

TRANSELEC S.A. AND SUBSIDIARY

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

September 30, 2007 and 2006
(Translation of financial statements originally issued in Spanish)

A) SUMMARY

As of September 30, 2007, Transelec S.A. and its Subsidiary Transelec Norte S.A. recorded a net income of ThCh\$27,592,332. This net income arises from a positive operating income of ThCh\$57,673,618, from a negative non operating income of ThCh\$25,863,720, a first category and deferred income tax charge of ThCh\$4,217,418 and by the minority interest result of ThCh\$148. The same period of 2006 shows a net income of ThCh\$3,044,808 which is explained mainly by a positive operating income of ThCh\$20,333,472, non-operating activities for an amount of ThCh\$16,862,194, a tax impact of ThCh\$424,181, and by the minority interest result of ThCh\$2,289. It has to be noticed that the comparison period extends from June 6, 2006 to September 30, 2006.

This period revenues reached ThCh\$97,465,677. This revenues comes mainly from the commercialization of the transmission capacity of the facilities. In addition, services related to the activity were sold. During the comparison period of 2006, revenues reached ThCh\$32,720,970.

Operating costs amounted to ThCh\$36,811,544, of which a 62.42% is explained by depreciation of property, plant and equipment, 12.29% for personnel costs; and 25.29% for contracted services, supplies and contracted works. During the comparison period of 2006, costs amounted to ThCh\$11,535,058, of which a 67.27% is explained by depreciation of property, plant and equipment, 11.90% for personnel costs; and 20.83% for contracted services, supplies and contracted works

Administrative and selling expenses amounted to ThCh\$2,980,515, distributed as 52.24% in personnel expenses; 42.40% in works, supplies and contracted services and 5.36% in depreciation. During the comparison period of 2006, administrative and selling expenses amounted to ThCh\$852,440, of which a 57.88% corresponds to personnel costs; and 42.12% for contracted services, supplies and contracted works

Non-operating income amounted to a loss of ThCh\$25,863,720, mainly due to financial expenses for a total of ThCh\$26,331,311, goodwill amortization of ThCh\$4,911,905 and financial incomes for ThCh\$4,152,524. In the same period of 2006, non-operating income represented a loss amounted ThCh\$16,862,194 which is explained mainly by financial expenses for a total of ThCh\$11,200,202, goodwill amortization of ThCh\$4,543,652 and the exchange rate impact amounted to ThCh\$1,736,810.

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B) INCOME STATEMENT

Items	As of September 30, 2006	As of September 30, 2007	Variation 2007/2006	Variation 2007/2006
	ThCh\$	ThCh\$	%	ThCh\$
Operating Revenues	32,720,970	97,645,677	198.42%	64,924,707
Transmission Revenues	32,368,048	95,165,487	194.01%	62,797,439
Work and Services	352,922	2,300,190	551.76%	1,947,268
Operating Costs	-11,535,058	-36,811,544	219.13%	-25,276,486
Fixed Costs	-3,775,505	-11,207,805	196.86%	-7,432,300
Depreciation	-7,054,378	-22,978,900	225.74%	-15,924,522
Amortization of Intangible	-705,174	-2,624,839	272.23%	-1,919,665
Administration and Sales Expenses	-852,440	-2,908,515	249.65%	-2,128,075
Operating Income	20,333,473	57,673,618	183.64%	37,340,145
Non-operating Income	-16,862,194	-25,863,720	53.38%	-9,001,526
Income Tax	-424,181	-4,217,418	894.25%	-3,793,237
Minority Interest	-2,289	-148	-93.53%	2,141
Net income	3,044,808	27,592,332	806.21%	24,547,524
R.A.I.I.D.A.I.E.*	18,394,879	84,631,660	360.08%	66,236,781

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

PROFITABILITY

Ratios	As of September 30, 2006	As of September 30, 2007	Variation 2007/2006
Return on Equity	0.39%	3.49%	794.87%
Asset Return	0.19%	1.73%	810.53%
Operational Assets Return	1.79%	5.11%	185.47%
Earnings per share (\$)	3,045	27,592	806.14%

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C) BALANCE SHEET ANALYSIS

	As of September 30, 2006	As of September 30, 2007	Variation 2007/2006	Variation 2007/2006
	M\$	M\$	%	M\$
Current assets	105,015,299	118,207,250	12.56%	13,191,951
Fixed assets	995,210,689	988,945,986	-0.63%	-6,264,703
Other assets	528,057,106	489,596,549	-7.28%	-38,460,557
Total assets	1,628,283,094	1,596,749,785	-1.94%	-31,533,309
Current liabilities	410,151,558	59,415,046	-85.51%	-350,736,512
Long term liabilities	443,945,544	746,095,206	68.06%	-302,149,662
Minority interest	76,931	4,404	-94.28%	-72,527
Shareholders' equity	774,109,061	791,235,129	2.21%	17,126,068
Total liabilities and shareholders' equity	1,628,283,094	1,596,749,785	-1.94%	-31,533,309

VALUE OF THE MAIN FIXED OPERATING ASSETS

ASSETS	As of September 30, 2006	As of September 30, 2007	Variation 2007/2006	Variation 2007/2006
	M\$	M\$		M\$
Lands	9,338,137	15,774,687	68.93%	6,436,550
Buildings and infrastructure, works in progress	555,224,169	721,871,737	30.01%	166,647,568
Machinery and equipment	436,058,246	288,918,050	-33.74%	-147,140,196
Other fixed assets	1,657,865	1,423,810	-14.12%	-234,055
Technical reappraisal	2,343	0	-100%	-2,343
Accumulated depreciation (less)	-7,070,071	-39,042,298	452.22%	-31,972,227
Total	995,210,689	988,945,986	-0.63%	-6,264,703

As of September 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 27.00% lower than its economic or market value.

LIQUIDITY AND INDEBTEDNESS

RATIOS	As of September 30, 2006	As of September 30, 2007	Variation 2007/2006
			%
Current Ratio	0.26	3.10	1,092.31%
Acid-Test Ratio	0.22	1.54	600.00%
Debt to Equity	1.10	1.02	-7.27%
% Short-term debt	48.02%	7.38%	-84.63%
% Long-term debt	51.98%	92.62%	78.18%
Financial expenses coverage	1.64	3.21	95.73%

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, as of September 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 the

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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 September 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\$ 503,063,672 (US\$508,783,620 on the same comparison period of 2006) (includes accrued interest), likewise other current liabilities in the amount of US\$ 46,416,701 (US\$27,922,601 on the same comparison period of 2006). On the other hand, short-term investments in the financial market in the amount of US\$ 29,831,837 (US\$82,606,587 on the same comparison period of 2006) (includes interest earned), intercompany loan to Transelec Holding Rentas Limitada for the amount of US\$43,856,611 (US\$ 0 on the same comparison period of 2006) (includes accrued interests), Accounts Receivable for US\$3,328,516 (US\$1,603,000 on the same comparison period of 2006), swap contracts in the amount of US\$ 237,763,072 (US\$241,144,626 on the same comparison period of 2006) (includes accrued interests), forward contracts in the amount of US\$ 36,764,350 (US\$64,800,000 on the same comparison period of 2006), leasing contracts of US\$ 2,113,458 (US\$2,185,362 on the same comparison period of 2006) and fixed assets of US\$195,347,598 (US\$177,146,502 on the same comparison period of 2006), are the assets owned by the company denominated in US\$, which are lower than the respective liability by US\$ 474,931 (the assets denominated in US\$ were higher than the liabilities by US\$32,779,856 on the same comparison period of 2006).

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% (92.90% on the same comparison period of 2006) of the contracts and the exchange rate for the observed dollar on the last day of the month for 4.96% (5.20% on the same comparison period of 2006) of the contracts. The corresponding exchange rates are as follows:

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EXCHANGE RATE

	<u>Average</u>	<u>Last day</u>
	2007	2007
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
July	519.80	523.08
August	522.92	524.63
September	516.91	511.72
Average for the Period	529.10	529.38

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 general, these indexation formulas use the variations in the international prices of equipment and in the prices of national labor and materials. During the current period from January 1st 2007 to September 30th, 2007, the indexation effect was an increase of the tolls, expressed in US\$, in approximately 3.9% compared with the comparison period 2006.

F) MAIN CASH FLOWS DURING THE PERIOD

During January 01, 2007 and September 30, 2007, positive net cash flows amounted to ThCh\$ 6,037,654 were generated, from which ThCh\$44,379,974 comes from operating activities, compensated by ThCh\$22,877,109 used in financing activities, and ThCh\$27,540,519 used in investment activities. During 2006 positive net cash flows of ThCh\$ 35,062,830 were generated, from which ThCh\$37,392,270 comes from operating activities, US\$771,064,254 comes from financing activities, used mainly in investment activities amounted ThCh\$773,393,694.

During this period activities related to financing generated a negative cash flows of ThCh\$ 22,877,109, mainly due to a) the payment of the total capital of Series A Bonds in March 2007 for an amount of ThCh\$115,704,805, which was compensated by the placement of a new UF bonds (Series C) in the same month, for an amount of ThCh\$113,288,974, and b) the payment of the interim dividend of ThCh\$20,461,278. In the same period of 2006 positive financial cash flows were generated in the amount of ThCh\$ 771,064,254, mainly due to the payment of the capital of the shares stock.

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In the present period, investment activities generated a negative cash flow for an amount of ThCh\$27,540,519, derived mainly from the acquisition of fixed assets valued at ThCh\$11,321,342 and from loans granted to related companies for ThCh\$17,576,202. In the same period 2006, the negative cash flow from investment activities was ThCh\$773,393,694 due to the investment in Rentas Eléctricas IV Limitada, merged by the current Transelec S.A. on June 30, 2007, and acquisition of fixed assets by the Subsidiary valued at ThCh\$2,291,859.

The effect of inflation on cash and cash equivalents was negative and amounted to ThCh\$ 3,007,847 in 2007. On the same period of 2006 the abovementioned effect was also negative and amounted to ThCh\$1,618,362.

The final cash balance, at the end of the third quarter 2007, was ThCh\$ 58,629,935, while the opening balance was ThCh\$ 67,675,436. In the comparison period of 2006 the final cash balance was ThCh\$ 89,600,854, while the opening balance was ThCh\$ 56,156,386.