

TRANSELEC S.A. AND SUBSIDIARY

Detailed Analysis of the Consolidated Financial Statements
(Figures in thousands of Chilean pesos)

June 30, 2007 and 2006

(Translation of financial statements originally issued in Spanish)

A) SUMMARY

As of June 30, 2007, Transelec S.A. and its Subsidiary Transelec Norte S.A. recorded a net income of ThCh\$19,517,945. This net income arises from a positive operating income of ThCh\$37,707,343, from a negative non operating income of ThCh\$16,512,766, a first category and deferred income tax charge of ThCh\$1,676,515 and by the minority interest result of ThCh\$117. The same period of 2006, shows a net loss of ThCh\$2.697.848 which is explained mainly by non-operating activities for an amount of ThCh\$3.250.419 and a positive tax impact of ThCh\$552.571. It has to be noticed that the comparison period extends from June 6, 2006 to June 30, 2006..

This period operating income reached ThCh\$63,521,253. This operating income comes mainly from the commercialization of the transmission capacity of the facilities. In addition, services related to the activity were sold. During the same period of 2006, no operating activities were developed.

Operating costs amounted to ThCh23,858,913, of which a 68.32% is explained by depreciation of property, plant and equipment, 12.84% for personnel costs; and 18.84% for contracted services, supplies and contracted works. During the same period of 2006, no operating activities were developed.

Administrative and selling expenses amounted to ThCh\$1,954,997, distributed as 49.32% in personnel expenses; 46.90% in works, supplies and contracted services and 3.78% in depreciation. No administrative and selling expenses were incurred during the same period of 2006.

Non-operating income amounted to a loss of ThCh\$16,512,766, mainly due to financial expenses for a total of ThCh\$17,097,455 and goodwill amortization of ThCh\$3.187.235. An important account that affected non-operating income during 2007 were financial incomes for ThCh\$2.713.933. In the same period of 2006, non-operating income represented ThCh\$3.250.419 which is explained mainly by exchange rate impacts amounted to ThCh\$3.239.332.

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B) INCOME STATEMENT

Items	As of June 30, 2006	As of June 30, 2007	Variation 2007/2006	Variation 2007/2006
	ThCh\$	ThCh\$	%	ThCh\$
Operating Revenues	-	63,521,253	-	63,521,253
Transmission Revenues	-	62,022,302	-	62,022,302
Work and Services	-	1,498,951	-	1,498,951
Operating Costs	-	-23,858,913	-	-23,858,913
Fixed Costs	-	-7,654,831	-	-7,654,831
Depreciation	-	-14,535,592	-	-14,535,592
Amortization of Intangible	-	-1,668,491	-	-1,668,491
Administration and Sales Expenses	-	-1,954,997	-	-1,954,997
Operating Income	-	37,707,343	-	37,707,343
Non-operating Income	-3,250,419	-16,512,766	408.02%	-13,262,347
Income Tax	552,571	-1,676,515	-403.4%	-2,229,086
Minority Interest	0	-117	-	-117
Net income	-2,697,848	19,517,945	-823.46%	22,215,793
R.A.I.I.D.A.I.E.*	-3,250,419	55,351,035	-1,802.89%	58,601,454

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

PROFITABILITY

Ratios	As of June 30, 2006	As of June 30, 2007	Variation 2007/2006
Return on Equity	-	2.57%	-
Asset Return	-	1.26%	-
Operational Assets Return	-	3.42%	-
Earnings per share (\$)	-	19,518	-

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C) BALANCE SHEET ANALYSIS

	As of June 30, 2006	As of June30, 2007	Variation 2007/2006	Variation 2007/2006
	M\$	M\$	%	M\$
Current assets	71,623,756	98,473,435	37.49	26,849,679
Fixed assets	972,165,807	965,776,671	-0.66	-6,389,136
Other assets	502,398,839	479,903,530	-4.48	-22,495,309
Total assets	1,546,188,402	1,544,153,636	-0.13	-2,034,766
Current liabilities	380,257,666	33,236,379	-91.24	-347,021,287
Long term liabilities	428,878,582	750,997,312	75.11	322,118,730
Minority interest	133,439	4,494	-96.63	-128,945
Shareholders' equity	736,918,715	759,915,451	3.12	22,996,736
Total liabilities and shareholders' equity	1,546,188,402	1,544,153,636	-0.13	-2,034,766

VALUE OF THE MAIN FIXED OPERATING ASSETS

ASSETS	As of June 30, 2006	As of June 30, 2007	Variation 2007/2006	Variation 2007/2006
	M\$	M\$		M\$
Lands	9,072,836	15,387,735	69.6%	6,314,899
Buildings and infrastructure, works in progress	536,640,066	701,515,638	30.72%	164,875,572
Machinery and equipment	424,858,027	277,392,627	-34.71%	-147,465,400
Other fixed assets	1,608,455	1,423,000	-11.53%	-185,455
Technical reappraisal	2,303	-	-	-2,303
Accumulated depreciation (less)	-15,880	-29,942,329	188,453%	-29,926,449
Total	972,165,807	965,776,671	-0.66%	-6,389,136

As of June 30, 2007, the fixed assets are composed mainly by lands, buildings, infrastructure works and machinery and equipment.

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DIFFERENCES BETWEEN BOOK VALUE AND ECONOMIC VALUE AND/OR MARKET VALUE OF PRINCIPAL ASSETS

Considering that the assets of the Company and its Subsidiary Transelec Norte S.A were valued at market value as of June 2006 accordingly to Technical Bulletin N° 72 of the Chilean Institute of Accountants A.G., it is estimated that there are not significant differences between the book value of the assets and its economic or market value. For consolidation purposes, it is estimated that the book value of the fixed assets of Transelec Norte is 34,58% lower than its economic or market value.

LIQUIDITY AND INDEBTEDNESS

RATIOS	As of June 30, 2006	As of June 30, 2007	Variation 2007/2006
			%
Current Ratio	0.19	2.96	1.459
Acid-Test Ratio	0.14	1.50	971.43
Debt to Equity	1.10	1.03	-6.36
% Short-term debt	47	4.24	-90.98
% Long-term debt	53	95.76	80.68
Financial expenses coverage	-	3.24	-

D) MOST IMPORTANT CHANGES IN THE MARKET IN WHICH THE COMPANY PARTICIPATES

Transelec's business focuses mainly on commercialization of the electricity transmission and transformation capacity of its facilities in the SIC's and SING'S trunk system with voltages equal to or higher than 154 kV. Thus, the Company owns 100% of the 500 kV lines, 51,1% of the 220 kV lines, and 94,5% of the 154 kV lines.

Law 19,940 (Short Law I) modified the General Electrical Services Law enacted on 1982 in matters referring to electricity transmission and established the subdivision of the transmission network into three types of systems: trunk transmission, sub transmission and additional. As of March 13, 2004, Law 19,940 provides for a transition period that will be in force until the first prices are made public for the trunk transmission and sub transmission systems. In this manner, during the first semester 2007, collection of funds and payment of transmission installations continued to be governed, in the same manner as in 2006, by the legal and regulatory framework in force before the publication of

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the Short Law. Remuneration received for the trunk transmission system is provisional and will be subject to reassessment once the first trunk transmission tariff process has been completed.

E) EXCHANGE RATE RISK

As of June 30, 2007, part of the Company's debt is denominated in US dollars due to the placement of bonds abroad in the amount of US\$ 494,963,407 (includes accrued interest), likewise other current liabilities in the amount of US\$ 46,848,658. On the other hand, short-term investments in the financial market in the amount of US\$ 57,439,532 (includes interest earned), intercompany loan to Transelec Holding Rentas Limitada for the amount of US\$44,754,422 (includes accrued interests), Accounts Receivable for US\$3,321,345, swap contracts in the amount of US\$ 234,111,116 (includes accrued interests), forward contracts in the amount of US\$ 17,400,000, leasing contracts of US\$ 2,126,095 and fixed assets of US\$197,050,425, are the assets owned by the company denominated in US\$, which are greater than the respective liability by US\$ 14,390,870.

Exposure to the exchange rate variation is partially mitigated by the fact that the incomes from the tolls are expressed in US dollars and indexed semiannually using indexation formulas that are partly linked to the US dollar.

Toll contracts are denominated in US dollars, but monthly invoices are expressed in the equivalent Chilean pesos, using the average monthly exchange rate for the observed dollar for approximately 93.73% of the contracts and the exchange rate for the observed dollar on the last day of the month for 5.01% of the contracts. The corresponding exchange rates are as follows:

EXCHANGE RATE

	<u>Average</u>	<u>Last day</u>
	<u>2007</u>	<u>2007</u>
January	540.51	545.18
February	542.27	538.42
March	538.49	539.37
April	532.30	527.08
May	522.02	527.52
June	526.72	527.46
Average for the Period	533,72	534,17

The indexation formulas applied semiannually incorporated to the toll contracts reflect the variations in the value of the installations and in the operating, maintenance and administrative costs. In

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general, these indexation formulas use the variations in the international prices of equipment and in the prices of national labor and materials.

F) MAIN CASH FLOWS DURING THE PERIOD

During January 01, 2007 and June 30, 2007, positive net cash flows amounted to ThCh\$ 13,795,270 were generated, from which ThCh\$23,752,566 comes from operating activities, compensated by ThCh\$22,172,634 used in financing activities, and ThCh\$15,375,202 used in investment activities. During 2006 positive net cash flows of ThCh\$ 54,429,859 were generated, from which ThCh\$964,889,359 comes from financing activities, used partly as operating activities (ThCh\$3,300,607) and partly in investment activities (ThCh\$907,158,893).

During this period activities related to financing generated a negative cash flows of ThCh\$ 22,172,634, mainly due to a) the payment of the total capital of Series A Bonds in March 2007 for an amount of ThCh\$112,064,902, which was compensated by the placement of a new UF bonds (Series C) in the same month, for an amount of ThCh\$109,725,069, and b) the payment of the interim dividend of ThCh\$19,832,801. In the same period of 2006 positive financial cash flows were generated in the amount of ThCh\$ 964,889,359, mainly due to the payment of the capital of the shares stock for a total amount of ThCh\$739,616,563 and from an intercompany loan granted for an amount of ThCh\$225,272,796.

In the present period, investment activities generated a negative cash flow for an amount of ThCh\$15,375,202, derived mainly from the acquisition of a fixed asset valued at ThCh\$4,285,557 and from loans granted to related companies for ThCh\$11,617,629. In the same period 2006, the negative cash flow from investment activities was ThCh\$907,158,893 due to the acquisition of HQI Transelec Chile S.A, on June 30, 2006 for a total amount of ThCh\$961,587,834 which was compensated with other investment income for the sum of ThCh\$54,428,941.

The effect of inflation on cash and cash equivalents was ThCh\$ 1,877,112 in 2007. No effect is present for the 2006 period.

The final cash balance, at the end of the second quarter 2007, was ThCh\$ 49,772,777, while the opening balance was ThCh\$ 65,445,159. In the same period of 2006 the final cash balance was ThCh\$ 54,429,859, while there was no opening balance for 2006, because the Company was created on June 6, 2006.