

TRANSELEC S.A. AND SUBSIDIARY

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

December 31, 2007 and 2006

(Translation of financial statements originally issued in Spanish)

A) SUMMARY

As of December 31, 2007, Transelec S.A. and its Subsidiary Transelec Norte S.A. recorded a net income of ThCh\$31,686,669, 98.69% higher than in 2006 (comparison period extends from June 6, 2006 to December 31, 2006). This net income arises from a positive operating income of ThCh\$74,822,021, from a negative non operating income of ThCh\$39,450,403, a first category and deferred income tax charge of ThCh\$3,684,778 and by the minority interest result of ThCh\$171. In 2006, a net income of ThCh\$15,947,446 was recorded which is explained mainly by a positive operating income of ThCh\$36,086,399, non-operating activities for an amount of ThCh\$14,603,262, a tax impact of ThCh\$5,534,150, and by the minority interest result of ThCh\$1,541.

This period revenues reached ThCh\$130,399,948 (ThCh\$63,932,433 in 2006). These revenues come mainly from the commercialization of the transmission capacity of the facilities. In addition, services related to the activity were sold.

Operating costs amounted to ThCh\$50,951,300 (ThCh\$22,279,982 in 2006), of which a 61.04% is explained by depreciation of property, plant and equipment (58.51% in 2006), 32.02% for personnel costs, contracted services, supplies and contracted works (33.13% in 2006) and 6.94% for amortization of the rights of way (8.36% in 2006).

Administrative and selling expenses amounted to ThCh\$4,626,628 (ThCh\$5,566,052 in 2006), distributed as 57.46% in personnel expenses (13.65% in 2006); 38.42% in works, supplies and contracted services (39.06% in 2006) and 3.83% in depreciation (47.29% in 2006).

Non-operating income amounted to a loss of ThCh\$39,450,403 (ThCh\$14,603,262 in 2006), mainly due to financial expenses for a total of ThCh\$35,355,360 (ThCh\$19,530,040 in 2006), goodwill amortization of ThCh\$6,710,880 (ThCh\$8,196,592 in 2006). Other important items that affected the non-operating income during this period were the financial incomes for ThCh\$6,324,915 (ThCh\$1,777,952 in 2006), the positive exchange rate impact for ThCh\$422,387 (ThCh\$7,757,448 in 2006), price-level restatement for a negative amount of ThCh\$1,286,420 (a positive amount of ThCh\$4,439,627 in 2006) and other non-operating expenses amounted to ThCh\$2,845,045 (ThCh\$851,657 in 2006).

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B) INCOME STATEMENT

Items	As of December 31, 2006	As of December 31, 2007	Variation 2007/2006	Variation 2007-2006
	ThCh\$	ThCh\$	%	ThCh\$
Operating Revenues	63,932,433	130,399,948	103.97%	66,467,515
Transmission Revenues	60,816,654	127,119,858	109.02%	66,303,204
Work and Services	3,115,779	3,280,090	5.27%	164,311
Operating Costs	-22,279,982	-50,951,300	128.69%	-28,671,318
Fixed Costs	-6,415,818	-16,312,555	154.26%	-9,896,737
Depreciation	-14,000,740	-31,101,029	122.14%	-17,100,289
Amortization of Intangible	-1,863,424	-3,537,715	89.85%	-1,674,291
Administration and Sales Expenses	-5,566,052	-4,626,628	-16.88%	939,424
Operating Income	36,086,399	74,822,021	107.34%	38,735,622
Non-operating Income	-14,603,262	-39,450,403	170.15%	-24,847,141
Income Tax	-5,534,150	-3,684,778	-33.42%	1,849,372
Minority Interest	-1,541	-171	-88.90%	1,370
Net income	15,947,446	31,686,669	98.69%	15,739,223
R.A.I.I.D.A.I.E.*	64,962,428	105,928,809	63.06%	40,966,381

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

PROFITABILITY

Ratios	As of December 31, 2006	As of December 31, 2007	Variation 2007/2006
Return on Equity	1.99%	3.98%	100.00%
Asset Return	0.97%	1.97%	103.09%
Operational Assets Return	3.08%	6.52%	111.69%
Earnings per share (\$)	15,947	31,687	98.69%

C) BALANCE SHEET ANALYSIS

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	As of December 31, 2006	As of September 30, 2007	Variation 2007/2006	Variation 2007-2006
	ThCh\$	ThCh\$	%	ThCh\$
Current assets	130,068,189	111,048,471	-14.62%	-19,019,718
Fixed assets	1,025,811,685	1,006,580,894	-1.87%	-19,230,791
Other assets	483,550,243	489,116,948	1.15%	5,566,705
Total assets	1,639,430,117	1,606,746,313	-1.99%	-32,683,804
Current liabilities	162,332,939	65,189,177	-59.84%	-97,143,762
Long term liabilities	675,730,784	744,830,829	10.23%	69,100,045
Minority interest	103,049	4,288	-95.84%	-98,761
Shareholders' equity	801,263,345	796,722,019	-0.57%	-4,541,326
Total liabilities and shareholders' equity	1,639,430,117	1,606,746,313	-1.99%	-32,683,804

VALUE OF THE MAIN FIXED OPERATING ASSETS

ASSETS	As of December 31, 2006	As of December 31, 2007	Variation 2007/2006	Variation 2007-2006
	ThCh\$	ThCh\$	%	ThCh\$
Lands	16,279,760	16,322,737	0.26%	42,977
Buildings and infrastructure, works in progress	735,066,094	736,823,491	0.24%	1,757,397
Machinery and equipment	288,665,416	299,735,936	3.84%	11,070,520
Other fixed assets	1,520,294	1,433,071	-5.74%	-87,223
Accumulated depreciation (less)	-15,719,879	-47,734,341	203.66%	-32,014,462
Total	1,025,811,685	1,006,580,894	-1.87%	-19,230,791

As of December 31, 2007, the fixed assets are composed mainly by lands, buildings, infrastructure works and machinery and equipment.

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

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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., for consolidation effects, it is estimated that the book value in Transelec Norte is 44% lower than the economic value and/or market value.

LIQUIDITY AND INDEBTEDNESS

RATIOS	As of	As of	Variation
	December 31, 2006	December 31, 2007	2007/2006
			%
Current Ratio	0.80	1.70	112.50%
Acid-Test Ratio	0.43	0.50	16.28%
Debt to Equity	1.05	1.02	-2.86%
% Short-term debt	19.37	8.05	-58.44%
% Long-term debt	80.63	91.95	14.04%
Financial expenses coverage	3.33	3.00	-9.91%

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

Transelec S.A. develops its activities in the market of the electricity, which has been categorized in three different sectors: the sector of generation, the sector of transmission and the sector of distribution. The electric power generation sector include the businesses that are dedicated to the generation of electricity, whether that energy and electric power stem from hydroelectric power plants, coal, petroleum, gas, aeolian, or another form of power plants. It is important to emphasize that that sector is dedicated to the production of electricity, the one that subsequently will be used along the country by the final consumers. The distribution sector has as mission to carry the electricity to the physical place where each one of the final consumers will make use of that electricity. Then, the distribution companies have nettings or electric networks that allow the flow of that electricity from the "points of entrance" to their networks, to the residence of each one of their final consumers. Finally, the transmission sector has as basic objective the transportation of the electricity generated from the place of its production (the power plants), and the "points of entrance" to the networks of the distribution companies.

Transelec's business focuses mainly on commercialization of the electricity transmission and transformation capacity of its facilities, according to established quality standards. Transelec's transmission system, which spans 2900 kilometers between the city of Arica, and the Island of Chiloé, includes most of the lines and

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substations of trunk electricity transmission of the two major interconnected systems in Chile: the Central Interconnected System (SIC in Spanish), and the Northern Interconnected System (SING in Spanish). This transmission system transports the electricity that reaches areas inhabited by approximately 99% of the Chilean population. The Company owns 100% of the 500 kV lines, 51.1% of the 220 kV lines and 94.5% of the 154 kV lines.

The electric transmission business in Chile is regulated by the General Law for Electric Services of 1982 (DFL(M) No. 1/82) and its subsequent amendments, which includes Law 19,940 (“Short Law”), enacted on 13 March 2004. These rules are complemented by the Regulations governing the General Law for Electric Services of 1997 (Supreme Decree No.327/97 of the Ministry of Mining) and its respective amendments, as well as the Technical Rules for Reliability and Quality of Service (R.M.EXTA No.40 of 16 May 2005) and its subsequent amendments.

Law 19,940, also known as the “Short Law” (Ley Corta), modified the General Law for Electricity Services of 1982 in matters referring to electricity transmission and established a subdivision of the transmission network into three types of systems: trunk transmission, subtransmission and additional transmission. Additionally, Law 19,940 establishes that the transmission of electricity –both by trunk transmission and subtransmission systems– constitutes a public service and is thus subject to the regulation of rates.

Finally, Law 19,940 contemplates a transitory period as of 13 March 2004 that will remain in force until the first pricing lists for the trunk transmission system are published. Thus, during 2006, the collection and payment of transmission facilities continued to be governed, as they were in 2004 and 2005, by the legal and regulatory rules that were in force prior to the publication of the Short Law. Any remuneration collected by the trunk transmission systems is considered provisional and will be subject to recalculation, according to the terms and conditions established in the Decree N°207 of the *Ministerio de Economía, Fomento y Reconstrucción*, published on January 15th, 2008.

E) RISK FACTORS

Both because of the characteristics of the electricity market and the rules that regulate this sector, Transelec S.A. is not exposed to significant risks as a result of the development of its main line of business. It is, however, appropriate to mention and consider the following risk factors:

Regulatory Framework

The legal rules that govern electricity transmission in Chile were modified recently by the enactment of Law 19,940, called Short Law I, in March 2004. The Electricity Law, which updated the regulations for the generating sector, was passed in May 2005. In the

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near future there may be further changes directed at updating the regulations governing the distribution sector, which has some aspects in common with the transmission sector.

Although the enactment of the Short Law on 13 March 2004 guarantees the income of the transmission companies by centralizing the calculation of tolls in the CDEC and establishing one sole agency –the Panel of Experts– for the resolution of controversies, several aspects of its application are matters to be defined in the electricity regulations, which have still not been drawn up. In the meantime, the provisions governing the normal development of the trunk transmission and subtransmission rates have been made public through exempt resolutions issued by the National Energy Commission (CNE).

Concentration of income in only one client

A 72.6% Transelec's income comes from one sole client, Empresa Nacional de Electricidad S.A. (ENDESA) and its affiliate generating companies. The toll agreements entered into with Endesa and its affiliates Pangué and Pehuenche will generate a large part of Transelec's future cash flow, and any substantial change in their property, financial position or operating results could affect Transelec negatively.

Operating Risks

Although the management considers that Transelec maintains an adequate risk coverage in line with industry practices, it is not possible to guarantee that the insurance will be sufficient to cover certain operating risks to which Transelec is exposed, including risks of nature, damage to transmission installations, labour accidents and failure of equipment. Any of these events could affect the company's business.

Application of environmental rules and/or policies

Transelec is also subject to environmental regulations which, among other things, require it to conduct environmental impact studies in connection with future projects and obtain the relevant statutory permits. It is not possible to guarantee that the environmental impact studies will be approved by the government authorities, that public opposition will not give rise to delays or modifications of the proposed projects, or that laws and regulations will not change or be construed in a sense that could affect the company's operations and plans negatively.

Delays in the construction of new transmission installations

The success of the Expansions and New Works program of the transmission network will depend on numerous factors, including costs and funding availability. Although Transelec is experienced in large-scale construction projects, the building of new facilities could be affected negatively by factors that are commonly associated with projects, such as: delays in obtaining the statutory permits; scarcity of equipment, materials or labour, or changes in their price; adverse weather conditions; natural catastrophes and unforeseen circumstances, and difficulties in obtaining funding at reasonable rates. Any of these factors could cause delays in the partial or total

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conclusion of the capital investment program, and could also increase the costs of the contemplated projects.

Technological Changes

The return on investments that Transelec realizes from its electric transmission installations is obtained through the annual valuation of existing installations. In the event of major technological advancements in the equipment used at Transelec's installations, such valuation could diminish, potentially hindering the total recovery of the investments made.

F) EXCHANGE RATE RISK

Depending on market conditions and other considerations, Transelec has engaged, when necessary, in certain hedging activities such as cross currency swaps and currency forward contracts in order to cover the risk of fluctuations in the UF-dollar relationship for its dollar-denominated bonds. The fact that Transelec maintains these coverage contracts does not, however, guarantee that it will be adequately protected against exchange risks. Moreover, cross-currency swaps and currency forwards are exposed to counterpart credit risk, cash requirements on maturity dates and other associated risks.

As of December 31, 2007, part of the Company's debt at fair value is denominated in US dollars due to the placement of bonds abroad in the amount of US\$492,091,673 (includes accrued interest), likewise other current liabilities in the amount of US\$42,335,264. On the other hand, intercompany loans to Transelec Holdings Rentas Limitada and ETC Holdings Ltda. for the amount of US\$54,841,518 (includes accrued interests), short-term investments in the financial market in the amount of US\$36,670,756 (includes interest earned), swap contracts at fair value in the amount of US\$ 232,859,675 (includes accrued interests), accounts receivable for US\$2,147,433, leasing contracts of US\$ 2,100,481, forward contracts in the amount of US\$12,400,000 and, fixed assets and rights-of-way at fair value of US\$190,474,853, are the assets owned by the company denominated in US dollars, which are lower than the respective liability by US\$2,931,747.

As of December 31, 2006, part of the Company's debt at fair value was denominated in US dollars due to the placement of bonds abroad in the amount of US\$497,835,142 (includes accrued interest), likewise other current liabilities in the amount of US\$497,837,142 and other long-term liabilities amounted to US\$6,110,051. On the other hand, intercompany loans to Transelec Holdings Rentas Limitada for the amount of US\$27,950,233 (includes accrued interests), short-term investments in the financial market in the amount of US\$52,347,681 (includes interest earned), swap contracts at fair value in the amount of US\$ 235,541,695, accounts receivable for US\$2,405,905, leasing contracts of US\$ 2,173,695, forward contracts in the amount of US\$17,400,000 and, fixed assets and rights-of-way at fair value of US\$186,722,817, are the assets

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owned by the company denominated in US dollars, which are lower than the respective liability by US\$631,509.

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 92.9% of the contracts and the exchange rate for the observed dollar on the last day of the month for 5.2% of the contracts. The corresponding exchange rates are as follows:

EXCHANGE RATE

	<u>Average</u>	<u>Last day</u>	<u>Average</u>	<u>Last day</u>
	2007	2007	2006	2006
January	540.51	545.18	524.48	524.78
February	542.27	538.42	525.70	517.76
March	538.49	539.37	528.77	527.70
April	532.30	527.08	517.33	518.62
May	522.02	527.52	520.79	531.11
June	526.72	527.46	542.46	547.31
July	519.80	523.08	540.62	539.41
August	522.92	524.63	538.53	537.77
September	516.91	511.72	538.65	538.22
October	501.44	494.64	530.95	525.99
November	506.95	508.47	527.44	529.29
December	499.28	495.82	527.58	534.43
Average for the Period	522.47	521.95	530.28	531.03

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 December 31, 2007, the indexation effect was an increase of the tolls, expressed in US\$, in approximately 4.3% compared with the comparison period 2006.

Risk of interest rates

The company presents debts that contemplate fixed interest rates. In fact, the debt denominated in US dollars contemplates a fixed interest rate equal to 7.875% annual.

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On the other hand, all the debts denominated in UF were placed with fixed interest rates that vary between 4.25% and 6.2%, depending on each bond. Likewise, the Company maintains a mercantile account with related companies, that is denominated in Chilean pesos, UF and U.S. dollars, and that also contemplates a fixed interest rate. In this manner, it is estimated that the Company does not present a risk that could affect its results due to a change in the interest rates in the market.

F) MAIN CASH FLOWS DURING THE PERIOD

During January 01, 2007 and December 31, 2007, positive net cash flows amounted to ThCh\$31,422,144 were generated, from which ThCh\$62,358,637 come from operating activities, compensated by ThCh\$39,560,772 used in financing activities, and ThCh\$54,220,009 used in investment activities. During 2006 (June 06 – December 31), positive net cash flows of ThCh\$71,107,370 were generated, from which ThCh\$33,452,906 comes from operating activities, US\$1,032,873,347 comes from financing activities, used mainly in investment activities amounted ThCh\$995,218,883.

During this period activities related to financing generated a negative cash flows of ThCh\$39,560,772, mainly due to a) the payment of the total capital of Series A Bonds in March 2007 for an amount of ThCh\$118,241,706, which was compensated by the placement of a new UF bonds (Series C) in the same month, for an amount of ThCh\$114,908,930, and b) the payment of dividends of ThCh\$36,227,996. In the same period of 2006 positive financial cash flows were generated in the amount of ThCh\$1,032,873,347, mainly due to the payment of the capital of the shares stock amounted to ThCh\$787,827,867 and to the issuance of Series D Bonds for amount of ThCh\$267,831,840.

In the present period, investment activities generated a negative cash flow for an amount of ThCh\$54,220,009, derived mainly from the acquisition of fixed assets valued at ThCh\$24,962,622 and from negative flows from related companies for ThCh\$30,451,633. In the same period 2006, the negative cash flow from investment activities was ThCh\$995,218,883 due to the investment in Rentas Eléctricas IV Limitada, merged by the current Transelec S.A. for amount of ThCh\$1,021,742,659, and other investment income for ThCh\$57,377,308.

The effect of inflation on cash and cash equivalents was negative and amounted to ThCh\$5,178,298 in 2007. On the period of 2006 the abovementioned effect was also negative and amounted to ThCh\$1,950,930.

The final cash balance, at the end of 2007, was ThCh\$32,555,998, while the opening balance was ThCh\$ 69,156,440. In the comparison period of 2006 the final cash balance was ThCh\$69,156,440, while there was no opening balance for 2006, because the firm was founded on June 6, 2006.

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