the Company has forward and swap contracts to hedge the exchange rate position of the long-term debt for the bond issuance abroad, and also has forward contracts for the sales of dollars associated with revenues that the company will invoice during the first semester of 2009, detailed as follows:

Description						Covered item or transaction		Value of hedged items ThCh\$	Affected Accounts			
									Asset / liability		(Charge)/ credit to income	
						Type of derivative	Type of contract		Contract value	Maturity or expiry date	Specific item	Purchase and sale position
S	CCTE	50,000,000	2nd quarter 2011	Exchange Rate (US\$)	P	Dollar Bonds	25,622,000	31,822,500	Bond	8,603,607	(485,572)	3,571,162
S	CCTE	50,000,000	2nd quarter 2011	Exchange Rate (US\$)	P	Dollar Bonds	25,622,000	31,822,500	Bond	4,695,398	(117,334)	3,982,738
S	CCTE	50,000,000	2nd quarter 2011	Exchange Rate (US\$)	P	Dollar Bonds	35,830,500	31,822,500	Bond	4,487,977	(194,076)	3,979,467
S	CCTE	50,000,000	2nd quarter 2011	Exchange Rate (US\$)	P	Dollar Bonds	32,375,000	31,822,500	Bond	10,541,621	(490,139)	3,421,825
S	CCTE	20,000,000	2nd quarter 2011	Exchange Rate (US\$)	P	Dollar Bonds	14,110,000	12,729,000	Bond	1,863,620	(53,659)	1,592,459
S	CCTE	8,914,729	2nd quarter 2011	Exchange Rate (US\$)	P	Dollar Bonds	4,564,341	5,673,779	Bond / Assets	945,844	27,218	1,209,126
S	CCTE	7,751,938	2nd quarter 2011	Exchange Rate (US\$)	P	Dollar Bonds	3,914,729	4,933,721	Bond / Assets	866,802	17,161	764,838
S	CCTE	15,503,876	2nd quarter 2011	Exchange Rate (US\$)	P	Dollar Bonds	7,953,488	9,867,442	Bond / Assets	1,622,226	32,015	1,624,936
S	CCTE	1,162,791	2nd quarter 2011	Exchange Rate (US\$)	P	Dollar Bonds	595,349	740,058	Bond / Assets	123,230	2,203	122,940
S	CCTE	4,418,605	2nd quarter 2011	Exchange Rate (US\$)	P	Dollar Bonds	2,262,326	2,812,221	Bond / Assets	468,909	8,871	467,806
S	CCTE	12,248,062	2nd quarter 2011	Exchange Rate (US\$)	P	Dollar Bonds	6,185,271	7,795,279	Bond / Assets	1,370,227	18,051	943,618
FR	CCTE	9,000,000	1st quarter 2009	Exchange Rate (US\$)	S	Income	5,895,990	5,764,050	Other Current	131,940	-	(131,940)
FR	CCTE	9,000,000	1st quarter 2009	Exchange Rate (US\$)	S	Income	5,895,990	5,792,400	Other Current	103,590	-	(103,590)
FR	CCTE	9,000,000	1st quarter 2009	Exchange Rate (US\$)	S	Income	5,895,990	5,821,650	Other Current	74,340	-	(74,340)
FR	CCTE	9,000,000	2nd quarter 2009	Exchange Rate (US\$)	S	Income	5,895,990	5,847,750	Other Current	48,240	-	(48,240)
FR	CCTE	9,000,000	2nd quarter 2009	Exchange Rate (US\$)	S	Income	5,895,990	5,847,750	Other Current	21,240	-	(21,240)
FR	CCTE	9,000,000	2nd quarter 2009	Exchange Rate (US\$)	S	Income	5,895,990	5,900,850	Other Current Assets	4,860	-	4,860

## » NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### » NOTE 26 - CONTINGENCIES AND RESTRICTIONS

#### A) MANAGEMENT RESTRICTIONS

Derived from obligations related to the bond issuance, the Company must comply with some covenants and obligations, detailed below:

- Maintain, for the duration of the bond issuance, assets free of any kind of encumbrance, whose book value is equal to or greater than 1.2 times the book value of all the liabilities and debts of the issuer that are not subject to any liens or guarantees on assets or instruments belonging to it, including among such liabilities, the debt arising from this bond issuance.
- Not to sell, cede, transfer, contribute or in any way give up title to, either for money or for free, of the Essential Assets of the Issuer, for amounts exceeding whether in one or more legal acts, 5% of the Consolidated Assets of the issuer.
- Maintain a level of indebtedness at the individual and consolidated level in which the ratio of Total Demand Liabilities / Total Capitalization and Total Debt / Total Capital is not greater than 0.7, as those terms are defined in the respective prospectuses.
- Maintain at all times during the term of the issuance of the bonds, minimum individual and consolidated shareholders' equity of UF 15 million.
- Maintain in full force and effect the Debt Service Reserve Agreement.
- Not make any direct or indirect capital distribution, dividend payment (other than the dividends established in the Companies Law), any payment of principal or interest on any loan to its shareholders, or any other payment of a similar nature unless the following conditions are met: (i) the Issuer has not been involved in any Event of Default and it continues, (ii) The ratio of Net Operating Cash Flows / Financial Expenses is higher than 1.50, and (iii) the Issuer must be in compliance with the Debt Service Reserve Agreement.

#### B) DIRECT COMMITMENTS

There are no direct commitments.

#### C) INDIRECT COMMITMENTS

There are no guarantors or guarantees granted pursuant to indirect commitments.

#### D) PENDING LAWSUITS

As of December 31, 2008 there are other lawsuits pending against the Company for which the corresponding defense has been filed, which altogether represent an amount of ThCh\$97,525.

Management believes that the above mentioned lawsuits will not result in significant contingencies.



E) FINES

1. On December 5, 2002, the Superintendency of Electricity and Fuel (SEC) in Ordinary Official Letter No. 7183, charged the Company for its alleged responsibility in the interruption of electrical supply in the Central Interconnected System (SIC) on September 23, 2002. The Company presented the answers in a timely manner and these were added to the corresponding evidence. By Exempt Resolution No. 1438 of August 14, 2003, the Superintendency applied various fines to Transelec for a total of Annual Tax Units (UTA) 2,500 equivalent as of December 30, 2008 to ThCh\$1,129,560. As of December 31, 2008, the Company had appealed the complaint before the Santiago Court of Appeals, and placed a deposit of 25% of the original fine. The Company maintains that it is not responsible for this situation since it considers it a case of force majeure.
2. In Ordinary Official Letter No. 1210 dated February 21, 2003 the SEC filed charges for the alleged responsibility of Transelec in the interruption of electric service in the SIC, on January 13, 2003. By Resolution No. 808, of April 27, 2004, the SEC imposed a fine of 560 UTA equivalent as of December 31, 2008, to ThCh\$253,021, against which a writ of administrative reconsideration was filed, which was rejected. The Company appealed the complaint before the Santiago Court of Appeals and placed a deposit of 25% of the original fine. The Company maintains that it is not responsible for this situation since it considers it a case of force majeure.
3. On June 30, 2005, the SEC through Exempt Resolution No. 1117, applied the following sanctions to the Company: a fine of 560 UTA equivalent as of December 31, 2008 to ThCh\$253,021, for allegedly not having coordinated to ensure electric service, as determined in the investigation of the general failure of the SIC on November 7, 2003; a fine of 560 UTA equivalent as of December 31, 2008, to ThCh\$253,021, in the Company's condition as the owner of the facilities, for allegedly operating the facilities without adhering to the operation scheduling set forth by the CDEC-SIC, without justified cause, as determined in the investigation of the general failure of the SIC on November 7, 2003. As of December 31, 2008, the Company had appealed the charges before the SEC, which is pending resolution; Management believes it has no responsibility in these events.
4. On December 17, 2004, the SEC through Exempt Resolution No. 2334 fined the Company 300 UTA, equivalent as of December 31, 2008, to ThCh\$135,547, for its alleged responsibility in the interruption of electrical supply south of Temuco, caused by a truck crashing into a structure of the Charrúa - Temuco line. As of December 31, 2008, the Company had filed a motion of invalidation and administrative reconsideration, firmly sustaining that it was a case of force majeure and that the charges are not applicable and should be annulled.
5. On December 31, 2005, the SEC through Official Letter No. 1831, filed charges against the Company for allegedly infringing on various provisions of the electrical regulations while operating its facilities, which would have caused the interruption of electrical supply in the SIC on March 21, 2005. By SEC Exempt Resolution SEC No. 220, of February 7, 2006, the Company was fined 560 UTA equivalent as of December 31, 2008, to Th\$253,021. An appeal was filed to order generation of power again on February 16, 2006, which is still outstanding. As of December 31, 2008, the Company had presented the required evidence.

As of September 30, 2007, the Company established a provision for these contingent obligations for the amount of ThCh\$1,774,068. This estimation considers the fact that similar cases are being heard in the Appeals Court, and that, the Appeals Court and Supreme Court have confirmed the decision of the SEC in similar cases. In addition, there are similar cases with a reconsideration petition before the SEC for which the SEC has maintained the previously established fine.

## » NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### F) TRANSELEC NORTE S.A. (SUBSIDIARY)

#### 1. Management restrictions

There are no restrictions.

#### 2. Direct Commitments

There are no direct commitments.

#### 3. Indirect Commitments

There are no endorsements or warranties given by the indirect commitments.

#### 4. Pending Lawsuits

There are no lawsuits.

### DIRECT GUARANTEES

Guarantee creditor	Debtor Name	Type of Guarantee	Assets involved Book value ThCh\$	Balances pending payment as of the financial statement closing date	
				2008 ThCh\$	2007 ThCh\$
Santander Santiago	Ministry of Economy Development and Reconstruction	Security	139,383	139,383	299
Santander Santiago	Ministry of Economy Development and Reconstruction	Security	199,527	199,527	169,639
Santander Santiago	Ministry of Economy Development and Reconstruction	Security	889,757	889,757	427
Santander Santiago	Ministry of Economy Development and Reconstruction	Security	-	-	118,504
Santander Santiago	Regional Director of Metropolitan Roads	Security	1,287	1,287	-

### » NOTE 27 - GUARANTEES OBTAINED FROM THIRD PARTIES

As of December 31, 2008, the Company has received financial guarantees from contractors and third parties, mainly to guarantee the completion of works and maintenance work for the amount of ThCh\$10,779,717 (ThCh\$8,781,615 in 2007). Also to guarantee payment of housing loans, the corresponding mortgages have been granted in favor of the Company.

## » NOTE 28 - CHILEAN AND FOREIGN CURRENCY

Assets and liabilities in foreign currency are expressed in Chilean pesos, based on the respective exchange rates as of period-end (see exchange rate table in Note 2e).

These assets and liabilities are detailed as follows:

Description	Currency	Amount 2008 ThCh\$	Amount 2007 ThCh\$
<b>CURRENT ASSETS</b>			
Cash	Ch\$	1,895,710	20,635
Cash	US\$	58,153	492,928
Time deposits	US\$	14,303,527	17,181,273
Time deposits	UF	33,856,662	2,511,362
Marketable securities	UF	16,677,165	13,078,743
Trade accounts receivables	Ch\$	30,637,729	24,281,308
Trade accounts receivables	US\$	2,053,610	1,162,004
Miscellaneous receivables	Ch\$	489,448	492,368
Miscellaneous receivables	US\$	39,289	30,033
Accounts receivable from related companies	Ch\$	48,204	19,221,337
Accounts receivable from related companies	US\$	-	29,675,471
Inventory	Ch\$	42,270	46,169
Recoverable tax	Ch\$	2,319,462	3,153,218
Prepaid expenses	Ch\$	94,942	107,824
Deferred taxes	Ch\$	6,899,371	6,284,868
Other current assets (forward)	US\$	374,490	-
Other current assets (repurchase and resale agreements)	US\$	-	2,168,541
Other current assets (bonds discount)	UF	864,139	864,087
Other current assets	Ch\$	16,039	159,616
<b>PROPERTY, PLANT, AND EQUIPMENT</b>			
Property, plant, and equipment	Ch\$	997,727,927	998,762,305
Property, plant, and equipment	US\$	101,196,459	97,404,289
<b>OTHER ASSETS</b>			
Investments in other companies	Ch\$	319,220	231,881
Goodwill	Ch\$	338,897,614	278,730,829
Long-term receivables	US\$	1,262,238	1,106,565
Long-term receivables	Ch\$	301,002	553,444
Long-term receivables	UF	-	9,519
Notes and receivables from related companies	US\$	19,602,660	-
Notes and receivables from related companies	UF	-	32,774,493
Intangibles	Ch\$	154,961,714	154,519,611
Intangibles	US\$	6,922,119	5,885,224
Amortization of intangibles	Ch\$	(9,713,839)	(5,851,434)
Amortization of intangibles	US\$	(432,633)	(220,695)
Deferred taxes, long-term	Ch\$	50,808,019	54,579,126
Others	Ch\$	9,255,650	10,119,839
Others	UF	148,051	209,954
<b>Total assets</b>	Ch\$	<b>1,585,000,482</b>	<b>1,545,412,944</b>
	US\$	<b>145,379,912</b>	<b>154,885,633</b>
	UF	<b>51,546,017</b>	<b>49,448,158</b>

## » NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Description	Currency	Up to 90 days				90 days to 1 year			
		2008	2007	2008	2007	2008	2007	2008	2007
Current liabilities		Amount	Amount	Annual	Annual	Amount	Amount	Annual	Annual
		ThCh\$	ThCh\$	interest rate	interest rate	ThCh\$	ThCh\$	interest rate	interest rate
Bond interest obligations payable	UF	1,698,444	3,512,022	4.79%	4.65%	2,304,570	-	4.65%	-
Bonds payable (capital)	UF	686,482	1,255,850	6.2%	4.65%	686,482	-	6.2%	-
Bond interest obligations payable	US\$	8,713,157	4,300,106	7.875%	7.875%	-	-	-	-
SWAP contracts	UF	-	442,979	-	-	2,231,896	-	7.14%	-
Accounts payable	Ch\$	25,511,435	33,839,574	-	-	-	-	-	-
Accounts payable	US\$	11,278,943	21,553,499	-	-	-	-	-	-
Miscellaneous payables	US\$	-	1,227,060	-	-	-	-	-	-
Notes and payables to related companies	US\$	-	127,428	-	6.24%	-	-	-	-
Provisions	Ch\$	3,516,101	2,949,114	-	-	-	-	-	-
Withholdings	Ch\$	2,727,557	1,538,434	-	-	-	-	-	-
Other current liabilities	UF	87,154	-	-	-	-	-	-	-
Other current liabilities	Ch\$	3,763	244,948	-	-	-	-	-	-
<b>Total current liabilities</b>	UF	2,472,080	5,210,851	-	-	5,222,948	-	-	-
	US\$	19,992,100	27,208,093	-	-	-	-	-	-
	Ch\$	31,758,856	38,572,070	-	-	-	-	-	-

### LONG-TERM LIABILITIES AS OF DECEMBER 31, 2008

	Currency	1 to 3 years		3 to 5 years		5 to 10 years		Over 10 years	
		Amount	Yearly	Amount	Yearly	Amount	Yearly	Amount	Yearly
		ThCh\$	average interest rate	ThCh\$	average interest rate	ThCh\$	average interest rate	ThCh\$	average interest rate
Bonds payable	UF	3,489,813	6.2%	8,375,552	6.2%	153,900,752	3.9%	325,861,285	4.44%
Bonds payable	US\$	300,823,157	7.88%	-	-	-	-	-	-
SWAP contracts	UF	22,563,089	7.88%	-	-	-	-	-	-
Provisions	Ch\$	1,959,421	-	-	-	-	-	-	-
Other long-term liabilities	Ch\$	2,943,390	-	-	-	-	-	-	-
<b>Total long-term liabilities</b>	UF	26,052,902	-	8,375,552	-	153,900,752	-	325,861,285	-
	US\$	300,823,157	-	-	-	-	-	-	-
	Ch\$	4,902,811	-	-	-	-	-	-	-

### LONG-TERM LIABILITIES PRIOR PERIOD, DECEMBER 31, 2007

	Currency	1 to 3 years		3 to 5 years		5 to 10 years		Over 10 years	
		Amount	Yearly	Amount	Yearly	Amount	Yearly	Amount	Yearly
		ThCh\$	average interest rate	ThCh\$	average interest rate	ThCh\$	average interest rate	ThCh\$	average interest rate
Bonds payable	UF	-	-	75,671,371	6.93%	-	-	416,696,996	4.66%
Bonds payable	US\$	-	-	261,977,198	7.88%	-	-	-	-
SWAP bonds	Ch\$	-	-	53,507,352	7.88%	-	-	-	-
Provisions	Ch\$	1,619,191	-	-	-	-	-	-	-
Other long-term liabilities	Ch\$	1,648,664	-	-	-	-	-	-	-
<b>Total long-term liabilities</b>	UF	-	-	75,671,371	-	-	-	416,696,996	-
	US\$	-	-	261,977,198	-	-	-	-	-
	Ch\$	3,267,855	-	53,507,352	-	-	-	-	-

## » NOTE 29 - SANCTIONS

During the 2008 and 2007 periods, the Company, its Board and management were not sanctioned by the SVS or other regulatory authorities.

## » NOTE 30 - SUBSEQUENT EVENTS

Between December 31, 2008 and the date of issuance of these financial statements there have been no significant events of a financial accounting nature that could affect the interpretation of these financial statements.

## » NOTE 31 - ENVIRONMENT

During the 2008 and 2007 periods, the Company has made disbursements related to the environment, detailed as follows:

	2008 ThCh\$	2007 ThCh\$
Urgent work	133	2,528
Design of environment management system ISO 14001	-	4,207
Replacement of a static capacitor with PCB	607	44,530
Oil pit construction	-	91,883
Environmental impact studies	39,674	20,828
<b>Total</b>	<b>40,414</b>	<b>163,976</b>

## » NOTE 32 - TIME DEPOSITS

Details of time deposits are as follows:

	2008 ThCh\$	2007 ThCh\$
<b>Banks</b>		
Banco Crédito e Inversiones	5,127,084	9,629,963
Banco Santander Santiago	18,348,550	6,841,739
Banco Security	5,204,130	-
Banco Itau	3,019,403	-
Banco de Chile	9,876,033	3,174,558
Banco BBVA	5,572,713	-
Banco Corpbanca	1,012,276	-
Scotiabank	-	46,375
<b>Total</b>	<b>48,160,189</b>	<b>19,692,635</b>

## » NOTE 33 - ACCOUNTS PAYABLE

Accounts payable are detailed as follows:

	2008 ThCh\$	2007 ThCh\$
Provision for fines and lawsuits	2,063,336	2,087,148
Provision for urgent projects	11,278,943	20,143,625
Provision for Income Tariffs (VIRTs) payable	13,764,248	23,826,447
Provision for operating projects	1,765,151	696,703
Contractor withholdings	1,518,313	745,059
Accounts payable	6,400,387	7,894,091
<b>Total</b>	<b>36,790,378</b>	<b>55,393,073</b>

## » REASONED ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

» TRANSELEC S.A. AND SUBSIDIARY • DECEMBER 31, 2008 AND 2007

### » A) SUMMARY

In 2008 TRANSELEC S.A. and its subsidiary obtained net income of ThCh\$56,588,891, which was 63.99% greater than the previous year. This net income comes from a positive operating income of ThCh\$117,266,359, a negative non-operating income of ThCh\$47,115,886, a first category and deferred income tax net charge to income of ThCh\$13,561,348 and minority interest of ThCh\$234. In 2007, the Company obtained net income of ThCh\$34,506,783 which is explained by operating income of ThCh\$81,481,180, a negative non-operating income of ThCh\$42,961,488, a first category and deferred income tax charge to income of ThCh\$4,012,723 and minority interest of ThCh\$186.

In 2008, revenues reached ThCh\$183,832,383 (ThCh\$142,055,544 in 2007). These operating revenues result mainly from commercializing the transmission capacity of the Company's facilities consisting of the trunk transmission system, sub-transmission systems, and additional unregulated systems. This period includes reassessment of tolls for the Trunk Transmission System corresponding to the period from March 13, 2004 to December 31, 2007, as provided in DS 207 of January 15, 2008, for a net total of ThCh\$20,971,264, of which ThCh\$7,522,953 corresponds to 2007 recalculation, and ThCh\$13,448,311 to the period from March 13, 2004 to December 31, 2006. Additionally, in 2008 prior year operating income totaling ThCh\$2,217,208 was recorded as agreed upon with Puyehue S.A. and Panguipulli S.A.

Cost of sales amounted to ThCh\$60,114,461 (ThCh\$55,485,966 in 2007) and are composed as follows: 58.8% depreciation of property, plant and equipment (61.1% in 2007), 13.0% personnel costs (12.9% in 2007), 21.8% supplies and services hired (19.1% in 2007) and 6.4% amortization of intangibles (6.9% in 2007).

Administrative and selling expenses amounted to ThCh\$6,451,563 (ThCh\$5,083,398 in 2007) and are composed mainly by 52.5% personnel expenses (57.5% in 2007), 43.8% works, supplies and hired services expenses (38.4% in 2007) and 3.7% depreciation (4.1% in 2007).

The Company recorded a non-operating loss for the year of ThCh\$47,115,886 (ThCh\$42,961,488 in 2007), generated mainly by interest expenses of ThCh\$40,466,862 (ThCh\$38,501,987 in 2007) including interests related to reassessment of income of ThCh\$2,634,862 and amortization of goodwill of ThCh\$9,033,560 (ThCh\$7,308,148 in 2007). Other important accounts that affected the non-operating loss during the period were interest income of ThCh\$10,613,399 (ThCh\$6,887,833 in 2007) of which ThCh\$5,629,005 correspond to interests associated with the aforementioned reassessment of income. Foreign currency translation for the period, which was positive, at ThCh\$120,956 (ThCh\$459,979 in 2007), was valued in accordance with SVS Circular No. 1,560. In turn, price-level restatement was a negative amount of ThCh\$6,181,821 (ThCh\$1,400,911 in 2007) and other non-operating income was a net loss of ThCh\$2,167,998 (income of ThCh\$3,098,254 in 2007).

### » B) INCOME

DESCRIPTION	For the year ended 2008 ThCh\$	For the year ended 2007 ThCh\$	Variance 2008/2007 %	Variance 2008-2007 ThCh\$
Revenues (1)	183,832,383	142,005,544	29.45%	41,826,839
Tolls	177,717,010	139,711,204	27.20%	38,005,806
Works and services	6,115,373	2,294,340	166.54%	3,821,033
Cost of sales	(60,114,461)	(55,485,966)	8.34%	(4,628,495)
Fixed costs	(20,913,201)	(17,764,374)	17.73%	(3,148,827)
Depreciation	(35,325,687)	(33,869,020)	4.30%	(1,456,667)
Amortization of intangibles	(3,875,573)	(3,852,572)	0.60%	(23,001)
Administrative and selling expenses	(6,451,563)	(5,038,398)	28.05%	(1,413,165)
Operating income	117,266,359	81,481,180	43.92%	35,785,179
Non-operating income (2)	(47,115,886)	(42,961,488)	9.67%	(4,154,398)
Income before income taxes & extraordinary items	70,150,473	38,519,692	82.12%	31,630,781
Income taxes	(13,561,348)	(4,012,723)	237.96%	(9,548,625)
Minority interest	(234)	(186)	25.81%	(48)
<b>Net income</b>	<b>56,588,891</b>	<b>34,506,783</b>	<b>63.99%</b>	<b>22,082,108</b>
EBITDA*	148,479,096	115,356,472	28.71%	33,122,624

\* Earnings before taxes, interest, depreciation, amortization, and extraordinary items.



(1) Operating income for the year ended December 31, 2008, includes extraordinary income from prior years for the following concepts: a) agreement with companies Puyehue S.A and Panguipulli S.A for ThCh\$2,217,208, b) income from the period from March 2004 to December 2006 from the Decree that determines the new trunk rates of ThCh\$13,448,311 and c) income for the year 2007 from the aforementioned Decree, of ThCh\$7,522,953.

(2) Non-operating income was impacted by interest from the above mentioned recalculations, increasing interest income by ThCh\$5,629,005 and interest expense by ThCh\$2,634,862.

#### PROFITABILITY

INDEXES	As of 2008	As of 2007	Variance 2008/2007
Profitability of equity	6.27%	3.98%	57.54%
Profitability of assets	3.18%	1.97%	61.42%
Profitability of operating assets	9.38%	6.52%	43.87%
Gain per share (Ch\$)	56,588.89	34,506.78	63.99%

The figures calculated as of December 31, 2008 consider the extraordinary income previously mentioned in sections a) and b).

#### » C) BALANCE SHEET ANALYSIS

	As of 2008 ThCh\$	As of 2007 ThCh\$	Variance 2008/2007	Variance 2008-2007 ThCh\$
Current assets	110,670,210	120,931,785	(8.49%)	(10,261,576)
P. P. & E.	1,098,924,386	1,096,166,594	0.25%	2,757,79
Other assets	572,331,815	532,648,356	7.45%	39,683,459
<b>Total assets</b>	<b>1,781,926,411</b>	<b>1,749,746,735</b>	<b>1.84%</b>	<b>32,179,675</b>
Current liabilities	59,445,984	70,991,014	(16.26%)	(11,545,030)
Long-term liabilities	819,916,459	811,120,772	1.08%	8,795,686
Minority interest	5,504	4,670	17.86%	834
Shareholders' equity	902,558,464	867,630,279	4.03%	34,928,185
<b>Total liabilities &amp; shareholders' equity</b>	<b>1,781,926,411</b>	<b>1,749,746,735</b>	<b>1.84%</b>	<b>32,179,675</b>

#### VALUE OF MAIN OPERATING PROPERTY, PLANT AND EQUIPMENT

ASSETS	As of Dec 31, 2008 ThCh\$	As of Dec 31, 2007 ThCh\$	Variance 2008/2007 %	Variance 2008-2007 ThCh\$
Land	19,051,979	17,775,461	7.18%	1,276,518
Buildings and infrastructure	810,873,358	802,400,782	1.06%	8,472,576
Machinery and equipment	357,002,368	326,412,434	9.37%	30,589,934
Other property, plant & equipment	1,506,567	1,560,614	(3.46%)	(54,047)
Accumulated depreciation	(89,509,886)	(51,982,697)	72.19%	(37,527,189)
<b>Total</b>	<b>1,098,924,386</b>	<b>1,096,166,594</b>	<b>0.25%</b>	<b>2,757,792</b>

As of December 31, 2008 and 2007, property, plant and equipment consist mainly of transmission lines, buildings, infrastructure and machinery and equipment. The assets of the Company and its subsidiary are valued in accordance with Chilean GAAP.

## » REASONED ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

» TRANSELEC S.A. AND SUBSIDIARY • DECEMBER 31, 2008 AND 2007

### DIFFERENCES BETWEEN BOOK VALUES AND ECONOMIC AND/OR MARKET VALUES OF PRINCIPAL ASSETS

Considering that the assets of the Company and its subsidiary were valued at market value in June 2006 in accordance with Technical Bulletin No. 72 issued by the Chilean Association of Accountants, it is estimated that the book value of the assets of Transelec Norte is 35.73% less than their economic and/or market value.

### LIQUIDITY AND INDEBTEDNESS

RATIOS	As of Dec 31, 2008	As of Dec 31, 2007	Variance 2008/2007
Current liquidity	1.86	1.70	9.41%
Acid ratio	1.54	0.62	148.39%
Demandable liabilities/equity	0.97	1.02	(4.90%)
% Short-term debt	6.76	8.05	(16.00%)
% Long-term debt	93.24	91.95	1.40%
Interest expenses coverage	3.66	2.99	22.47%

The figures calculated as of December 31, 2008 consider the extraordinary income previously mentioned in sections a) and b).

### » D) MOST IMPORTANT CHANGES IN THE COMPANY'S MARKET

Transelec S.A. carries out its activities in the electricity market, which has been categorized into three different sectors: the generation sector, the transmission sector and the distribution sector. The electric energy generation sector comprises the companies that are dedicated to the generation of electricity, whether that electric energy and power comes from hydroelectric, coal, oil, gas, eolian, or other power plants. The importance of this sector is that it is dedicated to the production of electricity, which subsequently will be used throughout the country by end users. The mission of the distribution sector is to carry the electricity to the physical locations where each of the final consumers will use that electricity. For this, the distribution companies have electrical networks that allow that electricity to flow within the cities from the "points of entry" to their networks, to the domicile of each final consumer. Finally, the basic objective of the transmission sector is to transport the generated electricity between its production place (electrical power plants), and the "points of entry" to the networks of the distribution companies.

Transelec's business mainly centers on commercializing its capacity to transport and transform electricity at its facilities, in accordance with established quality standards. The transmission system of Transelec S.A. and its subsidiary, which extends to 2,900 kilometers between Arica in the I Region and the Island of Chiloé in the X Region, includes a majority participation in the trunk electrical transmission lines and substations of the Central Interconnected System (SIC) and the Great North Interconnected System (SING). This transmission system transports the electricity that reaches the zones inhabited by approximately 99% of the population of Chile. The Company owns 100% of the 500 kV electricity transportation lines, 51.1% of the 220 kV lines and 94.5% of the 154 kV lines.

The legal framework that governs the electrical transmission business in Chile is regulated by DFL No. 4/2006, which establishes the Modified, Coordinated and Systemized Text of Decree with Force of Law No. 1 of the Ministry of Mining, issued in 1982, the General Electrical Services Law of 1982 (DFL (M) No. 1/82) and its subsequent modifications, which include Law 19,940 (Short Law I), enacted on March 13, 2004 and Law 20,018 (Short Law II), enacted on May 19, 2005, and law 20,257 (Generation with Unconventional Renewable Energy Resources), enacted April 1, 2008. These regulations are complemented with the Regulations of the General Law on Electrical Services of 1997 (Supreme Decree No. 327/97 issued by the Ministry of Mining) and its respective modifications, and in addition to the Security and Quality of Service Technical Standard (R.M.EXTA No. 40 of May 16, 2005) and its subsequent modifications.

Law 19,940, also denominated Short Law I, modified the General Electrical Services Law of 1982 in matters referring to the electricity transmission activity and established the subdivision of the transmission network into three types of systems: trunk transmission, subtransmission and additional transmission. It also establishes that electricity transportation – both by trunk transmission systems as well as subtransmission – has the nature of a public service and is subject to the application of regulated tariffs.

Finally, Law 19,940 contemplates that the new payment regime for the use of the trunk facilities is effective since March 13, 2004 and determines a transitory period that was effective until enactment of the first trunk transmission decree. In this manner, during 2004, 2005, 2006 and 2007, a collection and payment of the transmission facilities was carried out in a provisional manner in accordance with legal and regulatory standards in force until the publication of Short Law I and will be subject to reassessment. On January 15, 2008, the Decree from the Ministry of Economy, Development and Reconstruction was published, setting the new Investment Value (VI), Annual Investment Value (AVI), Operation, Maintenance and Administration Costs (COMA) and Annual Transmission Value per Segment

(VATT) for the trunk facilities for the period from March 14, 2004 to December 31, 2010 and the indexation formulas applicable during that period. Application of the new rates for the trunk transmission system began in April 2008 and during the year trunk income was recalculated for the period from March 13, 2004 to December 31, 2007, whose impact on income has been explained in detail in aforementioned points A) and B).

The Decree setting rates for subtransmission facilities was published in the Official Gazette on January 9, 2009 and the new rates are set to begin as of January 14, 2009.

## » E) MARKET RISK FACTORS

Due to the characteristics of the electrical market and the legislation and regulations governing this sector, the Company is not exposed to significant risks related to the development of its main business. However, the following risk factors should be mentioned and considered:

### Regulatory Framework

The laws that govern the electricity transmission business in Chile were modified through the enactment of Law 19,940, denominated Short Law I, published on March 13, 2004.

Even though some application-related aspects of Short Law I still need to be defined, the more relevant methodological aspects for establishing tolls for the trunk facilities to be paid by each user company, as well as its payment and recalculation mechanisms are defined in Decree No. 207 issued on July 9, 2007 by the Ministry of Economy, Development and Reconstruction, published in the Official Gazette on January 15, 2008. With respect to tolls for subtransmission facilities, the decree that sets subtransmission tariffs and indexation formulas contains provisions that allow it to be applied as of January 14, 2009.

### Concentration of Income

71.4% of Transelec's income is generated by a single customer, Empresa Nacional de Electricidad S.A., Endesa, and its subsidiary generating companies. The toll agreements signed with Endesa and its subsidiaries Pangue and Pehuenche will generate a large part of the future cash flows of Transelec and a substantial change in assets, financial condition or operating income of this company or its subsidiaries could negatively affect Transelec.

### Operating Risks

Notwithstanding that management believes that Transelec maintains adequate risk coverage of its infrastructure, workers and third parties, in accordance with industry practices, it is not possible to assure that insurance policy coverage will be enough to cover certain operating risks which Transelec is exposed to, including forces of nature, damages to transmission facilities, on-the-job accidents and equipment failure. Any of these events could affect the Company's business.

### Application of Environmental Regulations and/or Policies

Transelec is also subject to regulatory environmental standards, which among other things require it to carry out environmental impact studies on future projects and obtain the corresponding regulatory authorizations. It is not possible to ensure that these environmental impact studies will be approved by the government authorities within the periods and under the terms presented by Transelec, nor that delays or modifications will not occur in the proposed projects, or that the laws and regulations will not change or be interpreted in a sense that could adversely affect the Company's operations and plans.

### Delays in the Construction of New Transmission Facilities

The success of the program for extending the transmission network and building new facilities will depend on numerous factors, including cost and availability of the required financing. Although Transelec has experience with large-scale construction projects, construction of new facilities could be negatively affected by factors commonly associated with projects including delays in obtaining regulatory authorizations; scarcity of equipment, materials, labor or changes in their prices; adverse weather conditions; natural catastrophes; and unforeseen circumstances and difficulties in obtaining financing at reasonable rates. Any of these factors could cause delays in the partial or total completion of the capital investment program, and could increase the costs of the projects.

### Technological Changes

Compensation for the investments that Transelec carries out in electrical transmission facilities is obtained through an annual valuation of the existing facilities (AVI), which is periodically adjusted by authorities. If there is important technological progress that lowers replacement cost of the equipment that composes Transelec's facilities, or if the value of inputs and materials used in said facilities suffers substantial variation, that valuation could decrease (or increase), which, in turn, would prevent the investments made from being fully recovered.

## » REASONED ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

» TRANSELEC S.A. AND SUBSIDIARY • DECEMBER 31, 2008 AND 2007

### » F) FOREIGN EXCHANGE AND INTEREST RATE RISK

#### Foreign Exchange Risk

Depending on the market and other considerations, Transelec has carried out, when deemed necessary, certain hedging activities such as cross currency swaps and currency forwards in order to cover the risk of fluctuations in the UF-dollar exchange rate for its bonds denominated in United States dollars (US dollars) and also to guarantee income in Chilean pesos of income in dollars that is adjusted biannually. However it is not possible to assure that Transelec will be fully protected by maintaining foreign exchange hedge contracts. In addition, cross currency swaps and forwards contain counterparty credit risks, cash requirements on the maturity dates and other associated risks.

As of December 31, 2008, the Company and its subsidiary had a part of their fair value debt denominated in US dollars due to the placement of bonds abroad for an amount of US\$480 million (includes accrued interest) in addition to other short-term liabilities for the amount of US\$20.5 million. On the other hand, assets denominated in US dollars correspond to the credit on mercantile current account of related companies (mainly to Transelec Holdings Rentas Limitada) for a total of US\$30.8 million (includes interest earned), short-term investments in the financial market for US\$22.7 million (includes interest earned), swap contracts at fair value of US\$274 million, trade accounts receivable and other current assets of US\$3.2 million, and property, plant and equipment and intangibles at fair value for the amount of US\$171.2 million, which are greater than the respective liability by US\$1.4 million.

Additionally, the Company maintains forward contracts for sales of US dollars amounting to US\$54 million linked to the income that the Company will invoice from January to June 2009, in order to establish the underlying amount of its income in Chilean pesos. Thus, it is important to highlight that toll contracts are denominated in US dollars, but monthly invoices are expressed in the Chilean peso equivalent, using the monthly average observed dollar exchange rate for approximately 94.3% of the contracts and the observed dollar exchange rate as of the last day of each month for 4.3% of the contracts.

As of December 31, 2007, the Company and its subsidiary had a part of their fair value debt denominated in US dollars due to the placement of bonds abroad for US\$492.1 million (including accrued interest) in addition to other short-term liabilities totaling US\$42.3 million. On the other hand, assets denominated in US dollars correspond to the credit on mercantile current accounts of related companies (mainly to Transelec Holding Rentas Limitada and ETC Holding Ltda) for a total of US\$54.8 million (including interest earned), short-term investments in the financial market for the amount of US\$36.7 million (including interest earned), swap contracts at fair value of US\$232.9 million, trade accounts receivable for US\$2.1 million, leasing contracts for US\$2.1 million, forward contracts for US\$12.4 million and property, plant and equipment and intangibles at fair value in the amount of US\$190.5 million. These assets denominated in US dollars are lower than the respective liabilities by US\$2.9 million.

Exposure to exchange rate variation is partially mitigated by the fact that toll revenues are denominated in US dollars and indexed semiannually by an index formula partly linked to the dollar.

Toll amounts are denominated in United States dollars, but monthly invoices were sent in Chilean peso equivalents, applying the average observed exchange rate to approximately 94.3% of contracts and the current observed exchange rate as of the last day of the month to the remaining 4.3%. The majority of the remaining income (1.4%) is invoiced in pesos according to the value of the Unidad de Fomento. Corresponding exchange rates are shown below:

#### FOREIGN EXCHANGE RATES

MONTH	Average 2008 (Ch\$)	Last day 2008 (Ch\$)	Average 2007 (Ch\$)	Last day 2007 (Ch\$)
January	480.90	465.30	540.51	545.18
February	467.22	458.02	542.27	538.42
March	442.94	439.09	538.49	539.37
April	446.43	459.16	532.30	527.08
May	470.10	479.66	522.02	527.52
June	493.61	520.14	526.72	527.46
July	502.24	502.78	519.80	523.08
August	516.70	516.47	522.92	524.63
September	530.17	552.47	516.91	511.72
October	618.39	664.96	501.44	494.64
November	651.51	659.43	506.95	508.47
December	649.32	629.11	499.28	495.82
<b>Average for the Period</b>	<b>522.46</b>	<b>528.88</b>	<b>522.47</b>	<b>521.95</b>

The indexation formulas applied twice yearly incorporated in the toll contracts and those applied monthly for regulated trunk income reflect the variations in the value of the facilities and of operating, maintenance and administration costs. In general, those indexation formulas contemplate the variations in the international prices of equipment, materials and local labor.

For the 2008 period, the indexation effect increased the value of tolls by an average of 8.6% compared to 2007.

#### Interest Rate Risk

The Company has debts with fixed interest rates. In effect, the debt denominated iUS dollars contemplates a fixed 7.875% annual interest rate. On the other hand, all debts denominated in UF were placed at fixed interest rates varying from 3.5% to 6.2%, depending on each bond. On the other hand, the Company has a mercantile current account with related companies denominated in US dollars, which contemplates a variable interest rate (Libor). Given that these mercantile current accounts represent only 1.1% of Total Assets, the Company deems that it is not exposed to risk that could affect its income due to a change in market interest rates.

#### » G) PRINCIPAL CASH FLOWS FOR THE PERIOD

For the year ended December 31, 2008, positive net cash flows of ThCh\$31,337,735 were generated, which were positively affected by operating activities of ThCh\$105,673,650 and negatively affected by financing activities of ThCh\$23,111,239 and investing activities of ThCh\$50,876,689. In 2007, negative net cash flows of ThCh\$39,857,883 were generated, mainly from positive operating activities of ThCh\$67,908,554, which were negatively affected by financing activities of ThCh\$43,081,681 and investing activities of ThCh\$59,045,589.

Financing activities generated negative cash flows of ThCh\$23,111,239, as a result of dividend payments. In 2007, financing activities generated negative cash flows of ThCh\$43,081,681 mainly due to payments of amortization of the total capital of Series A bonds in UF, in March 2007 of ThCh\$128,765,218, and offset with the new placement of Series C bonds in UF in March 2007 for ThCh\$125,135,825. In addition, dividends of ThCh\$39,452,288 were paid in the period.

Investing activities generated negative net cash flows of ThCh\$50,876,689, mainly due to other investment disbursements associated with price adjustment with Hydro-Québec and IFC amounting to ThCh\$76,439,600 and net additions to property, plant and equipment of ThCh\$41,920,660, which were positively affected by net cash flows with related companies of Ch\$78,253,577. In 2007, investing activities generated negative cash flows of ThCh\$59,045,589 mainly due to negative net cash flows from other loans to related companies for ThCh\$74,769,938 and net additions to property, plant and equipment of ThCh\$27,184,295.

In 2008, the effect of inflation on cash and cash equivalents was negative, amounting to ThCh\$347,987. In 2007, the effect was also negative and amounted to ThCh\$5,639,167.

The final balance of cash and cash equivalents as of December 31, 2008 amounted to ThCh\$66,791,217 from an opening balance of ThCh\$35,453,482. In 2007, the final balance of cash and cash equivalents amounted to ThCh\$35,453,480 from an opening balance of ThCh\$75,311,363.

## » RELEVANT EVENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

» TRANSELEC S.A. AND SUBSIDIARY • DECEMBER 31, 2008

During the period ended as of December 31, 2008, and in accordance with General Rule No. 30, the Company has informed the SVS about the following essential or relevant events:

On January 25, 2008 the following was informed as an essential event: at ordinary meeting No. 15 held on January 24, 2008 the Company's Board became aware of the resignation presented by director Mr. Mario Marcel Cullell, and accepted such resignation effective as of March 1, 2008.

On March 20, 2008, the convocation of the Extraordinary Shareholders' Meeting for April 4, 2008 at 9:00 hours at the offices located at Av, Apoquindo 3721, 6th Floor, Las Condes was informed as an essential event.

The purpose of the convocation is to inform the following and submit it to the approval of the shareholders:

Payment of the price adjustment of the Investment Value, in accordance with the HQI Transelec Chile S.A. share purchase agreement signed in June 2006.

On March 27, 2008, the meeting held on March 27, 2008 agreed to inform the SVS the essential event consisting in convocation to Ordinary Shareholders' Meeting for April 24, 2008, at 9:00 hours, at the offices located at Av, Apoquindo 3721, 6th Floor, Las Condes.

The object of the citation is to inform and get the approval of the shareholders in respect to the following matters:

- 1) Annual Report, Balance Sheet, Financial Statements and Report of External Auditors, corresponding to the period ended as of December 31, 2007.
- 2) Distribution of final dividend
- 3) Dividends policy and information regarding the payment procedures to be used
- 4) Remuneration of the Board and the Audit Committee
- 5) Designation of External Auditors
- 6) Newspaper to be used to publish convocation to Shareholders' Meetings
- 7) Other matters of interest of the Company that come under the jurisdiction of the Meeting

On April 7, 2008, the SVS was informed of the following:

Complying with the agreement in number 1,7 of the Share Purchase Agreement signed on June 30, 2006 between HQ Puno Ltda., Hydro Québec International Transmisión Sudamérica S.A. and International Finance Corporation as sellers and Rentas Eléctricas IV Limitada, as purchaser (which in virtue of the various modifications today corresponds to Transelec S.A.), it is informed that the parties have reached an agreement regarding the partial value of the price adjustment indicated in the mentioned number 1.7 which amounts to US\$155,529,900, amount that will be paid by Transelec S.A. to the seller in accordance with the following detail:

- HQI Transmisión Sudamérica S.A.	US\$ 143,071,985
- HQ Puno Ltda.,	US\$ 15,553
- International Finance Corporation	US\$ 12,442,392

The financing of these payments will come from partial prepayment of the mercantile account that Transelec Holdings Rentas Limitada (main shareholder of Transelec S.A. with 99,99% of the shares) owes this company.

We note that these payments were made on April 4, 2008. In addition we inform that as part of the agreement signed between the aforementioned selling and purchasing parties, the definition of an eventual payment for the adjustment denominated "Cardones-Maintencillo Reactives" is pending, which could amount to US\$5,278,000, whose payment is subject to compliance with certain conditions that could occur in the future.



On April 25, 2008, the Superintendent was informed that on April 24, 2008, the Company held its Ordinary Shareholders' Meeting which agreed to the following:

- 1) Approve the Annual Report, Balance Sheet, Financial Statements and the Report of Independent Auditors, corresponding to the period ended December 31, 2007.
- 2) Approve the distribution of Ch\$8,894,151,513, equivalent to Ch\$8,894,151,513 per share as the remainder of the final dividend for 2007, dividend that will be paid starting on May 20, 2008 to the shareholders registered in the respective registry on May 13, 2008.
- 3) The dividends policy for 2008 was informed.
- 4) The remunerations of the Board of Directors and Audit Committee were set.
- 5) The designation of Ernst & Young as external auditors of the Company for 2008 was approved.
- 6) Designation of the Diario Financiero to be used to publish citation to general shareholders' meeting notices was approved.

On May 30, 2008, it was informed that the Board of Directors Meeting held on May 29, 2008 agreed to the distribution of an interim dividend for the period ended March 31, 2008 of the sum of Ch\$12,040,000,000 which will be paid starting on June 23, 2008 to the shareholders registered in the respective registry on June 17, 2008.

On June 27, 2008, the Superintendent was informed that the Board of Transelec S.A. at the meeting held on June 26, 2008 agreed to inform that Superintendency of the essential event consisting in the summon to Extraordinary Shareholders' Meeting to be held on July 21, 2008 at 9:00 hours, at the offices located at Av, Apoquindo 3721, 6th Floor, Las Condes.

The objective of the citation is to inform and submit to the shareholders approval of the following point:

- 1) Revoke all the current members of the Board, both regular and alternate directors, and elect in their replacement as Regular Directors Mr. Jeffrey Blidner, Mr. Bruno Guilmette, Mr. Scott Lawrence, Ms. Brenda Eaton, Mr. Felipe Lamarca Claro, Mr. Juan Andrés Fontaine Talavera, Mr. Blas Tomic Errázuriz, Mr. José Ramón Valente Vias and Mr. Alejandro Jadresic Marinovic and as their respective Alternate Directors Mr. Derek Pannell, Mr. Patrick Charbonneau, Mr. Graeme Bevans, Mr. Richard Dinneny, Mr. Enrique Munita Luco, Mr. Juan José Eyzaguirre Lira, Mr. Federico Grebe Lira, Mr. Juan Paulo Bambach Salvatore and Mr. Juan Irrarázabal Covarrubias.
- 2) Grant the necessary powers to execute the adopted agreements with respect to the mentioned subjects.

On July 24, 2008, the SVS was informed that at the Ordinary Session No. 23 of Transelec S.A.'s Board of Directors, the Company's Board of Directors, held on July 24, 2008, Mr. Jeffrey Blidner was elected as the Board's President.

On September 25, 2008, the Company informed that at Ordinary Session No. 25 of Transelec S.A.'s Board of Directors, held on September 25, 2008, board members agreed to call an Extraordinary Shareholders' Meeting for October 16, 2008 at 9:00 am at Av. Apoquindo 3721, 6th Floor, Las Condes.

The objective of the citation is to inform and subject the following point to the approval of the shareholders:

- Approval of expenditures of CAPEX credit line.

## » RELEVANT EVENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

» TRANSELEC S.A. AND SUBSIDIARY • DECEMBER 31, 2008

On October 16, 2008, the Superintendent was informed that an extraordinary meeting of the Company's shareholders was held on the same date. The following matters were addressed at the meeting:

- 1) The shareholders agreed to expressly ratify the actions of Messrs. Fernando Abara and Marcelo de Petris in negotiating and entering into the Contract of Committed Financing with the banks Corpbanca and Scotiabank Sudamericano, and specifically the powers to proceed with the signing of the documentation associated with that loan. This Committed Credit Line, secured for a maximum of the Chilean peso equivalent of 3,206,453 Unidades de Fomento until the contract's closing date, is not revolving. Therefore, capital payments made by Transelec S.A. on the loans do not give the Company the right to new disbursements of principal. The term for disbursement is up to 24 months starting from the date the contract is signed. Funds from these loans will be used by Transelec S.A. solely and exclusively for financing its capital investment plan and refinancing existing financial debt. Transelec S.A. will be able to amortize the total amount of the line of credit duly used from September 15, 2012 until September 15, 2015. Interest will be calculated using an interest rate equal to TAB (the Chilean interbank rate) plus a fixed margin, whose level depends on the Company's local risk rating and on the period of the contract (availability, preamortization, amortization). Transelec S.A. will be able to wholly or partially prepay the amount withdrawn without any type of penalty.
- 2) Likewise, the shareholders agreed to authorize any possible future disbursements, including signing of corresponding promissory notes and associated documentation by the representatives of Transelec S.A. empowered to enter into loans as of the date of each transaction, that, in accordance with the terms of the Contract of Committed Financing signed with the banks Scotiabank Sudamericano and Corpbanca, exceed, individually or as a whole, one hundred million US dollars.
- 3) The shareholders individually empowered Mr. Fernando Abara Elías and Ms. Constanza Rojas Marambio to transform all or part of the acts from this meeting into public deed and empowered the bearer of an authorized copy of the deed or an extract of the deed to carry out any necessary publications and registrations.

### » TRANSELEC NORTE S.A. (SUBSIDIARY)

During the period from January 1 to March 31, 2008 and in accordance with General Rule No. 30, the Company informed the SVS of the following essential or relevant events:

On January 25, 2008 the SVS was informed that at the Ordinary meeting No. 42, held on January 24, 2008 the Company's Board was informed of the resignation presented by Mr. Mario Marcel Cullell and accepted that resignation effective as of March 1, 2008.

On March 27, 2008, Transelec Norte S.A. informed the SVS that the Board of Directors, at the meeting held on March 27, 2008, agreed to convene an Ordinary Shareholders' Meeting on April 24, 2008, at 10:00AM, at the offices located at Av. Apoquindo 3721, 6th Floor, Las Condes.

The objective of the citation is to inform and get the approval of the shareholders regarding the following matters:

- 1) Annual Report, Balance Sheet, Financial Statements and Report of External Auditors, corresponding to the period ended as of December 31, 2007.
- 2) Distribution of final dividend
- 3) Dividends policy and information regarding the payment procedures to be used
- 4) Board of Directors fees
- 5) Designation of External Auditors
- 6) Newspaper to be used to publish convocation to Shareholders' Meetings
- 7) Other matters of interest of the Company that come under the jurisdiction of the Meeting

On April 25, 2008, the Superintendent was informed that on April 24, 2008, the Company held its Ordinary Shareholders' Meeting which agreed to the following:

- 1) Approve the Annual Report, Balance Sheet, Financial Statements and the Report of Independent Auditors, corresponding to the period ended December 31, 2007.
- 2) Approve the distribution of US\$2,850,781,23 as the remainder of the final dividend for 2007. This dividend will be paid starting on May 20, 2008 to the shareholders registered in the respective registry on May 13, 2008,
- 3) The dividends policy for 2008 was informed
- 4) The Board fees were set
- 5) The designation of Ernst & Young as external auditors of the Company for 2008 was approved
- 6) Designation of the Diario Financiero to be used to publish citation to general shareholders' meeting notices was approved.

On June 27, 2008, Transelec Norte S.A. informed the Superintendent that the Board of Directors at the meeting held on June 26, 2008, agreed to convene a Special Shareholders' Meeting on July 21, 2008, at 10:00AM at the offices located at Av. Apoquindo 3721, 6th Floor, Las Condes.

The objective of the citation is to inform and subject the following point to the approval of the shareholders:

- Revoke all the current members of the Board and elect new regular and deputy directors

On July 21, 2008, the Company informed that on July 21 a Special Shareholders' Meeting was held, in which the following was agreed:

- 1) Revoke all the current members of the Board, both regular and alternate directors, and elect in their replacement as Regular Directors Mr. Jeffrey Blidner, Mr. Bruno Guilmette, Mr. Scott Lawrence, Ms. Brenda Eaton, Mr. Felipe Lamarca Claro, Mr. Juan Andrés Fontaine Talavera, Mr. Blas Tomic Errázuriz, Mr. José Ramón Valente Vias and Mr. Alejandro Jadresic Marinovic and as their respective Alternate Directors Mr. Derek Pannell, Mr. Patrick Charbonneau, Mr. Graeme Bevans, Mr. Richard Dinneny, Mr. Enrique Munita Luco, Mr. Juan José Eyzaguirre Lira, Mr. Federico Grebe Lira, Mr. Juan Paulo Bambach Salvatore and Mr. Juan Irrázabal Covarrubias.
- 2) Grant the necessary powers to execute the adopted agreements with respect to the mentioned subjects.

On July 24, 2008, the Securities and Insurance was informed that at Ordinary Session No. 23 of Transelec S.A.'s Board of Directors, the Company's Board of Directors, held on July 24, 2008, Mr. Jeffrey Blidner was elected as the Board's President.

» FINANCIAL STATEMENTS TRANSELEC S.A.

December 31, 2008 and 2007

» (TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN SPANISH—SEE NOTE 2)

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Notes to the Financial Statements	86	monetary unit set daily in advance on the basis of the previous
Reasoned Analysis	90	month's inflation rate)
Relevant Events	96	ThUS\$: Thousands of United States dollars

## » REPORT OF INDEPENDENT AUDITORS

» (TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN SPANISH- SEE NOTE 2)

» TO THE SHAREHOLDERS AND DIRECTORS OF

» TRANSELEC S.A. (FORMERLY – RENTAS ELÉCTRICAS III LIMITADA):

We have audited the balance sheets of Transelec S.A. as of December 31, 2008 and 2007 and the related statements of income and cash flows for the years ended December 31, 2008 and 2007, in accordance with generally accepted auditing standards in Chile. In our report dated January 21, 2009, we expressed an unqualified opinion on those financial statements. The attached Detailed Analysis and Relevant Events are not a part of these summarized financial statements and therefore this report does not include them.

In our opinion, the information contained in the attached summarized financial statements reasonably agrees, in all significant respects, with the financial statements from which they were derived. However, since the summarized financial statements present partial information, these must be read together with the mentioned audited financial statements.



MIGUEL VICENCIO T.

Santiago, Chile  
January 21, 2009

ERNST & YOUNG LTDA.

## » BALANCE SHEETS

» (TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN SPANISH—SEE NOTE 2)

» TRANSELEC S.A.

As of December 31,

ASSETS	NOTE	2008 ThCh\$	2007 ThCh\$
CURRENT ASSETS			
Cash		1,940,575	21,794
Time deposits	(32)	40,418,116	13,203,355
Marketable securities	(4)	16,427,141	12,705,779
Trade accounts receivable, net	(5)	30,637,729	24,281,308
Miscellaneous receivables	(5)	528,581	522,291
Notes and accounts receivable from related companies	(6)	198,623	50,019,250
Inventory, net		42,270	46,170
Recoverable taxes	(7)	2,395,229	3,170,254
Prepaid expenses		92,591	106,947
Deferred taxes	(7)	6,899,371	6,284,868
Other current assets	(8)	1,254,668	3,192,135
<b>Total current assets</b>		<b>100,834,894</b>	<b>113,554,151</b>
PROPERTY PLANT AND EQUIPMENT			
Land		17,170,280	16,175,630
Buildings and infrastructure		732,698,501	735,619,155
Machinery and equipment		341,449,172	313,996,848
Other property, plant and equipment		1,504,658	1,558,991
Less: Accumulated depreciation		(82,433,861)	(48,444,694)
<b>Total property, plant and equipment</b>	<b>(9)</b>	<b>1,010,388,750</b>	<b>1,018,905,930</b>
OTHER ASSETS			
Investments in related companies	(10)	55,096,359	46,904,071
Investments in other companies	(11)	31,331	34,987
Goodwill	(12)	334,411,665	274,662,586
Long-term receivables	(5)	1,563,240	1,669,528
Notes and accounts receivable from related companies	(6)	68,609,310	74,440,210
Long-term deferred taxes	(7)	55,542,159	58,647,369
Intangibles	(13)	154,961,714	154,519,612
Less: Amortization	(13)	(9,713,839)	(5,851,434)
Others	(14)	9,403,701	10,329,793
<b>Total other assets</b>		<b>669,905,640</b>	<b>615,356,772</b>
<b>Total Assets</b>		<b>1,781,129,284</b>	<b>1,747,816,803</b>

The accompanying notes numbers 1 to 3 are an integral part of these financial statements



## » BALANCE SHEETS

### » TRANSELEC S.A.

As of December 31,

LIABILITIES AND SHAREHOLDERS' EQUITY	NOTE	2008 ThCh\$	2007 ThCh\$
<b>CURRENT LIABILITIES</b>			
Short-term bonds	(16)	16,321,031	9,510,957
Accounts payable	(33)	36,130,461	54,784,791
Notes and accounts payable to related companies	(6)	-	127,428
Provisions	(17)	3,516,101	2,949,114
Withholdings		2,595,851	1,448,534
Other current liabilities	(15)	90,917	244,927
<b>Total current liabilities</b>		<b>58,654,361</b>	<b>69,065,751</b>
<b>LONG-TERM LIABILITIES</b>			
Long-term bonds	(16)	815,013,648	807,852,917
Long-term provisions	(17)	1,959,421	1,619,192
Other long-term liabilities		2,943,390	1,648,664
<b>Total long-term liabilities</b>		<b>819,916,459</b>	<b>811,120,773</b>
<b>SHAREHOLDERS' EQUITY</b>			
Paid-in capital		857,944,548	857,944,548
Other reserves		374,490	-
Retained earnings		160,095	95,362
Net income		56,588,891	34,506,783
Interim dividends		(12,509,560)	(24,916,414)
<b>Total shareholders' equity</b>	(19)	<b>902,558,464</b>	<b>867,630,279</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>1,781,129,284</b>	<b>1,747,816,803</b>

The accompanying notes numbers 1 to 3 are an integral part of these financial statements

## » STATEMENT OF INCOME

» (TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN SPANISH—SEE NOTE 2)

» TRANSELEC S.A.

For the years ended December 31,

	NOTE	2008 ThCh\$	2007 ThCh\$
OPERATING INCOME			
Sales		173,534,974	133,224,256
Cost of sales		(56,404,162)	(52,473,414)
Gross margin		117,130,812	80,750,842
Less: Administrative and selling expenses		(5,939,088)	(4,683,362)
Net operating income		111,191,724	76,067,480
NON-OPERATING INCOME			
Interest income		14,193,747	9,956,214
Net income from investments in related companies	(10)	1,742,628	1,862,868
Other non-operating income	(20)	237,064	2,502,835
Interest expenses		(40,458,498)	(38,501,987)
Less: Amortization of goodwill	(12)	(8,734,496)	(7,308,148)
Other non-operating expenses	(20)	(2,384,580)	(5,554,519)
Price-level restatement, net	(21)	(6,181,821)	(1,400,911)
Foreign exchange rate differences, net	(22)	120,956	459,979
Non-operating income		(41,465,000)	(37,983,669)
Income before income taxes		69,726,724	38,083,811
Income taxes	(7)	(13,137,833)	(3,577,028)
Net income		56,588,891	34,506,783

The accompanying notes numbers 1 to 3 are an integral part of these financial statements

## » STATEMENT OF CASH FLOWS

» (TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN SPANISH—SEE NOTE 2)

» TRANSELEC S.A.

For the years ended December 31,			
	NOTE	2008 M\$	2007 M\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income		56,588,891	34,506,783
Income from sale of assets		380,144	(340,856)
Income on sale of property, plant and equipment		380,144	(340,856)
CHARGES (CREDITS) TO INCOME THAT DO NOT REPRESENT CASH FLOWS			
Depreciation	(9)	32,711,218	31,653,632
Amortization of intangible assets	(13)	3,702,537	3,705,455
Write-offs and provisions		1,462,613	3,930,488
Net income accrued on investments in related companies	(10)	(1,742,628)	(1,862,868)
Amortization of goodwill	(12)	8,734,496	7,308,148
Price-level restatement, net	(21)	6,181,821	1,400,911
Foreign exchange rate differences, net	(22)	(120,956)	(459,979)
Other credits to income other than cash flows		(6,572,819)	(6,712,933)
(INCREASE) DECREASE IN ASSETS THAT AFFECT CASH FLOWS			
Trade accounts receivable		(6,362,711)	(24,803,599)
Inventory		3,900	(46,170)
Other assets		(3,282,632)	(32,204,344)
INCREASE (DECREASE) IN LIABILITIES THAT AFFECT CASH FLOWS			
Accounts payable related to operating income		2,891,715	174,695,875
Interest payable		6,810,074	9,510,957
Income taxes payable		3,265,732	(68,222,881)
VAT and other taxes payable		1,157,941	1,304,617
<b>Net cash provided by operating activities</b>		<b>105,809,336</b>	<b>133,363,236</b>
CASH FLOWS FROM FINANCING ACTIVITIES			
Bonds		-	126,076,696
Payment of dividends		(21,750,584)	(39,452,288)
Payment of bonds		(1,360,655)	(128,765,219)
<b>Net cash flows used in financing activities</b>		<b>(23,111,239)</b>	<b>(42,140,811)</b>
CASH FLOWS FROM INVESTING ACTIVITIES			
Sale of property, plant and equipment		10,392,335	2,364,640
Collection of documented loans to related companies		78,253,577	41,608,110
Additions to property, plant and equipment		(41,384,604)	(26,271,065)
Payment of capitalized interest		(2,231,128)	(986,293)
Documented loans to related companies		(18,931,213)	(74,769,938)
Other investment disbursements		(75,920,885)	-
<b>Net cash flows used in investing activities</b>		<b>(49,821,918)</b>	<b>(58,054,546)</b>
<b>Total Positive Net Cash Flows for the Year</b>		<b>32,876,179</b>	<b>33,167,879</b>
Effect of Price-Level Restatement on Cash and Cash Equivalents		(2,189,816)	(5,165,061)
<b>Net Increase in Cash and Cash Equivalents</b>		<b>30,686,363</b>	<b>28,002,818</b>
Cash and Cash Equivalents, Beginning of the Year		28,099,469	96,651
<b>Cash and Cash Equivalents, End of the Year</b>		<b>58,785,832</b>	<b>28,099,469</b>

The accompanying notes numbers 1 to 3 are an integral part of these financial statements

## » NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

» TRANSELEC S.A. • DECEMBER 31, 2008 AND 2007

### » NOTE 1 - BUSINESS DESCRIPTION

Rentas Eléctricas III Limitada was formed as a limited liability company by public instrument on June 6, 2006. On March 26, 2007, the Company became a corporation and changed its name to Rentas Eléctricas III S.A.. On June 30, 2007, it changed to its current name, Transelec S.A..

On May 16, 2007, the Company was listed as number 974 in the Securities Registry of the Chilean Superintendency of Securities and Insurance (“SVS”) and is subject to the supervision of the SVS. Simultaneously, it registered 1,000,000 shares, which corresponds to the total number of shares issued, subscribed and fully paid.

The subsidiary Transelec Norte S.A. is listed as number 939 in the SVS and is subject to its supervision.

The Company has the exclusive objective of exploiting and developing electric systems, on its own, or on behalf of third parties, to transport or transmit electrical energy. For this purpose it may obtain, acquire and use the respective concessions and permits and exercise all the rights and faculties that the prevailing legislation confers on electrical companies. It’s line of business also includes: commercialization of the capacity to transport the electricity of the lines and the capacity of the substations and equipment associated with them in order for the generating stations, both domestic and foreign, to be able to transmit the electrical energy they produce and have it reach their withdrawals; providing engineering or management consulting services related with the company’s business line; and developing other business and industrial activities related to the facilities associated with the transmission of electricity. The Company may act directly or through subsidiaries or other related companies, both in Chile and abroad.

According to public deed dated May 9, 2007, the Company acquired 100 shares owned by Transelec Holdings Rentas Limitada, corresponding to 0.01% of the share capital of Transelec S.A. (formerly Nueva Transelec S.A.), leaving the Company with 100% ownership. Thus, the merger took place by absorption, and the assets, liabilities, rights and obligations of Transelec S.A. (formerly Nueva Transelec S.A.) passed to the Company. In this way, the Company directly assumed operation of the electrical transmission business previously conducted by the above mentioned subsidiary.

### » NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

#### A) PERIOD COVERED

These financial statements correspond the years ended December 31, 2008 and 2007.

#### B) BASIS OF PREPARATION

These financial statements as of December 31, 2008 and 2007 have been prepared in accordance with generally accepted accounting principles in Chile (“Chilean GAAP”) issued by the Chilean Association of Accountants and specific instructions and regulations issued by the SVS, except for the investments in subsidiaries that are recorded on only one line of the balance sheet under the equity method and, therefore, have not been consolidated line by line. This treatment does not modify net income for the period nor the shareholders’ equity. In case of discrepancies, specific instructions and regulations issued by the SVS will prevail. Certain accounting practices applied by the Company that conform to Chilean GAAP may not conform to generally accepted accounting principles in the United States (“US GAAP”) or International Financial Reporting Standards (“IFRS”).

These financial statements have been issued for the sole purpose of an individual analysis of the Company and, therefore, these should be read in conjunction with the consolidated financial statements that are required by Chilean GAAP.

For the convenience of the reader, these consolidated financial statements and their accompanying notes have been translated from Spanish to English.

#### C) BASIS OF PRESENTATION

For comparison purposes, the figures of the financial statements for the previous year were restated off-balance sheet by the percentage variation of the Consumers Price Index for the twelve-month period ended on December 31, 2008, which was 8.9%.

#### D) PRICE-LEVEL RESTATEMENT

These financial statements have been restated in order to reflect variations in the purchasing power of the Chilean peso during the respective period. For this purpose, and in conformity with current Chilean regulations, non-monetary assets and liabilities and shareholders’ equity accounts have been restated in constant year-end pesos and reflected in income. In accordance with Chilean tax regulations and accounting practices, the restatements were calculated based on the official Chilean Consumer Price Index (CPI) for the year ended as informed by the National Institute of Statistics, applied with a one-month lag, which was 8.9% for the year ended December 31, 2008 (7.4% for year ended December 31, 2007). In addition, income and expense accounts have been restated to year- end values.

E) BASIS OF CONVERSION

Balances in foreign currency have been considered as monetary items and have been converted at the current exchange rate as of financial statement closing date. Indexed balances have been adjusted by the item's adjustability index or by the index agreed upon for that purpose.

As of December 31, 2008 and 2007, assets and liabilities in foreign currency and Unidades de Fomento ("UF") have been translated into Chilean pesos as of the closing exchange or conversion rates, detailed as follows:

	Ch\$ per unit 2008	Ch\$ per unit 2007
Unidad de Fomento	21,452.57	19,622.66
United States dollar	636.45	496.89
Euro	898.81	730.94

F) TIME DEPOSITS

Investments in time deposits are recorded at price-level restated cost plus accrued interest as of year-end.

G) MARKETABLE SECURITIES

Marketable securities include investments in mutual funds valued at the unit price as of year-end.

H) ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Company deems that it is unnecessary to record an allowance for doubtful accounts as of year-end.

I) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at acquisition cost based on fair value as of June 30, 2006, price-level restated at year-end. Financing costs for property, plant and equipment at construction sites are capitalized during the construction period. During the 2008 year, financial costs amounting to ThCh\$2,231,128 have been capitalized (ThCh\$986,293 in 2007).

J) DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

The depreciation of property, plant and equipment has been calculated using the straight-line method, based on the estimated useful lives of the respective assets.

K) LEASE CONTRACT

The financial leasing operation corresponds to assets that were constructed by the Company, at the express request of the lessee. Upon termination of the contract, ownership will be transferred to the lessee, upon payment of an amount equal to the last installment. This contract has been recorded in conformity with Technical Bulletin No. 22 of the Chilean Association of Accountants and is classified in miscellaneous receivables and long-term receivables.

L) INTANGIBLES

Intangibles include rights-of-way, valued at acquisition cost based on their fair value as of June 30, 2006, price-level restated as of year-end. These assets are amortized using the straight-line method over a period of 40 years, in conformity with Technical Bulletin No. 55, issued by the Chilean Association of Accountants.

M) INVESTMENT IN RELATED COMPANIES

Investments in related companies are presented at their equity value, in accordance with Technical Bulletin No. 72 issued by the Chilean Association of Accountants, calculated at the financial statements closing date.

The investment in related company, Transelec Norte S.A., is presented using the equity method, with no consideration of unrealized income. Respectively, the financial statements of this subsidiary as of December 31, 2008 have been prepared based in United States dollars and converted to Chilean pesos using the exchange rate as of December 31, 2008.

## » NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

» TRANSELEC S.A. • DECEMBER 31, 2008 AND 2007

Regarding this investment, the difference between the book value in Chilean pesos and the equity value in United States dollars for the subsidiary has been recorded as a charge to the “Cumulative translation adjustment” account in “Other Reserves” within Shareholders’ Equity.

Following the instructions in Technical Bulletin No. 64 of the Chilean Association of Accountants, the investment of US\$ 30,002,000 in bonds issued abroad is maintained as an instrument to hedge the risk of fluctuation in the exchange rate. The net exchange rate has been accounted for under “Accumulated Adjustment for Difference in Conversion” in “Other Equity Reserves”.

### N) GOODWILL

This account presents goodwill from the acquisition of shares of the indirect subsidiary HQI Transelec Chile S.A. (currently Transelec S.A.) in relation to its equity value calculated as of the purchase date, in accordance with Technical Bulletin No. 72 of the Chilean Association of Accountants.

This goodwill is amortized over a 40-year period, a term which was authorized by the SVS on July 23, 2007, through Official Letter No. 7749 of the same date.

As per the Purchase Agreement of the shares of HQI Transelec Chile S.A. (dissolved company) and the publication in the Official Gazette of January 15, 2008 of Decree No. 207 issued by the Ministry of Economy, Economic Development and Reconstruction that sets the installations of the trunk system, areas of common influence, and annual transmission value; by segment and its components with their indexation formulas for the four-year period from 2007 to 2010, the sum of ThUS\$160,808 was recognized as of March 31, 2008 as goodwill, due to the price adjustment related to the valuation of certain trunk assets.

In addition, as of June 30, 2008 the sum of ThCh\$3,100,000 was recognized as goodwill; this amount corresponds to a price adjustment considered in the referred Purchase Agreement of the shares of HQI Transelec Chile S.A. agreed on June 30, 2006 and associated to recalculation of regulated trunk income for the period from March 13, 2004 to June 30, 2006.

### O) RESALE AGREEMENTS

Other current assets include purchase commitments with resale agreements valued at the investment value plus price-level restatements and interest.

### P) BONDS PAYABLE

The long-term portion of this item includes the liability determined based on the fair value as of June 30, 2006, for the placement of bonds issued by the Company at their par value plus price-level restatement, and the short-term portion includes accrued interest at year-end. The difference between the book value and the placement value is recognized over the term of these liabilities and is shown in Other Current Liabilities and Other Long-term Liabilities.

### Q) CURRENT AND DEFERRED INCOME TAXES

The Company has recognized its tax liabilities in accordance with current Chilean tax regulations.

The effects of deferred taxes originated from differences between the financial and tax balance sheets are recorded for all temporary differences considering the tax rate that will be effective on the estimated date of reversal, as established in Technical Bulletin No. 60 issued by the Chilean Association of Accountants.

### R) STAFF SEVERANCE INDEMNITIES

The provision for staff severance indemnities to cover the contractual obligations for personnel having completed 15 years of service is shown based on the present value by applying the accrued cost method, at an annual interest rate of 6.5%, and an average period of service of 40 years, plus an average of 75% of the benefit for staff with less than 15 years of service.

### S) VACATION PROVISION

In accordance with Technical Bulletin No. 47 issued by the Chilean Association of Accountants, the Company records personnel vacation on an accrued basis.



T) OPERATING INCOME

Operating income is mainly income arising from the sale of electric transmission capacity of the Company's facilities, which includes the transmission service provided but not billed at each year-end, which is valued at the selling prices as stipulated in current contracts and toll reports issued by the "Centro de Despacho Económico de Carga del Sistema Interconectado Central" (CDEC - SIC) and by the Centro de Despacho Económico de Carga del Sistema Interconectado del Norte Grande (CDEC-SING), which are entities that coordinate the operation of electricity generation companies in the SIC and in the SING, two of Chile's major interconnected electricity systems. Since January 1, 2008, operating income also includes income received from recalculation of tolls and tariff income from previous years. Those amounts are shown in Trade Accounts Receivable within Current Assets.

U) ACCOUNTING ESTIMATES

In the process of its operations, the Company must make accounting estimates to determine its accounts receivable and payable for the concept of tariff income. The final billing of these accounts receivable and payable can exceed one year and originate eventual losses or gains in amounts that are estimated to be insignificant.

V) DERIVATIVE CONTRACTS

Foreign exchange forward and swap contracts have been recorded at their fair value, in accordance with Technical Bulletin No. 57 of the Chilean Association of Accountants.

W) COMPUTER SOFTWARE

Computer software has been acquired in computer packages, which are amortized over a 3-year period.

X) STATEMENTS OF CASH FLOWS

Cash and cash equivalents presented in the statements of cash flows correspond to cash, time deposits, marketable securities and financial titles with resale agreements.

Cash flows from operating activities include all cash flows related to the Company's line of business, and in general all cash flows that are not defined as from investment or financing. It should be noted that the operating concept used in these statements is broader than that used in the statements of income.

Cash flows from financing and investing activities include all those cash flows not defined as operational.

Y) DEBT SECURITY ISSUANCE AND PLACEMENT EXPENSES

The Company has recorded the expenses for issuance and placement of debt instruments incurred in the current year under Other Current Assets and Other Long-term Assets. These expenses are amortized using the straight-line method over the duration of the liabilities.

» NOTE 3 - ACCOUNTING CHANGES

During the year ended December 31, 2008, there have been no accounting changes in relation to the previous year that could significantly affect their interpretation.

## » REASONED ANALYSIS OF THE FINANCIAL STATEMENTS

» TRANSELEC S.A. • DECEMBER 31, 2008

### » A) SUMMARY

In 2008 TRANSELEC S.A. obtained net income of ThCh\$56,588,891, which is 63.99% greater than the previous year. This net income comes from a positive operating income of ThCh\$111,191,724, a negative non-operating income of ThCh\$41,465,000, and a first category and deferred income tax net charge to income of ThCh\$13,137,833. In 2007, the Company obtained net income of ThCh\$34,506,783 which is explained by operating income of ThCh\$76,067,480, a negative non-operating income of ThCh\$37,983,669 and a first category and deferred income tax charge to income of ThCh\$3,577,028.

In 2008, revenues reached ThCh\$173,534,974 (ThCh\$133,224,256 in 2007). These operating revenues result mainly from commercializing the transmission capacity of the Company's facilities and, this year, are also related to toll reassessment for the Trunk Transmission System from 2007, as stipulated in DS 207 of January 15, 2008, for a total of ThCh\$7,522,953. In addition, revenues during 2008 also include toll reassessment for the Trunk Transmission System for the period from March 13, 2004 to December 31, 2006, as provided for in the aforementioned decree, which was a net amount of ThCh\$13,448,311. Additionally, in 2008 prior year operating income totaling ThCh\$2,217,208 was recorded as agreed upon with Puyehue S.A. and Panguipulli S.A.

Cost of sales amounted to ThCh\$56,404,162 (ThCh\$52,473,414 in 2007) and are composed as follows: 57.6% depreciation of property, plant and equipment (60.0% in 2007), 13.8% personnel costs (13.8% in 2007), 6.5% amortization of intangibles (7.1% in 2007) and 22.1% supplies and services hired (19.2% in 2007).

Administrative and selling expenses amounted to ThCh\$5,939,088 (ThCh\$4,683,362 in 2007) and are composed mainly of 57.0% personnel expenses (57.5% in 2007), 38.9% works, supplies and hired services expenses (38.4% in 2007) and 4.1% depreciation (4.1% in 2007).

The Company recorded a non-operating loss for the year of ThCh\$41,465,000 (loss of ThCh\$37,983,669 in 2007), generated mainly by interest expenses of ThCh\$40,458,498 (ThCh\$38,501,987 in 2007) including interests related to reassessment of income of ThCh\$2,634,862 and amortization of goodwill of ThCh\$8,734,496 (ThCh\$7,308,148 in 2007). Other important accounts that affected the non-operating loss during the period were interest income of ThCh\$14,193,747 (ThCh\$9,956,214 in 2007) of which ThCh\$5,629,005 correspond to interests associated with the aforementioned reassessment of income. Foreign currency translation for the period, which was positive, at ThCh\$120,956 (ThCh\$459,979 in 2007), was valued in accordance with SVS Circular No. 1,560. In turn, income from investments in related companies amounted to ThCh\$1,742,628 (ThCh\$1,862,868 in 2007), price-level restatement was a negative amount of ThCh\$6,181,821 (negative ThCh\$1,400,911 in 2007) and other non-operating income was a net loss of ThCh\$2,147,516 (income of ThCh\$3,051,684 in 2007).

### » B) INCOME

DESCRIPTION	For the year ended Dec 31, 2008 ThCh\$	For the year ended Dec 31, 2007 ThCh\$	Variance 2008/2007 %	Variance 2008-2007 ThCh\$
Revenues	173,534,974	133,224,256	30.26%	40,310,718
Tolls	165,848,591	129,652,238	27.92%	36,196,353
Works and services	7,686,383	3,572,018	115.18%	4,114,365
Cost of sales	(56,404,162)	(52,473,414)	7.49%	(3,930,748)
Fixed costs	(20,230,747)	(17,307,213)	16.89%	(2,923,534)
Depreciation	(32,470,878)	(31,460,746)	3.21%	(1,010,132)
Amortization of intangibles	(3,702,537)	(3,705,455)	(0.08%)	2,918
Administrative and selling expenses	(5,939,088)	(4,683,362)	26.81%	(1,255,726)
Operating income	111,191,724	76,067,480	46.18%	35,124,244
Non-operating income	(41,465,000)	(37,983,669)	9.17%	(3,481,331)
Income before income taxes & extraordinary items	69,726,724	38,083,811	267.28%	31,642,913
Income taxes	(13,137,833)	(3,577,028)	267.28%	(9,560,805)
<b>Net income</b>	<b>56,588,891</b>	<b>34,506,783</b>	<b>63.99%</b>	<b>22,082,108</b>
EBITDA*	169,908,068	137,052,110	23.97%	32,855,958

\* Earnings before taxes, interest, depreciation, amortization, and extraordinary items.

Operating income for the year ended December 31, 2008, includes extraordinary income from prior years for the following concepts: a) agreement with companies Puyehue S.A and Panguipulli S.A for ThCh\$2,217,208, b) income from the period from March 2004 to December 2006 from the Decree that determines the new trunk rates of ThCh\$13,448,311 and c) income for the year 2007 from the aforementioned Decree, of ThCh\$7,522,953. Non-operating income was impacted in 2008 by interest from the above-mentioned recalculations, increasing interest income by ThCh\$5,629,005 and interest expense by ThCh\$2,634,862.

#### PROFITABILITY

INDEXES	2008	2007	2008/2007
Profitability of equity	6.27%	3.98%	57.54%
Profitability of assets	3.18%	1.97%	61.42%
Profitability of operating assets	9.62%	6.52%	47.55%
Gain per share (Ch\$)	56,588.89	34,506.78	63.99%

The figures calculated as of December 31, 2008 consider the extraordinary income previously mentioned in sections a) and b).

#### » C) BALANCE SHEET ANALYSIS

	2008 ThCh\$	2007 ThCh\$	2008/2007	2008-2007 ThCh\$
Current assets	100,834,894	113,554,151	(11.20%)	(12,719,257)
P. P. & E.	1,010,388,750	1,018,905,930	(0.84%)	(8,517,180)
Other assets	669,905,640	615,356,722	8.86%	54,548,918
<b>Total assets</b>	<b>1,781,129,284</b>	<b>1,747,816,803</b>	<b>1.91%</b>	<b>33,312,481</b>
Current liabilities	58,654,361	69,065,751	(15.07%)	(10,411,390)
Long-term liabilities	819,916,459	811,120,773	1.08%	8,795,686
Shareholders' equity	902,558,464	867,630,279	4.03%	34,928,185
<b>Total liabilities &amp; shareholders' equity</b>	<b>1,781,129,284</b>	<b>1,747,816,803</b>	<b>1.91%</b>	<b>33,312,481</b>

#### VALUE OF MAIN OPERATING PROPERTY, PLANT AND EQUIPMENT

ASSETS	2008 ThCh\$	2007 ThCh\$	2008/2007 %	2008-2007 ThCh\$
Land	17,170,280	16,175,630	6.15%	994,650
Buildings and infrastructure	732,698,501	735,619,155	(0.40%)	(2,920,654)
Machinery and equipment	341,449,172	313,996,848	8.74%	27,452,324
Other property, plant & equipment	1,504,658	1,558,991	(3.49%)	(54,333)
Accumulated depreciation	(82,433,861)	(48,444,694)	70.16%	(33,989,167)
<b>Total</b>	<b>1,010,388,750</b>	<b>1,018,905,930</b>	<b>(0.84%)</b>	<b>(8,517,180)</b>

As of December 31, 2008 and 2007, property, plant and equipment consist mainly of land, buildings, infrastructure and machinery and equipment.

## » REASONED ANALYSIS OF THE FINANCIAL STATEMENTS

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### DIFFERENCES BETWEEN BOOK VALUES AND ECONOMIC AND/OR MARKET VALUES OF PRINCIPAL ASSETS

Considering that the assets of the Company were valued at market value in June 2006 in accordance with Technical Bulletin No. 72 issued by the Chilean Association of Accountants, it is estimated that the book value of its assets does not differ significantly from its economic and/or market value.

### LIQUIDITY AND INDEBTEDNESS

RATIOS		2008	2007	2008/2007
Current liquidity	1.72	1.64	4.88%	
Acid ratio	1.00	0.41	143.90%	
Demand liabilities/equity	0.97	1.01	(3.96%)	
% Short-term debt	6.68	7.85	(14.92%)	
% Long-term debt	93.32	92.15	1.27%	
Interest expenses coverage	3.89	3.19	22.09%	

### » D) MOST IMPORTANT CHANGES IN THE COMPANY'S MARKET

Transelec S.A. carries out its activities in the electricity market, which has been categorized into three different sectors: the generation sector, the transmission sector and the distribution sector. The electric energy generation sector comprises the companies that are dedicated to the generation of electricity, whether that electric energy and power comes from hydroelectric, coal, oil, gas, eolian, or other power plants. The importance of this sector is that it is dedicated to the production of electricity, which subsequently will be used throughout the country by end users. The mission of the distribution sector is to carry the electricity to the physical locations where each of the final consumers will use that electricity. For this, the distribution companies have electrical networks that allow that electricity to flow within the cities from the "points of entry" to their networks, to the domicile of each final consumer. Finally, the basic objective of the transmission sector is to transport the generated electricity between its production place (electrical power plants), and the "points of entry" to the networks of the distribution companies.

Transelec's business mainly centers on commercializing its capacity to transport and transform electricity at its facilities, in accordance with established quality standards. The transmission system of Transelec S.A. and its subsidiary, which extends to 2,900 kilometers between Arica in the I Region and the Island of Chiloé in the X Region, includes a majority participation in the trunk electrical transmission lines and substations of the Central Interconnected System (SIC) and the Great North Interconnected System (SING). This transmission system transports the electricity that reaches the zones inhabited by approximately 99% of the population of Chile. The Company owns 100% of the 500 kV electricity transportation lines, 51.1% of the 220 kV lines and 94.5% of the 154 kV lines.

The legal framework that governs the electrical transmission business in Chile is regulated by DFL No. 4/2006, which establishes the Modified, Coordinated and Systemized Text of Decree with Force of Law No. 1 of the Ministry of Mining, issued in 1982, the General Electrical Services Law of 1982 (DFL (M) No. 1/82) and its subsequent modifications, which include Law 19,940 (Short Law I), enacted on March 13, 2004 and Law 20,018 (Short Law II), enacted on May 19, 2005, and law 20,257 (Generation with Unconventional Renewable Energy Resources), enacted April 1, 2008. These regulations are complemented with the Regulations of the General Law on Electrical Services of 1997 (Supreme Decree No. 327/97 issued by the Ministry of Mining) and its respective modifications, and in addition with the Security and Quality of Service Technical Standard (R.M.EXTA No. 40 of May 16, 2005) and its subsequent modifications.

Law 19,940, also denominated Short Law I, modified the General Electrical Services Law of 1982 in matters referring to the electricity transmission activity and established the subdivision of the transmission network into three types of systems: trunk transmission, subtransmission and additional transmission. It also establishes that electricity transportation - both by trunk transmission systems as well as subtransmission - has the nature of a public service and is subject to the application of regulated tariffs.

Finally, Law 19,940 contemplates that the new payment regime for the use of the trunk facilities is effective since March 13, 2004 and determines a transitory period that was effective until enactment of the first trunk transmission decree. In this manner, during 2004, 2005, 2006 and 2007, collection and payment of the transmission facilities was carried out in a provisional manner in accordance with legal and regulatory standards in force until the publication of Short Law I and will be subject to reassessment. On January 15, 2008, the Decree from the Ministry of Economy, Development and Reconstruction was published, setting the new Investment Value (VI), Annual Investment Value (AVI), Operation Costs, Maintenance and Administration (COMA) and Annual Transmission Value per Segment (VATT) for the trunk facilities for the period from March 14, 2004 to December 31, 2010 and the indexation formulas applicable during that period. Application

of the new rates for the trunk transmission system began in April 2008 and during the year trunk income was recalculated for the period from March 13, 2004 to December 31, 2007.

The Decree setting rates for subtransmission facilities was published in the Official Gazette on January 9, 2009 and the new rates are set to begin as of January 14, 2009.

## » E) MARKET RISK FACTORS

Due to the characteristics of the electrical market and the legislation and regulations governing this sector, the Company is not exposed to significant risks related to the development of its main business. However, the following risk factors should be mentioned and considered:

### Regulatory Framework

The laws that govern the electricity transmission business in Chile were modified through the enactment of Law 19,940, denominated Short Law I, published on March 13, 2004.

Even though some application-related aspects of Short Law I still need to be defined, the more relevant methodological aspects for establishing tolls for the trunk facilities to be paid by each user company, as well as its payment and recalculation mechanisms are defined in Decree No. 207 issued on July 9, 2007 by the Ministry of Economy, Development and Reconstruction, published in the Official Gazette on January 15, 2008. With respect to tolls for subtransmission facilities, the decree that sets subtransmission tariffs and indexation formulas contains provisions that allow it to be applied as of January 14, 2009.

### Concentration of Income

73.1% of Transelec's income is generated by a single customer, Empresa Nacional de Electricidad S.A., Endesa, and its subsidiary generating companies. The toll agreements signed with Endesa and its subsidiaries Pangue and Pehuenche will generate a large part of the future cash flows of Transelec and a substantial change in assets, financial condition or operating income of this company or its subsidiaries could negatively affect Transelec.

### Operating Risks

Notwithstanding that management believes that Transelec maintains adequate risk coverage of its infrastructure, workers and third parties, in accordance with industry practices, it is not possible to assure that insurance policy coverage will be enough to cover certain operating risks which Transelec is exposed to, including forces of nature, damages to transmission facilities, on-the-job accidents and equipment failure. Any of these events could affect the Company's business.

### Application of Environmental Regulations and/or Policies

Transelec is also subject to regulatory environmental standards, which among other things require it to carry out environmental impact studies on future projects and obtain the corresponding regulatory authorizations. It is not possible to ensure that these environmental impact studies will be approved by the government authorities within the periods and under the terms presented by Transelec, nor that delays or modifications will not occur in the proposed projects, or that the laws and regulations will not change or be interpreted in a sense that could adversely affect the Company's operations and plans.

### Delays in the Construction of New Transmission Facilities

The success of the program for extending the transmission network and building new facilities will depend on numerous factors, including cost and availability of the required financing. Although Transelec has experience with large-scale construction projects, construction of new facilities could be negatively affected by factors commonly associated with projects including delays in obtaining regulatory authorizations; scarcity of equipment, materials, labor or changes in their prices; adverse weather conditions; natural catastrophes; and unforeseen circumstances and difficulties in obtaining financing at reasonable rates. Any of these factors could cause delays in the partial or total completion of the capital investment program, and could increase the costs of the projects.

### Technological Changes

Compensation for the investments that Transelec carries out in electrical transmission facilities is obtained through an annual valuation of the existing facilities, which is periodically adjusted by authorities. If there is important technological progress that lowers replacement cost of the equipment that composes Transelec's facilities, or if the value of inputs and materials used in said facilities suffers substantial variation, that valuation could decrease (or increase), which, in turn, would prevent the investments made from being fully recovered.

## » REASONED ANALYSIS OF THE FINANCIAL STATEMENTS

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### » F) FOREIGN EXCHANGE AND INTEREST RATE RISK

#### Foreign Exchange Risk

Depending on the market and other considerations, Transelec has carried out, when deemed necessary, certain hedging activities such as cross currency swaps and currency forwards in order to cover the risk of fluctuations in the UF-dollar exchange rate for its bonds denominated in United States dollars (US dollars). However, it is not possible to assure that Transelec will be fully protected by maintaining foreign exchange hedge contracts. In addition, cross currency swaps and forwards contain counterparty credit risks, cash requirements on the maturity dates and other associated risks.

As of December 31, 2008, the Company had a part of its fair value debt denominated in US dollars due to the placement of bonds abroad for an amount of US\$480 million (includes accrued interest) in addition to other short-term liabilities for the amount of US\$20.3 million. On the other hand, assets denominated in US dollars correspond to the credit on mercantile current account of its subsidiary Transelec Norte S.A. for a total of US\$77 million (includes interest earned) and related companies (mainly to Transelec Holdings Rentas Limitada) for a total of US\$30.8 million (includes accrued interest), short-term investments in the financial market for US\$10.5 million (includes interest earned), swap contracts at fair value of US\$274 million, property, plant and equipment for the provision for urgent projects of US\$19.9 million, investment in related companies of US\$86.6 million and other current assets of US\$1.9 million, which are greater than the respective liability by US\$0.4 million.

Additionally, the Company maintains forward contracts for sales of US dollars amounting to US\$54 million linked to the income that the Company will invoice from January to June 2009, in order to establish the underlying amount of its income in Chilean pesos.

As of December 31, 2007, the Company had a part of its fair value debt denominated in US dollars due to the placement of bonds abroad for US\$492.1 million (including accrued interest) in addition to other short-term liabilities totaling US\$40.1 million. On the other hand, assets denominated in US dollars correspond to the credit on mercantile current accounts of its subsidiary Transelec Norte S.A. for a total of US\$78.5 million (including interest earned) and Transelec Holding Rentas Limitada and ETC Holding Ltda for a total of US\$54.8 million (including interest earned), short-term investments in the financial market for the amount of US\$36.7 million (including interest earned), swap contracts at fair value of US\$232.9 million (including interest earned), property, plant and equipment for the provision for urgent projects in the amount of US\$37.2 million, investment in related companies in the amount of US\$86.7 million, leasing contracts for US\$2.1 million and forward contracts for US\$12.4 million. These assets denominated in US dollars are greater than the respective liabilities by US\$3.8 million.

Exposure to exchange rate variation is partially mitigated by the fact that toll revenues are denominated in US dollars and indexed semiannually by an index formula partly linked to the dollar.

Toll amounts are denominated in United States dollars, but monthly invoices were sent in Chilean peso equivalents, applying the average observed exchange rate to approximately 94.5% of contracts and the current observed exchange rate as of the last day of the month to the remaining 4.1%. The majority of the remaining income (1.4%) is invoiced in pesos according to the value of the Unidad de Fomento. Corresponding exchange rates are shown below:

#### FOREIGN EXCHANGE RATES

MONTH	Average 2008 (Ch\$)	Last day 2008 (Ch\$)	Average 2007 (Ch\$)	Last day 2007 (Ch\$)
January	480.90	465.30	540.51	545.18
February	467.22	458.02	542.27	538.42
March	442.94	439.09	538.49	539.37
April	446.43	459.16	532.30	527.08
May	470.10	479.66	522.02	527.52
June	493.61	520.14	526.72	527.46
July	502.24	502.78	519.80	523.08
August	516.70	516.47	522.92	524.63
September	530.17	552.47	516.91	511.72
October	618.39	664.96	501.44	494.64
November	651.51	659.43	506.95	508.47
December	649.32	629.11	499.28	495.82
Average for the Period	522.46	528.88	522.47	521.95



The indexation formulas applied twice yearly incorporated in the toll contracts and those applied monthly for regulated trunk income reflect the variations in the value of the facilities and of operating, maintenance and administration costs. In general, those indexation formulas contemplate the variations in the international prices of equipment, materials, commodities and local labor.

For the 2008 period, the indexation effect increased the value of tolls by an average of 9.1% compared to 2007.

#### Interest Rate Risk

The Company has debts with fixed interest rates. In effect, the debt denominated in US dollars contemplates a fixed 7.875% annual interest rate. On the other hand, all debts denominated in UF were placed at fixed interest rates varying from 3.5% to 6.2%, depending on each bond. On the other hand, the Company has a mercantile current account with related companies denominated in US dollars, which contemplates a variable interest rate (Libor). Given that these mercantile current accounts represent only 1.1% of Total Assets, the Company deems that it is not exposed to risk that could affect its income due to a change in market interest rates.

#### » G) PRINCIPAL CASH FLOWS FOR THE PERIOD

For the year ended December 31, 2008, positive net cash flows of ThCh\$30,686,363 were generated, which were positively affected by operating activities of ThCh\$105,809,336 and negatively affected by financing activities of ThCh\$23,111,239 and investing activities of ThCh\$49,821,918. In 2007, positive net cash flows of ThCh\$28,002,818 were generated, mainly from positive operating activities of ThCh\$133,363,236, which were negatively affected by investing activities of ThCh\$58,054,546 and financing activities of ThCh\$42,140,811.

Financing activities generated negative cash flows of ThCh\$23,111,239, as a result of dividend payments of ThCh\$21,750,584 and payments made on bonds of ThCh\$1,360,655. In 2007, financing activities generated negative cash flows of ThCh\$42,140,811, as a result payments made on bonds of ChTh\$2,688,523 and dividend payments of ThCh\$39,452,288.

Investing activities generated negative net cash flows of ThCh\$49,821,918, mainly due to other investment disbursements associated with price adjustments with Hydro-Québec and IFC amounting to ThCh\$75,920,885 and net additions to property, plant and equipment of ThCh\$41,384,604 which were positively affected by net cash flows with related companies of Ch\$78,253,577.

In 2008, the effect of inflation on cash and cash equivalents was negative, amounting to ThCh\$2,189,816. In 2007, this effect was also negative and amounted to ThCh\$5,165,061.

The final balance of cash and cash equivalents as of December 31, 2008 amounted to ThCh\$58,785,832 from an opening balance of ThCh\$28,099,469. In 2007, the final balance of cash and cash equivalents amounted to ThCh\$28,099,469 from an opening balance of ThCh\$96,651.

## » RELEVANT EVENTS

» TRANSELEC S.A. • DECEMBER 31, 2008

During the period ended as of December 31, 2008, and in accordance with General Rule No. 30, the Company has informed the SVS about the following essential or relevant events:

On January 25, 2008 the following was informed as an essential event: at ordinary meeting No. 15 held on January 24, 2008 the Company's Board became aware of the resignation presented by director Mr. Mario Marcel Cullell, and accepted such resignation effective as of March 1, 2008.

On March 20, 2008, the convocation of the Extraordinary Shareholders' Meeting for April 4, 2008 at 9:00 hours at the offices located at Av, Apoquindo 3721, 6th Floor, Las Condes was informed as an essential event.

The purpose of the convocation is to inform the following and submit it to the approval of the shareholders:

Payment of the price adjustment of the Investment Value, in accordance with the HQI Transelec Chile S.A. share purchase agreement signed in June 2006.

On March 27, 2008, the meeting held on March 27, 2008 agreed to inform the SVS the essential event consisting in convocation to Ordinary Shareholders' Meeting for April 24, 2008, at 9:00 hours, at the offices located at Av, Apoquindo 3721, 6th Floor, Las Condes.

The object of the citation is to inform and get the approval of the shareholders in respect to the following matters:

- 1) Annual Report, Balance Sheet, Financial Statements and Report of External Auditors, corresponding to the period ended as of December 31, 2007.
- 2) Distribution of final dividend
- 3) Dividends policy and information regarding the payment procedures to be used
- 4) Remuneration of the Board and the Audit Committee
- 5) Designation of External Auditors
- 6) Newspaper to be used to publish convocation to Shareholders' Meetings
- 7) Other matters of interest of the Company that come under the jurisdiction of the Meeting

On April 7, 2008, the SVS was informed of the following:

Complying with the agreement in number 1,7 of the Share Purchase Agreement signed on June 30, 2006 between HQ Puno Ltda., Hydro Québec Internacional Transmisión Sudamérica S.A. and International Finance Corporation as sellers and Rentas Eléctricas IV Limitada, as purchaser (which in virtue of the various modifications today corresponds to Transelec S.A.), it is informed that the parties have reached an agreement regarding the partial value of the price adjustment indicated in the mentioned number 1.7 which amounts to US\$155,529,900, amount that will be paid by Transelec S.A. to the seller in accordance with the following detail:

- HQI Transmisión Sudamérica S.A.	US\$ 143,071,985
- HQ Puno Ltda.,	US\$ 15,553
- International Finance Corporation	US\$ 12,442,392

The financing of these payments will come from partial prepayment of the mercantile account that Transelec Holdings Rentas Limitada (main shareholder of Transelec S.A. with 99,99% of the shares) owes this company.

We note that these payments were made on April 4, 2008. In addition we inform that as part of the agreement signed between the aforementioned selling and purchasing parties, the definition of an eventual payment for the adjustment denominated "Cardones-Maintencillo Reactives" is pending, which could amount to US\$5,278,000, whose payment is subject to compliance with certain conditions that could occur in the future.

On April 25, 2008, the Superintendent was informed that on April 24, 2008, the Company held its Ordinary Shareholders' Meeting which agreed to the following:

- 1) Approve the Annual Report, Balance Sheet, Financial Statements and the Report of Independent Auditors, corresponding to the period ended December 31, 2007.
- 2) Approve the distribution of Ch\$8,894,151,513, equivalent to Ch\$8,894,151,513 per share as the remainder of the final dividend for 2007, dividend that will be paid starting on May 20, 2008 to the shareholders registered in the respective registry on May 13, 2008.
- 3) The dividends policy for 2008 was informed.
- 4) The remunerations of the Board of Directors and Audit Committee were set.
- 5) The designation of Ernst & Young as external auditors of the Company for 2008 was approved.
- 6) Designation of the Diario Financiero to be used to publish citation to general shareholders' meeting notices was approved.

On May 30, 2008, it was informed that the Board of Directors Meeting held on May 29, 2008 agreed to the distribution of an interim dividend for the period ended March 31, 2008 of the sum of Ch\$12,040,000,000 which will be paid starting on June 23, 2008 to the shareholders registered in the respective registry on June 17, 2008.

On June 27, 2008, the Superintendent was informed that the Board of Transelec S.A. at the meeting held on June 26, 2008 agreed to inform that Superintendency of the essential event consisting in the summon to Extraordinary Shareholders' Meeting to be held on July 21, 2008 at 9:00 hours, at the offices located at Av, Apoquindo 3721, 6th Floor, Las Condes.

The object of the citation is to inform and submit to the shareholders approval of the following point:

- Revoke all the current members of the Board and elect new regular and deputy directors.

On July 21, 2008, the SVS was informed that on July 21 an Extraordinary Shareholders' Meeting was held, in which the following was agreed:

- 1) Revoke all the current members of the Board, both regular and alternate directors, and elect in their replacement as Regular Directors Mr. Jeffrey Blidner, Mr. Bruno Guilmette, Mr. Scott Lawrence, Ms. Brenda Eaton, Mr. Felipe Lamarca Claro, Mr. Juan Andrés Fontaine Talavera, Mr. Blas Tomic Errázuriz, Mr. José Ramón Valente Vias and Mr. Alejandro Jadresic Marinovic and as their respective Alternate Directors Mr. Derek Pannell, Mr. Patrick Charbonneau, Mr. Graeme Bevans, Mr. Richard Dinneny, Mr. Enrique Munita Luco, Mr. Juan José Eyzaguirre Lira, Mr. Federico Grebe Lira, Mr. Juan Paulo Bambach Salvatore and Mr. Juan Irrarázabal Covarrubias.
- 2) Grant the necessary powers to execute the adopted agreements with respect to the mentioned subjects.

On July 24, 2008, the SVS was informed that at the Ordinary Session No. 23 of Transelec S.A.'s Board of Directors, the Company's Board of Directors, held on July 24, 2008, Mr. Jeffrey Blidner was elected as the Board's President.

On September 25, 2008, the Company informed that at Ordinary Session No. 25 of Transelec S.A.'s Board of Directors, held on September 25, 2008, board members agreed to call an Extraordinary Shareholders' Meeting for October 16, 2008 at 9:00 am at Av. Apoquindo 3721, 6th Floor, Las Condes.

The objective of the citation is to inform and subject the following point to the approval of the shareholders:

- Approval of expenditures of CAPEX credit line.

On October 16, 2008, the Superintendent was informed that an extraordinary meeting of the Company's shareholders was held on the same date. The following matters were addressed at the meeting:

- 1) The shareholders agreed to expressly ratify the actions of Messrs. Fernando Abara and Marcelo de Petris in negotiating and entering into the Contract of Committed Financing with the banks Corpbanca and Scotiabank Sudamericano, and specifically the powers to proceed with the signing of the documentation associated with that loan. This Committed Credit Line, secured for a maximum of the Chilean peso equivalent of 3,206,453 Unidades de Fomento until the contract's closing date, is not revolving. Therefore, capital payments made by Transelec S.A. on the loans do not give the Company the right to new disbursements of principal. The term for disbursement is up to 24 months starting from the date the contract is signed. Funds from these loans will be used by Transelec S.A. solely and exclusively for financing its capital investment plan and refinancing existing financial debt. Transelec S.A. will be able to amortize the total amount of the line of credit duly used from September 15, 2012 until September 15, 2015. Interest will be calculated using an interest rate equal to TAB (the Chilean interbank rate) plus a fixed margin, whose level depends on the Company's local risk rating and on the period of the contract (availability, preamortization, amortization). Transelec S.A. will be able to wholly or partially prepay the amount withdrawn without any type of penalty.
- 2) Likewise, the shareholders agreed to authorize any possible future disbursements, including signing of corresponding promissory notes and associated documentation by the representatives of Transelec S.A. empowered to enter into loans as of the date of each transaction, that, in accordance with the terms of the Contract of Committed Financing signed with the banks Scotiabank Sudamericano and Corpbanca, exceed, individually or as a whole, one hundred million US dollars.
- 3) The shareholders individually empowered Mr. Fernando Abara Elías and Ms. Constanza Rojas Marambio to transform all or part of the acts from this meeting into public deed and empowered the bearer of an authorized copy of the deed or an extract of the deed to carry out any necessary publications and registrations.

» FINANCIAL STATEMENTS TRANSELEC NORTE S.A.

» (TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN SPANISH—SEE NOTE 2)

December 31, 2008 and 2007

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## » REPORT OF INDEPENDENT AUDITORS

» (TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN SPANISH- SEE NOTE 2)

» TO THE SHAREHOLDERS AND DIRECTORS OF

» TRANSELEC NORTE S.A.:

We have audited the balance sheets of Transelec Norte S.A. as of December 31, 2008 and 2007 and the related statements of income and cash flows for the years ended December 31, 2008 and 2007, in accordance with generally accepted auditing standards in Chile. In our report dated January 21, 2009, we expressed an unqualified opinion on those financial statements. The attached Detailed Analysis and Relevant Events are not a part of these summarized financial statements and therefore this report does not include them.

In our opinion, the information contained in the attached summarized financial statements reasonably agrees, in all significant respects, with the financial statements from which they were derived. However, since the summarized financial statements present partial information, these must be read together with the mentioned audited financial statements.



MIGUEL VICENCIO T.

Santiago, Chile  
January 21, 2009

ERNST & YOUNG LTDA.

## » BALANCE SHEETS

» (TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN SPANISH—SEE NOTE 2)

» TRANSELEC NORTE S.A.

As of December 31,

ASSETS	NOTE	2008 ThUS\$	2007 ThUS\$
CURRENT ASSETS			
Cash		21	909
Time deposits	(20)	12,164	11,993
Marketable securities, net	(4)	393	689
Trade accounts receivable, net	(5)	3,227	2,147
Prepaid expenses		4	2
<b>Total current assets</b>		<b>15,809</b>	<b>15,740</b>
PROPERTY, PLANT AND EQUIPMENT			
Land		1,383	1,383
Buildings and infrastructure		85,284	85,870
Machinery and equipment		31,708	30,315
Other property, plant and equipment		3	3
Less: accumulated depreciation		(23,025)	(18,784)
<b>Total property, plant and equipment</b>	<b>(8)</b>	<b>95,353</b>	<b>98,787</b>
OTHER ASSETS			
Investments in other companies	(9)	452	364
Intangibles	(10)	707	707
Less: amortization of intangibles	(10)	(96)	(79)
<b>Total of other assets</b>		<b>1,063</b>	<b>992</b>
<b>Total Assets</b>		<b>112,225</b>	<b>115,519</b>

The accompanying notes numbers 1 to 3 are an integral part of these financial statements



## » BALANCE SHEETS

» (TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN SPANISH—SEE NOTE 2)

### » TRANSELEC NORTE S.A.

As of December 31,

LIABILITIES AND SHAREHOLDERS' EQUITY	NOTE	2008 ThUS\$	2007 ThUS\$
CURRENT LIABILITIES			
Accounts payable		1,037	1,124
Miscellaneous payables	(21)	-	2,268
Notes and accounts payable to related companies	(6)	236	2,074
Withholdings		207	166
Income taxes	(7)	119	31
<b>Total current liabilities</b>		<b>1,599</b>	<b>5,663</b>
LONG-TERM LIABILITIES			
Notes and accounts payable to related companies	(6)	77,000	77,000
<b>Total long-term liabilities</b>		<b>77,000</b>	<b>77,000</b>
SHAREHOLDERS' EQUITY			
Paid-in capital		30,005	30,005
Net income		3,621	3,833
Less: Interim dividends		-	(982)
<b>Total shareholder's equity</b>	<b>(11)</b>	<b>33,626</b>	<b>32,856</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>112,225</b>	<b>115,519</b>

The accompanying notes numbers 1 to 3 are an integral part of these financial statements

## » STATEMENTS OF INCOME

» (TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN SPANISH—SEE NOTE 2)

» TRANSELEC NORTE S.A.

For the years ended December 31,

	Note	2008 ThUS\$	2007 ThUS\$
OPERATING INCOME			
Sales		18,490	18,403
Cost of sales		(7,647)	(7,352)
Gross margin		10,843	11,051
Less: Administrative and selling expenses		(806)	(656)
<b>Net operating income</b>		<b>10,037</b>	<b>10,395</b>
NON-OPERATING INCOME			
Interest income		455	393
Other non-operating income	(12)	-	132
Interest expenses		(6,094)	(6,064)
Other non-operating expenses	(12)	(32)	(218)
<b>Non-operating loss</b>		<b>(5,671)</b>	<b>(5,757)</b>
<b>Income before income taxes</b>		<b>4,366</b>	<b>4,638</b>
Income taxes	(7)	(745)	(805)
<b>Net income</b>	<b>(11)</b>	<b>3,621</b>	<b>3,833</b>

The accompanying notes numbers 1 to 3 are an integral part of these financial statements

## » STATEMENT OF CASH FLOWS

» (TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN SPANISH—SEE NOTE 2)

» TRANSELEC NORTE S.A.

For the years ended December 31,			
	Note	2008 ThUS\$	2007 ThUS\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income		3,621	3,833
Loss on sales of property, plant and equipment		-	138
CHARGES (CREDITS) TO INCOME THAT DO NOT REPRESENT CASH FLOWS			
Depreciation	(8)	4,245	4,314
Amortization of intangibles	(10)	18	18
CHANGES IN CURRENT ASSETS THAT AFFECT CASH FLOWS (INCREASE) DECREASE			
Trade accounts receivable		(1,079)	258
Other assets		(90)	113
CHANGES IN LIABILITIES THAT AFFECT CASH FLOWS INCREASE (DECREASE)			
Accounts payable associated with operating income		(4,246)	427
Income taxes payable, net		88	(52)
Value added tax and other similar taxes payable, net		123	(51)
<b>Net cash flows provided by operating activities</b>		<b>2,680</b>	<b>8,998</b>
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of dividends	(11)	(2,851)	(4,482)
<b>Net cash flows used in financing activities</b>		<b>(2,851)</b>	<b>(4,482)</b>
CASH FLOW FROM INVESTING ACTIVITIES			
Sale of property, plant and equipment		-	14
Purchase of property, plant and equipment		(842)	(1,688)
Investments in other companies		-	(100)
<b>Net cash flows used in investing activities</b>		<b>(842)</b>	<b>(1,774)</b>
<b>Net Cash Flows for the Year</b>		<b>(1,013)</b>	<b>2,742</b>
Cash and cash equivalents - beginning of the year		13,591	10,849
Cash and cash equivalents - end of the period		12,578	13,591

The accompanying notes numbers 1 to 3 are an integral part of these financial statements

## » NOTES TO THE FINANCIAL STATEMENTS

» TRANSELEC NORTE S.A. • DECEMBER 31, 2008 AND 2007

### » NOTE 1 - BUSINESS DESCRIPTION

HQI Transelec Norte S.A. was formed as a privately-held corporation by public deed on May 26, 2003. On August 16, 2006, the Company's name was changed to Transelec Norte S.A. The Company's line of business is the operation and development of electrical systems, owned by the Company or by third parties, destined to transport or transmit electric energy. As an electric Company, it is able to obtain, acquire and/or use the respective concessions and permits for the above mentioned purposes, and exercise all the rights and faculties that current legislation confers on electric companies.

On May 31, 2006, the Company was listed as No. 939 in the Securities Registry of the Chilean Superintendency of Securities and Insurance ("SVS"). Simultaneously, it registered 1,000,000 fully subscribed company shares, of which 750,125 shares have been paid, therefore the Company is subject to the oversight of the SVS.

On June 30, 2006, there was a change in the Company's ownership as a consequence of the purchase of 1,000,000 shares by its parent Company HQI Transelec Chile S.A., which represents 100% of the shares issued, subscribed and paid with voting rights in which the paid-in capital of the latter Company is divided into. Rentas Eléctricas IV Limitada purchased 999,900 shares, which represent 99.99% of the parent Company's capital, and Rentas Eléctricas III Limitada purchased the remaining 100 shares, which represent 0.01% of the parent Company's capital. Through this acquisition, Rentas Eléctricas IV Limitada acquired control of the 750,050 shares that HQI Transelec Chile S.A. had in HQI Transelec Norte S.A., which represent 99.99% of the shares issued, subscribed and paid with voting rights into which the Company's capital is divided. Likewise Rentas Eléctricas III Limitada acquired 75 shares of HQI Transelec Norte S.A. owned by Hydro-Québec International Transmisión Sudamérica S.A., which represent 0.01% of the capital. On April 23, 2007, Rentas Eléctricas III S.A. sold those 75 shares of Transelec Norte S.A. to Transelec Holdings Rentas Limitada.

### » NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

#### A) PERIODS COVERED

These financial statements cover the years ended December 31, 2008 and 2007.

#### B) BASIS OF PREPARATION

These financial statements have been prepared in accordance with generally accepted accounting principles in Chile ("Chilean GAAP") issued by the Chilean Association of Accountants and rules and regulations issued by the SVS. In the event of discrepancies, the rules and regulations issued by the SVS shall prevail. Certain accounting practices applied by the Company that conform to Chilean GAAP may not conform to International Financial Reporting Standards ("IFRS") or generally accepted accounting principles in the United States ("US GAAP").

For the convenience of the reader, these financial statements have been translated from Spanish to English.

#### C) BASIS OF CONVERSION

On July 30, 2003, the Chilean Internal Revenue Service ("SII"), in accordance with Exempt Resolution No. 1540, authorized HQI Transelec Norte S.A. (currently Transelec Norte S.A.) to maintain its accounting in United States dollars starting on May 26, 2003.

The exchange rate of the Chilean peso in respect to the United States dollar as of December 31, 2008 was Ch\$636,45 (Ch\$496,89 in 2007).

#### D) OPERATING ESTIMATES

In the process of its operations, the Company must make accounting estimates to determine its accounts receivable and payable for the concept of tariff income. Final settlements of these accounts receivable and payable can exceed one year and originate eventual losses or gains in amounts that are estimated not to be significant.

#### E) TIME DEPOSITS

Investments in time deposits include principal plus price-level restatements and interest accrued as of each period-end.

#### F) MARKETABLE SECURITIES

Marketable securities include investments in mutual funds valued at the quotation price as of each period-end.

G) ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Company believes that it does not require an allowance for doubtful accounts as of each period-end.

H) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are presented valued at their acquisition cost.

I) DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

Depreciation of property, plant and equipment has been calculated using the straight-line method based on their estimated useful lives.

J) INTANGIBLES

Intangibles include easements, which are amortized using the straight-line method over a term of 40 years, as established in Technical Bulletin No. 55 of the Chilean Association of Accountants.

K) CURRENT AND DEFERRED INCOME TAXES

The Company recognized its tax obligations in accordance with current legal provisions.

The effects of deferred taxes that originated from differences between the tax and book values of assets and liabilities are recorded for all temporary differences, considering the tax rate that will be in effect on the estimated date of reversal, as established in Technical Bulletin No. 60 issued by the Chilean Association of Accountants.

L) OPERATING INCOME

Operating income is mainly income arising from the commercialization of electric transmission capacity of the Company's facilities, which includes the transmission service provided but not billed at each period-end, which is valued at the selling price as stipulated in current contracts and toll reports issued by the "Centro de Despacho Económico de Carga del Sistema Interconectado del Norte Grande" (CDEC - SING), an entity that coordinates the operation of the electricity system in the north of Chile, one of Chile's two major interconnected electricity systems.

M) STATEMENT OF CASH FLOWS

Cash and cash equivalents presented in the statement of cash flows correspond to the concept of cash, time deposits, securities and investments under resale agreements.

Cash flows from operating activities include all cash flows related to the Company's line of business, and in general all cash flows that are not defined as from investing or financing activities. It should be noted that the operating concept used in this statement is broader than the one used in the statement of income.

» NOTE 3 - ACCOUNTING CHANGES

During the year ended December 31, 2008, there were no accounting changes made in relation to the previous period that could significantly affect the interpretation of the financial statements.

## » REASONED ANALYSIS OF THE FINANCIAL STATEMENTS

» TRANSELEC NORTE S.A. • DECEMBER 31, 2008

### » A) SUMMARY

In 2008, TRANSELEC NORTE S.A. obtained net income of ThUS\$3,621, which is comparatively 5.53% lower than the previous period. This net income comes from positive operating income of ThUS\$10,037, negative non-operating income of ThUS\$5,671 and a net charge to income for first category (corporate) income tax of ThUS\$745. In 2007, net income was ThUS\$3,833 coming from positive operating income of ThUS\$10,395, negative non-operating income of ThUS\$5,757 and a net charge to income for first category (corporate) income tax of ThUS\$805.

In this period, sales reached ThUS\$18,490, 0.47% higher than the ThUS\$18,403 obtained in 2007. This operating income comes mainly from commercializing the transmission capacity of facilities in the Great North Interconnected System (SING).

In relation to sales during 2008, the following aspects should be mentioned:

- a) Decree No. 207 issued by the Ministry of Economy, Development and Reconstruction, which sets the installations of the trunk system, the area of common influence, annual transmission value per segment and its components with its indexation formulas for the four-year period from 2007 to 2010 was published in the Official Gazette of January 15, 2008. This decree establishes the installations of each trunk transmission system, the area of common influence and investment value of each segment, the transmission value per segment, the annual investment value of the segment and the annual cost of operation, maintenance and administration of the respective segment for the four-year period from 2007 to 2010. In addition it sets the application conditions for determining payment for transportation services in the trunk transmission systems for the four-year period from 2007 to 2010 and for the period from March 13, 2004 to December 31, 2006.
- b) In particular, the CDEC-SING was instructed to prepare a Toll Report to determine the recalculation of trunk remuneration for 2007.
- c) In March 2008, the CDEC-SING made the Toll Report for 2007 available on its webpage.
- d) According to this report, during April 2008 Transelec Norte collected ThCh\$296,711 from 2007 trunk recalculation.
- e) In July 2008, Transelec collected the amount for trunk recalculation from March 13, 2004 to December 31, 2006, which was ThCh\$1,436,539.
- f) However, Transelec Norte's trunk segment is covered under contract; therefore, although the amounts indicated in letters d) and e) were collected, in virtue of the mentioned contract, TLC Norte must reimburse that same amount to its contractual counterpart.

Operating costs amounted to ThUS\$7,647, 4.01% greater than the 2007 of ThUS\$7,352, and are composed as follows: 55.5% depreciation of property, plant and equipment, 44.3% other fixed costs corresponding basically to services provided by Transelec S.A., and 0.2% amortization of intangibles. In 2007, operating costs amounted to ThUS\$7,352 and were composed as follows: 58.7% depreciation, 41.1% other fixed costs, and 0.2% in amortization of intangibles.

Administrative and selling expenses amounted to ThUS\$806, 22.87% greater than in 2007, when they reached ThUS\$656.

Non-operating income for this period was a loss of ThUS\$5,671, 1.49% less than the previous period's loss of ThUS\$5,757. This loss is mainly explained by financial expenses of ThUS\$6,094 in this period (ThUS\$6,064 in 2007).



» B) INCOME

Description	For the year ended December 31, 2008 ThUS\$	For the year ended December 31, 2007 ThUS\$	Variance December 2008/2007 %	Variance December 2008/2007 ThUS\$
Sales	18,490	18,403	0.47%	87
Toll Sales	18,409	18,331	0.43%	78
Works and Services	81	72	12.50%	9
Operating Costs	(7,647)	(7,352)	4.01%	(295)
Fixed Costs	(3,384)	(3,020)	12.05%	(364)
Depreciation	(4,245)	(4,314)	(1.60%)	69
Amortization of intangibles	(18)	(18)	0.00%	0
Administrative and Selling Expenses	(806)	(656)	22.87%	(150)
Operating Income	10,037	10,395	(3.44%)	(358)
Non-operating Income	(5,671)	(5,757)	(1.49%)	86
Income Before Income Taxes	4,366	4,638	(5.86%)	(272)
Income Taxes	(745)	(805)	(7.45%)	60

<b>Net Income</b>	<b>3,621</b>	<b>3,833</b>	<b>(5.53%)</b>	<b>(212)</b>
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EBITDA	14,268	14,641	(2.55%)	(373)
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PROFITABILITY

Indexes	December 31, 2008	December 31, 2007	Variance December 2008/2007
Profitability of equity	10.77%	11.67%	(7.71%)
Profitability of assets	3.23%	3.32%	(2.71%)
Profitability of operating assets	10.46%	10.46%	0.00%
Gain per share (US\$)	4,828	5,111	(5.53%)

» C) BALANCE SHEET ANALYSIS

	As of December 31, 2008 ThUS\$	As of December 31, 2007 ThUS\$	Variance December 2008/2007	Variance December 2008-2007 ThUS\$
Current assets	15,809	15,740	0.44%	69
P.P. & E.	95,353	98,787	(3.48%)	(3,434)
Other assets	1,063	992	7.16%	71
<b>Total assets</b>	<b>112,225</b>	<b>115,519</b>	<b>(2.85%)</b>	<b>(3,294)</b>
Current liabilities	1,599	5,663	(71.76%)	(4,064)
Long-term liabilities	77,000	77,000	0.00%	0
Shareholders' equity	33,626	32,856	2.34%	770
<b>Total liabilities and shareholders' equity</b>	<b>112,225</b>	<b>115,519</b>	<b>(2.85%)</b>	<b>(3,294)</b>

## » REASONED ANALYSIS OF THE FINANCIAL STATEMENTS

» TRANSELEC NORTE S.A. • DECEMBER 31, 2008

### VALUE OF PRINCIPAL OPERATING PROPERTY, PLANT AND EQUIPMENT

Assets	December 31, 2008 ThUS\$	December 31, 2007 ThUS\$	Variance December 2008/2007 %	December 2008-2007 ThUS\$
Land	1,383	1,383	0.00%	0
Buildings and infrastructure	85,284	85,870	(0.68%)	(586)
Machinery and equipment	31,708	30,315	4.60%	1,393
Other property, plant & equipment	3	3	0.00%	0
Depreciation	(23,025)	(18,784)	22.58%	(4,241)
<b>Total</b>	<b>95,353</b>	<b>98,787</b>	<b>(3.48%)</b>	<b>(3,434)</b>

As of December 31, 2008 property, plant and equipment mainly consist of buildings, infrastructure, and machinery and equipment.

The Company's assets are valued in accordance with Chilean GAAP.

### DIFFERENCES BETWEEN BOOK VALUES AND ECONOMIC VALUES AND/OR MARKET VALUES OF PRINCIPAL ASSETS

Since the Parent Company's assets were valued at fair value in June 2006, in accordance with Technical Bulletin No. 72 issued by the Chilean Association of Accountants, for consolidation purposes, it is estimated that the book value of the assets of Transelec Norte is 35.73% less than their economic and/or market value.

### LIQUIDITY AND INDEBTEDNESS

Ratios	December 31, 2008	December 31, 2007	December 2008/2007
Current liquidity	9.89	2.78	255.76%
Acid ratio	7.87	2.40	227.92%
Debt/equity	2.34	2.52	(7.14%)
% short-term debt	2.03	6.85	(70.30%)
% long-term debt	97.97	93.15	5.17%
Interest Coverage Ratio	2.34	2.41	(3.03%)

## » D) MOST IMPORTANT CHANGES IN THE COMPANY'S MARKET

The business of Transelec Norte S.A. mainly centers on commercializing its capacity to transport and transform electricity at its facilities located in the SING, which covers Chile's first and second regions, at a voltage of 220kV. Transelec Norte's market share in the SING transmission market is 23.5% of 220kV lines.

In relation to revenues during the period, the following events should be mentioned:

- Decree No. 207 issued by the Ministry of Economy, Development and Reconstruction, which sets the installations of the trunk system, the area of common influence, annual transmission value per segment and its components with its indexation formulas for the four-year period from 2007 to 2010 was published in the Official Gazette of January 15, 2008. This decree establishes the installations of each trunk transmission system, the area of common influence and investment value of each segment, the transmission value per segment, the annual investment value of the segment, and the annual cost of operation, maintenance and administration of the respective segment for the four-year period from 2007 to 2010. In addition it sets the application conditions for determining payment for transportation services in the trunk transmission systems for the four-year period from 2007 to 2010 and for the period from March 13, 2004 to December 31, 2006.
- In particular, the CDEC-SING was instructed to prepare a Toll Report to determine recalculation of trunk revenues for 2007.
- In March 2008, the CDEC-SING made the Toll Report for 2007 available on its webpage.
- According to that report, during April 2008, Transelec Norte collected the amount of ThCh\$296,711 from 2007 trunk recalculation.
- In July 2008, Transelec collected the amount for trunk recalculation from March 13, 2004 to December 31, 2006, which was ThCh\$1,436,539.

- f) However, Transelec Norte's trunk segment is covered under contract; therefore, although the amounts indicated in letters d) and e) were collected, in virtue of the mentioned contract, TLC Norte must reimburse that same amount to its contractual counterpart.

## » E) ANALYSIS OF MARKET RISK

Due to the characteristics of the electrical market and the legislation and regulations governing this sector, the Company is not exposed to significant risks related to the development of its main business. However, the following risk factors should be mentioned and considered:

### Technological Changes

Compensation for the investments that Transelec Norte carries out in electrical transmission facilities is obtained through an annual valuation of the existing facilities. Should there be important technological changes in the equipment that composes Transelec Norte's facilities, that valuation could decrease. This would prevent full recovery of the investments made; however, a long-term contract guarantees Transelec Norte's remuneration.

### Regulatory Framework

The laws governing the electricity transmission business in Chile were amended by the enactment of Law 19,940, referred to as Short Law I, published March 13, 2004.

Even though some application-related aspects of Short Law I still need to be defined, the more relevant methodological aspects for establishing tolls for trunk facilities to be paid by each user company, as well as mechanisms for payment and recalculation are defined in decree No. 207, issued July 9, 2007 by the Ministry of Economy, Development and Reconstruction printed in the Official Gazette on January 15, 2008. With respect to tolls for sub-transmission facilities, the decree that sets sub-transmission rates and indexation formulas contains provisions that allow it to be applied as of January 14, 2009.

### Concentration of Income

A considerable part of Transelec Norte's income comes from Gas Atacama Generación Ltda. (GasAtacama) and Compañía Eléctrica de Tarapacá S.A. (CELTA), and a substantial change in the financial position of these companies could eventually have a negative impact on Transelec Norte.

### Exposure to Exchange Rate Variations

Since it maintains its accounting and manages its financial commitments and income in United States dollars, Transelec Norte is not exposed to foreign exchange variation risks.

## » F) PRINCIPAL CASH FLOWS FOR THE PERIOD

For the year ended December 31, 2008, negative cash flows of ThUS\$1,013 were generated, which were negatively affected by financing activities of ThUS\$2,851 and investing activities of ThUS\$842, and positively affected by operating activities of ThUS\$2,680. In 2007, positive net cash flows of ThUS\$2,742 were generated mainly from operating activities of ThUS\$5,540, which were negatively affected by financing activities of ThUS\$4,482 and investing activities of ThUS\$1,774.

Investing activities generated negative cash flows of ThUS\$842 and ThUS\$1,774, respectively, for the years ended December 31, 2008 and 2007, mainly because of additions to property, plant and equipment.

Financing activities generated negative cash flows of ThUS\$2,851 and ThUS\$4,482, respectively, for the years ended December 31, 2008 and 2007, mainly because of dividend payments.

The final balance of cash and cash equivalents amounted to ThUS\$12,578 from an opening balance of ThUS\$13,591. In 2007, the final balance of cash and cash equivalents amounted to US\$13,591 from an opening balance of ThUS\$10,849.

## » RELEVANT EVENTS

» TRANSELEC NORTE S.A. • DECEMBER 31, 2008

During the period ended as of December 31, 2008, and in accordance with General Rule No. 30, the Company has informed the SVS about the following essential or relevant events:

On January 25, 2008 the SVS was informed that at the Ordinary meeting No. 42, held on January 24, 2008 the Company's Board was informed of the resignation presented by Mr. Mario Marcel Cullell and accepted that resignation, which will be effective as of March 1, 2008.

On March 27, 2008, Transelec Norte S.A. informed the SVS that the Board of Directors, at the meeting held on March 27, 2008, agreed to convene an Ordinary Shareholders' Meeting on April 24, 2008, at 10:00AM, at the offices located at Av. Apoquindo 3721, 6th Floor, Las Condes.

The object of the communication is to inform and get the approval of the shareholders regarding the following matters:

- 1) Annual Report, Balance Sheet, Financial Statements and Report of External Auditors, corresponding to the period ended as of December 31, 2007.
- 2) Distribution of final dividend.
- 3) Dividends policy and information regarding the payment procedures to be used .
- 4) Board of Directors fees.
- 5) Designation of External Auditors.
- 6) Newspaper to be used to publish announcement of the Shareholders' Meetings.
- 7) Other matters of interest of the Company that come under the jurisdiction of the meeting,

On April 25, 2008, the Superintendent was informed that on April 24, 2008, the Company held its Ordinary Shareholders' Meeting which agreed to the following:

- 1) Approve the Annual Report, Balance Sheet, Financial Statements and the Report of Independent Auditors, corresponding to the period ended December 31, 2007.
- 2) Approve the distribution of US\$2,850,781.23 as the remainder of the final dividend for 2007, dividend that will be paid starting on May 20, 2008 to the shareholders registered in the respective registry on May 13, 2008.
- 3) The dividends policy for 2008 was informed.
- 4) The Board fees were set.
- 5) The designation of Ernst & Young as external auditors of the Company for 2008 was approved.
- 6) Designation of the Diario Financiero to be used to publish the announcement of general shareholders' meeting was approved.

On June 27, 2008, Transelec Norte S.A. informed the Superintendent that the Board of Directors at the meeting held on June 26, 2008, agreed to convene a Special Shareholders' Meeting on July 21, 2008, at 10:00AM at the offices located at Av. Apoquindo 3721, 6th Floor, Las Condes.

The object of the citation is to inform and subject the following point for the approval of the shareholders:

- Revoke all the current members of the Board and elect new regular and alternate directors.

On July 21, 2008, the Company informed that on July 21 a Special Shareholders' Meeting was held, in which the following was agreed:

- 1) Revoke all the current members of the Board, both regular and alternate directors, and elect in their replacement as Regular Directors Mr. Jeffrey Blidner, Mr. Bruno Guilmette, Mr. Scott Lawrence, Ms. Brenda Eaton, Mr. Felipe Lamarca Claro, Mr. Juan Andrés Fontaine Talavera, Mr. Blas Tomic Errázuriz, Mr. José Ramón Valente Vias and Mr. Alejandro Jadresic Marinovic and as their respective Alternate Directors Mr. Derek Pannell, Mr. Patrick Charbonneau, Mr. Graeme Bevans, Mr. Richard Dinneny, Mr. Enrique Munita Luco, Mr. Juan José Eyzaguirre Lira, Mr. Federico Grebe Lira, Mr. Juan Paulo Bambach Salvatore and Mr. Juan Irrázabal Covarrubias.
- 2) Grant the necessary powers to execute the adopted agreements with respect to the mentioned subjects.

On July 24, 2008, the Company informed that at Ordinary Session No. 48 of Transelec Norte S.A.'s Board, held on July 24, 2008, Mr. Jeffrey Blidner was elected President of the Board.

## » ACCOUNTABILITY STATEMENT

The undersigned Directors and General Manager of Transelec S.A. agree to be held responsible, under oath, for the veracity of the information contained in this 2008 Annual Report, in compliance with General Rule N° 30, issued by the Superintendence of Securities and Insurance.



JEFFREY BLIDNER  
CHAIRMAN  
FOREIGN



PATRICK CHARBONNEAU  
DIRECTOR  
FOREIGN



SCOTT LAWRENCE  
DIRECTOR  
FOREIGN



BRENDA EATON  
DIRECTOR  
FOREIGN



FELIPE LAMARCA CLARO  
DIRECTOR  
Taxpayer's ID N° 4.779.125-1



JUAN ANDRÉS FONTAINE TALAVERA  
DIRECTOR  
Taxpayer's ID N° 6.068.568-1



BLAS TOMIC ERRÁZURIZ  
DIRECTOR  
Taxpayer's ID N° 5.390.891-8



JOSÉ RAMÓN VALENTE VÍAS  
DIRECTOR  
Taxpayer's ID N° 8.533.255-4



ALEJANDRO JADRESIC MARINOVIC  
DIRECTOR  
Taxpayer's ID N° 7.746.199-K



ANDRÉS KUHLMANN JAHN  
GENERAL MANAGER  
Taxpayer's ID N° 6.554.568-3

» DESIGN & PRODUCTION

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ABRIL 2009



