

Consolidated Financial Statements

TRANSELEC S.A.

Santiago, Chile

June 30, 2007 and 2006

Consolidated Financial Statements

TRANSELEC S.A. AND SUBSIDIARY

(Translation of financial statements originally issued in Spanish)

June 30, 2007 and 2006

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Essential Facts

ThCh\$: Thousands of Chilean pesos

UF: Unidad de Fomento (an inflation-indexed, Chilean-peso denominated monetary unit set daily in advance on the basis of the previous month's inflation rate).

US\$: United States dollars

ThUS\$: Thousands of United States dollars

TRANSELEC S.A. AND SUBSIDIARY

Consolidated Balance Sheets
As of June 30,
(Translation of financial statements originally issued in Spanish)

| | 2007 | 2006 |
|--|---------------|---------------|
| | ThCh\$ | ThCh\$ |
| Assets | | |
| Current Assets | | |
| Cash | 3,617,169 | 3,973,654 |
| Time deposits | 36,321,468 | 37,485,208 |
| Trade accounts receivable, net | 15,167,110 | 14,373,038 |
| Sundry debtors | 808,949 | 537,825 |
| Notes and accounts receivable from related companies | 25,343,884 | - |
| Inventories (net) | 42,737 | 45,243 |
| Recoverable taxes | 1,934,365 | - |
| Prepaid expenses | 319,479 | 323,447 |
| Deferred taxes | 4,294,202 | 897,797 |
| Other current assets | 10,624,072 | 13,987,544 |
| Total Current Assets | 98,473,435 | 71,623,756 |
| Fixed Assets | | |
| Land | 15,387,735 | 9,072,836 |
| Buildings and infrastructure, works in progress | 701,515,638 | 536,640,066 |
| Machinery and equipment | 277,392,627 | 424,858,027 |
| Other fixed assets | 1,423,000 | 1,608,455 |
| Increase in value from technical reappraisal of fixed assets | - | 2,303 |
| Accumulated depreciation (less) | (29,942,329) | (15,880) |
| Total Fixed Assets | 965,776,671 | 972,165,807 |
| Other Assets | | |
| Investments in other companies | 154,015 | 79,706 |
| Goodwill | 240,235,874 | 355,276,870 |
| Long-term receivables | 9,328,172 | 9,143,892 |
| Long-term notes and accounts receivable from related companies | 27,695,205 | - |
| Long-term deferred taxes | 56,317,625 | - |
| Intangibles | 140,331,620 | 137,372,470 |
| Amortization of intangibles (less) | (3,558,543) | (521) |
| Other | 9,399,562 | 526,422 |
| Total Other Assets | 479,903,530 | 502,398,839 |
| Total Assets | 1,544,153,636 | 1,546,188,402 |

The accompanying notes form an integral part of these financial statements

TRANSELEC S.A. AND SUBSIDIARY

Consolidated Balance Sheets
As of June 30,
(Translation of financial statements originally issued in Spanish)

| Liabilities and Shareholders' Equity | 2007 ThCh\$ | 2006 ThCh\$ |
|---|------------------------|------------------------|
| Current Liabilities | | |
| Bonds payable – short-term portion | 8,524,996 | 137,943,026 |
| Non distributed dividends | | |
| Accounts payable | 8,969,033 | 11,334,010 |
| Sundry creditors | 10,560,917 | 1,711,530 |
| Notes and accounts payable to related companies | 1,176,283 | 225,272,796 |
| Provisions | 1,867,081 | 1,742,565 |
| Withholdings | 2,058,372 | 1,215,138 |
| Income taxes | | 994,671 |
| Deferred taxes | | |
| Other liabilities | 79,697 | 43,930 |
| Total Current Liabilities | 33,236,379 | 380,257,666 |
| Long-term Liabilities | | |
| Long-term bonds payable | 721,591,846 | 373,227,466 |
| Miscellaneous accounts payables | 10,456,472 | 7,058,154 |
| Provisions | 1,486,861 | 2,758,257 |
| Long-term deferred taxes | | 43,570,817 |
| Other long-term liabilities | 17,462,133 | 2,263,888 |
| Total Long-term Liabilities | 750,997,312 | 428,878,582 |
| Minority Interest | 4,494 | 133,439 |
| Shareholders' Equity | | |
| Paid-in capital | 733,545,501 | 739,616,563 |
| Price-level restatement of capital | 13,937,365 | - |
| Retained earnings | 87,568 | |
| Accumulated losses | | - |
| Net income | 19,517,945 | (2,697,848) |
| Interim dividends (less) | (7,172,928) | - |
| Total Shareholders' Equity | 759,915,451 | 736,918,715 |
| Total Liabilities and Shareholders' Equity | 1,544,153,636 | 1,546,188,402 |

The accompanying notes form an integral part of these financial statements

TRANSELEC S.A. AND SUBSIDIARY

Consolidated Income Statement
For the period ended June 30,
(Translation of financial statements originally issued in Spanish)

| | 2007 | 2006 |
|--|---------------------|--------------------|
| | ThCh\$ | ThCh\$ |
| Operating Results | | |
| Revenues | 63,521,253 | |
| Cost of sales (less) | <u>(23,858,913)</u> | |
| Gross margin | 39,662,340 | |
| Administrative and selling expenses | <u>(1,954,997)</u> | |
| Operating income | <u>37,707,343</u> | |
| Non-operating Results | | |
| Financial income | 2,713,933 | |
| Other non-operating income | 1,834,915 | |
| Amortization of goodwill (less) | (3,187,235) | |
| Financial expenses (less) | (17,097,455) | |
| Other non-operating expenses (less) | (1,400,118) | (11,087) |
| Price-level restatement, net | 558,234 | |
| Foreign exchange rate differences, net | <u>64,960</u> | <u>(3,239,332)</u> |
| Non-operating results | <u>(16,512,766)</u> | <u>(3,250,419)</u> |
| Income before income taxes | 21,194,577 | (3,250,419) |
| Income taxes | <u>(1,676,515)</u> | <u>552,571</u> |
| Income before Minority Interest | 19,518,062 | (2,697,848) |
| Minority Interest | (117) | |
| Net income | <u>19,517,945</u> | <u>(2,697,848)</u> |

The accompanying notes form an integral part of these financial statements

TRANSELEC S.A. AND SUBSIDIARY

Consolidated Cash Flow Statement
For the period ended June 30,
(Translation of financial statements originally issued in Spanish)

1 of 2

| | 2007 | 2006 |
|---|---------------|---------------|
| | ThCh\$ | ThCh\$ |
| Cash Flows from Operating Activities: | | |
| NET INCOME | 19,517,945 | (2,697,848) |
| Results from sale of assets: (Income) on sale of fixed assets | 203,102 | |
| Charges (credits) to income that do not represent cash flows: | | |
| Depreciation for the period | 14,917,209 | |
| Amortization of intangibles | 1,668,492 | |
| Write offs and provisions | 318,011 | |
| Amortization of goodwill | 3,187,235 | |
| Price-level restatement, net | (558,234) | |
| Foreign exchange rate differences, net | (64,960) | 3,239,332 |
| Other credits to income other than cash flows (less) | (3,306,354) | |
| Other charges to income other than cash flows | 392,419 | |
| Changes in assets, that affect cash flows (increase) decrease: | | |
| Trade accounts receivable | (3,441,514) | |
| Inventories | 500 | |
| Other assets | (11,971,731) | (552,571) |
| Changes in liabilities that affect cash flows increase (decrease): | | |
| Accounts payable related to operating income | 2,762,889 | |
| Interest payable | (1,010,151) | |
| Income taxes payable | 739,846 | |
| Accounts payable related to non operating income | | (3,289,520) |
| Value added tax and other similar taxes payable | 397,745 | |
| Minority Interest | 117 | |
| Net cash provided by operating activities | 23,752,566 | (3,300,607) |

The accompanying notes form an integral part of these financial statements

TRANSELEC S.A. AND SUBSIDIARY

Consolidated Cash Flow Statement
For the period ended June 30,
(Translation of financial statements originally issued in Spanish)

2 of 2

| | 2007 | 2006 |
|--|---------------------|-------------------|
| | ThCh\$ | ThCh\$ |
| Cash Flows from Financing Activities: | | |
| Payment of the subscribed shares of Rentas Eléctricas III Ltda. | | 739,616,563 |
| Bond Issuance | 109,725,069 | |
| Loan from related company | | 225,272,796 |
| Dividends paid | (19,832,801) | |
| Capital reduction | | |
| Amortization of Debts | (112,064,902) | |
| Net cash flows provided by (used in) financing activities | (22,172,634) | 964,889,359 |
| | | |
| Cash Flows from Investing Activities: | | |
| Sale of fixed assets | 1,007,588 | |
| Collection of related companies loans | 42,471,199 | |
| Other investing | | 54,428,941 |
| Purchase of fixed assets (less) | (4,285,557) | |
| Payment of capitalized interest (less) | (420,649) | |
| Permanent Investments | (58,955) | (961,587,834) |
| Loans to related companies | (54,088,828) | |
| Other investment disbursements | | |
| Net cash flows provided by (used in) investing activities | (15,375,202) | (907,158,893) |
| Total Net Cash Flows for the Year | (13,795,270) | 54,429,859 |
| Effect of Inflation and Currency Exchange Rate on Cash and Cash Equivalents | (1,877,112) | |
| Net Change in Cash and Cash Equivalents | (15,672,382) | 54,429,859 |
| Cash and cash equivalents, beginning of the year | 65,445,159 | |
| Cash and cash equivalents, end of the year | 49,772,777 | 54,429,859 |

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

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements
(Figures in thousands of Chilean pesos)

June 30, 2007 and 2006

(Translation of financial statements originally issued in Spanish)

Note 1 – Registration

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., becoming an incorporated company and 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 Superintendency of Securities and Insurance (“SVS”). Simultaneously, it registered 1,000,000 shares, the total number of shares issued, subscribed and fully paid.

The subsidiary Transelec Norte S.A. is registered under No. 939 in the Securities Registry of the SVS, and it is under the surveillance of the SVS.

The Company has the exclusive objective of exploiting and developing electric systems, on its own, or on behalf of third parties, to transport and 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 electricity of the lines and the capacity of the substations and equipment associated with them in order for the generating utilities, both national and foreign, be able to transmit the electrical energy they produce and have it reach their withdrawals; providing engineering or management consulting services related with the business line of the company; 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. (former 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. (former 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 – Accounting Principles

a) Accounting period

These Consolidated Financial Statements relate to the six-month periods between January 1 and June 30, 2007, and June 6 and June 30, 2006.

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements
(Figures in thousands of Chilean pesos)

June 30, 2007 and 2006

(Translation of financial statements originally issued in Spanish)

b) Basis of preparation

The financial statements of Transelec S.A. and Subsidiary as of June 30, 2007 and 2006 have been prepared in accordance with generally accepted accounting principles in Chile ("Chilean GAAP") issued by the Chilean Institute of Accountants, and specific instructions and regulations issued by the Superintendency of Securities and Insurance Companies. In case of discrepancies, specific instructions and regulations issued by the Superintendency of Securities and Insurance Companies will prevail.

Regarding the proforma Consolidated Financial Statements as of June 30, 2006, this reorganization basically comprised the incorporation of all the activities developed at that time by the company Transelec S.A. and its Subsidiary in the company Rentas Eléctricas III Limitada (activity that, at the present time, is developed by the absorption of the companies Rentas Eléctricas III S.A. and Transelec S.A. as of June 30, 2007).

c) Basis of presentation

For comparison purposes, the figures from the former financial statements were restated by the percentage variation of the Consumers Price Index for the twelve-month period ended June 30, 2007, which was 2.9%.

d) Basis of Consolidation:

The effects on Non Realized Income, 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.

In connection with the investment in the Subsidiary Transelec Norte S.A., the difference between the investment in Chilean pesos and the Subsidiary's Shareholders Equity in United States Dollars, has been recognized with a charge to the account Accumulated Adjustment by Difference of Conversion Difference, in the account Other Reserves of the Shareholders Equity.

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements
(Figures in thousands of Chilean pesos)

June 30, 2007 and 2006

(Translation of financial statements originally issued in Spanish)

Note 2 – Accounting Principles (continued)

The Company has considered, as allowed by Technical Bulletin No. 64 of Chilean Institute of Accountants, bonds issued abroad up to the amount invested of US\$30,002,000 as a hedge instrument of the risk associated to the exchange fluctuation. The exchange difference, net of monetary correction, has been registered as it matching against the account Accumulated Adjustment by Difference of Conversion, in the account of Other Reserves of the Shareholders Equity.

| Company | Direct Participation | |
|---------------------|----------------------|-----------------|
| | 30/06/2007 % | 30/06/2006 % |
| Transelec Norte S.A | 99.99 | 99.99 |

e) Price-level restatement

These financial statements have been restated in order to reflect the effect of changes in the purchasing power of the Chilean peso during the respective periods. Accordingly, non-monetary assets and liabilities and shareholders' equity variation have been restated against income results. The restatements have been determined on the basis of the official Chilean Consumer Price Index (CPI) issued by the National Institute of Statistics, applied one month in arrears, which was 1.9% for the period January 01 – June 30, 2007. In addition, income and expense accounts have been restated to their end of period values.

The Financial Statements of the Subsidiary Transelec Norte S.A are prepared in United State Dollars and translated to Chilean Pesos for consolidation purposes at the exchange rate prevailing at June 30, 2007 and 2006.

f) Foreign currency balances

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

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements
(Figures in thousands of Chilean pesos)

June 30, 2007 and 2006

(Translation of financial statements originally issued in Spanish)

Note 2 – Accounting Principles (continued)

As of each end of period, assets and liabilities in foreign currency and UF have been translated into Chilean pesos at the following period closing exchange or conversion rates:

| | 30/06/2007 | 30/06/2006 |
|----------------------|------------|------------|
| | Ch\$ | Ch\$ |
| Unidad de Fomento | 18,624.17 | 18,151.40 |
| United States dollar | 526.86 | 539.44 |
| Euro | 713.03 | 689.91 |

g) Time deposits

Investments in time deposits are recorded at cost price-level restatement and accrued interest at each end of period.

h) Allowance for doubtful accounts

The Company believes that it is unnecessary to record an allowance for doubtful accounts at each end of period.

i) Fixed assets

Fixed Assets are valued at their purchase cost or contribution based on the fair value as of June 30, 2006, price level restated at end of period. The costs of financing works in progress have been capitalized during construction period. Consequently, financial expenses amounting to ThCh\$420,649 were capitalized during 2007.

j) Fixed assets depreciation

Depreciation is calculated using the straight-line method based over the estimated useful lives of the assets.

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements
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June 30, 2007 and 2006

(Translation of financial statements originally issued in Spanish)

Note 2 – Accounting Principles (continued)

k) Lease contract

Financial leases correspond to assets that have been built by the Company upon the express petition of the lessee. On termination of the lease the ownership will be transferred to the lessee, with payment of an amount equal to the last installment. This contract is recorded in accordance with Technical Bulletin No. 22 and classified under “sundry debtors” and “long-term receivables”.

l) Intangibles

In this item are included the rights-of-way which are valued at their purchase cost or contribution based on the fair value as of June 30, 2006, price level restated at end of period. These rights-of-way are amortized on the straight-line basis over 40 years, in conformity with Technical Bulletin No. 55 issued by the Chilean Institute of Accountants.

m) Goodwill

The amount presented as Goodwill represents the difference between the purchase value of shares of HQI Transelec Chile S.A. (dissolved company) and Transelec Norte S.A., and the proportional equity value of the investment on the purchase date, in conformity with Technical Bulletin No. 72 issued by the Chilean Institute of Accountants. This difference is amortized over a 40-year period. This period term has been authorized by the SVS on July 23rd, 2007, through Official Letter No. 7749.

As per the Purchase Agreement of the shares of HQI Transelec Chile S.A. (dissolved company), certain price adjustments are pending. These adjustments will be fixed after the final results of the tariff process of the trunk systems that are currently being developed as per the Short Law (N°19,940, issued on March 13, 2004) stated. The finalization of the tariff process is expected at the end of the third quarter 2007, opportunity when the adjustment of the purchase price, pending as of June 30, 2007, could be reasonably fixed.

n) Resale agreements

Other current assets include purchases of securities under resale agreements, which are recorded at their initial investment value at purchase date plus interest and price-level restatement.

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements
(Figures in thousands of Chilean pesos)

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(Translation of financial statements originally issued in Spanish)

Note 2 – Accounting Principles (continued)

o) Bonds payable

This item includes, in the long-term, 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 in the short-term, the accrued interest as of June 30, 2007. The difference between the book value and the placement value is recognized over the duration of these liabilities and is shown in Other Current Liabilities and Other Long-term Liabilities.

p) Income taxes and deferred taxes

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

In conformity with the Technical Bulletin No. 60 issued by the Chilean Institute of Accountants, deferred taxes have been recorded for all temporary differences between accounting balances for assets and liabilities and the corresponding tax balances, considering the tax rate at the estimated date of reversal.

q) Staff severance indemnities

The provision for severance payments to Company staff upon reaching 15 years of service is presented at present value on an accrual basis, using an annual interest rate of 6.5% and considering an average tenure of 40 years. An average of 75% of the benefit, for staff with less than 15 years of service, has been accrued at present value.

r) Staff vacation

In conformity with Technical Bulletin No. 47 issued by the Chilean Institute of Accountants, the annual cost of employee vacations is recorded as an expense in the financial statements on an accrual basis.

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements
(Figures in thousands of Chilean pesos)

June 30, 2007 and 2006

(Translation of financial statements originally issued in Spanish)

Note 2 – Accounting Principles (continued)

s) Revenues

Revenues mainly correspond to the income of the commercialization of the capacity of electrical transmission of the facilities of the Company and its subsidiary, which includes the transmission service rendered but not invoiced at the closing of each period, the one valued at the cost of sale according to the outstanding contracts and the toll reports issued by the Center of Economic Dispatch of Load of the Central Interconnected System (CDEC-SIC) and by the Center of Economic Dispatch of Load of Norte Grande Interconnected System (CDEC-SING). These amounts are displayed in the current assets under the item trade accounts receivable.

t) Operating estimates

During the process of its operations, the company must make accounting estimates to determine its accounts receivables and payables associated with the tariff income. Final settlements of these accounts may extend beyond one fiscal year and can result in losses or gains for amounts not expected to be significant.

u) Derivative contracts

The hedging contracts subscribed by the Company include foreign exchange forward contracts and swaps and have been recorded at fair value in conformity with Technical Bulletin No. 57 issued by the Chilean Institute of Accountants.

v) Computer software

The Company's computer software has been acquired as computer packages, and is amortized over a three-year period.

w) Cash flow statement

Cash and cash equivalents correspond to cash and banks, time deposits, marketable securities and investments under resale agreements.

Cash flows from operating activities include all business-related cash flows and, in general, all cash flows not defined as from financial or investment activities. The concept of operations used in this statement is broader than the one used in the Income Statement.

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements
(Figures in thousands of Chilean pesos)

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(Translation of financial statements originally issued in Spanish)

Note 2 – Accounting Principles (continued)

x) Debt security issuance and placement expenses

The Company has deferred the expenses incurred in the issuance and placement of debt securities. These deferred charges are recorded under Other long-term and short-term assets, and are amortized using the straight-line method until maturity of the obligations.

Note 3 – Accounting Changes

As it is mentioned in Note 2 b), the effects of the reorganization has been registered off balance sheet in this financial statements proforma as of June 30, 2007, presented just for comparison purposes, simulating as the reorganization had took place on June 30, 2006.

There have been no changes in accounting policies for the period January 1 to June 30, 2007, that could significantly affect the interpretation of these financial statements.

Note 4 – Short and Long-term Debtors

The breakdown of short and long-term receivables corresponds to transactions for the following items:

a) Trade accounts receivable short-term

| | 30/06/2007 ThCh\$ | 30/06/2006 ThCh\$ |
|--------------------------------------|------------------------------------|------------------------------------|
| Trade accounts receivable from tolls | 15,167,110 | 14,373,038 |
| Total | 15,167,110 | 14,373,038 |

b) Trade Accounts receivable short and long-term:

| DESCRIPTION | Current assets | | | | | Long-term | | | |
|---------------------------|----------------|------------|-------------------|------------|------------|---------------------|------------|------------|------------|
| | Up to 90 days | | 90 days to 1 year | | Subtotal | Total Current (net) | | 30/06/2007 | 30/06/2006 |
| | 30/06/2007 | 30/06/2006 | 30/06/2007 | 30/06/2006 | 2007 | 30/06/2007 | 30/06/2006 | | |
| | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ |
| Trade accounts receivable | 8,915,906 | 7,637,082 | 6,251,204 | 6,735,956 | 15,167,110 | 15,167,110 | 14,373,038 | - | - |
| Sundry debtors (1) | 808,949 | 537,825 | - | - | 808,949 | 808,949 | 537,825 | 9,328,172 | 9,143,892 |
| Total | 9,723,855 | 8,174,907 | 6,251,204 | 6,735,956 | 15,976,059 | 15,976,059 | 14,910,863 | 9,328,172 | 9,143,892 |

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements (Figures in thousands of Chilean pesos)

June 30, 2007 and 2006

(Translation of financial statements originally issued in Spanish)

Note 4 – Short and Long-term Debtors (Cont.)

(1) Provisions receivable for the difference in values related to tariff income in the amount of ThCh\$6,251,204 as of June 30, 2007 (ThCh\$6,735,956 in the same period 2006) are included in the long-term portion. Long-term miscellaneous accounts payables are included in provisions payable, for the difference in values related to tariff income in the amount of ThCh\$9,112,391 as of June 30, 2007 (ThCh\$10,456,472 in the same period 2006), which is explained in more detail in Note 32.

Note 5 – Balances and transactions with related companies

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

Rentas Eléctricas I Limitada

The balance is related to expenses and payments made on behalf of Rentas Eléctricas I Limitada for ThCh\$14,266.

Rentas Eléctricas II Limitada (current Transelec Holdings Rentas Limitada)

The balance as of June 30, 2007 is mainly related to a series of loans, credited as a mercantile account, amounted ThCh\$23,579,315. These loans are denominated in USD dollars, at an annual (360 days) interest rate of 5.6%.

Also, certain expenses and payments have been made on behalf of Rentas Eléctricas II Limitada for ThCh\$1,750,303. These loans are denominated in UF, at an annual (360 days) interest rate of 6.5%. In addition, it includes a long term loan granted on December 15, 2006, amounted UF 1,436,230.55, at an annual (360 days) interest rate for 6.5%.

Accounts Payable to related companies, short term.

| Taxpayer No. | Company | Concept | Short-term | |
|--------------|------------------------------------|---------------------|----------------------|----------------------|
| | | | 30/06/2007 ThCh\$ | 30/06/2006 ThCh\$ |
| 76,560,200-9 | Transelec Holding Rentas Limitada. | Interest to receive | 1,176,283 | |

The balance owed to Transelec Holdings Rentas Limitada corresponds to a portion of the non paid and accrued interest of the loan granted on June 30, 2006, amounted USD400,000,000.00, at an annual interest rate of 6.24%, principal that was paid on December 14, 2006.

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements
(Figures in thousands of Chilean pesos)

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(Translation of financial statements originally issued in Spanish)

Note 5 – Balances and transactions with related companies (Cont.)

a) Notes and accounts receivable

| Taxpayer No. | Company | Short-term | | Long-term | |
|--------------|----------------------------------|----------------------|----------------------|----------------------|----------------------|
| | | 30/06/2007 ThCh\$ | 30/06/2006 ThCh\$ | 30/06/2007 ThCh\$ | 30/06/2006 ThCh\$ |
| 76,560,200-9 | Transec Holding Rentas Limitada. | 25,329,618 | - | 27,695,205 | - |
| 76,559,580-0 | Rentas Eléctricas I Limitada | 14,266 | - | - | - |
| | TOTAL | 25,343,884 | - | 27,695,205 | - |

b) Notes and accounts payable

| Taxpayer No. | Company | Short-term | | Long-term | |
|--------------|----------------------------------|----------------------|----------------------|----------------------|----------------------|
| | | 30/06/2007 ThCh\$ | 30/06/2006 ThCh\$ | 30/06/2007 ThCh\$ | 30/06/2006 ThCh\$ |
| 76,560,200-9 | Transec Holding Rentas Limitada. | 1,176,283 | 225,272,796 | - | - |
| | TOTAL | 1,176,283 | 225,272,796 | - | - |

c) Transactions

| Company | Taxpayer No. | Nature of the relationship | Description of transaction | 30/06/2007 | | 30/06/2006 | |
|--|--------------|----------------------------------|-------------------------------|------------------|--|------------------|---|
| | | | | Amount ThCh\$ | Effect on income (Charge) Credit ThCh\$ | Amount ThCh\$ | Effect on income (Charge) Credit ThCh\$ |
| Transec Holdings Rentas Limitada | 76,560,200-9 | Parent Company | Loan granted | 51,784,707 | 0 | - | - |
| | | Parent Company | Reimbursements of Loans | 41,805,327 | 0 | - | - |
| | | Parent Company | Interest to receive | 1,551,061 | 1,551,061 | - | - |
| Rentas Eléctricas I Limitada | 76,559,580-0 | Parent Company | Loans granted | 14,037 | 0 | - | - |
| | | | Interest to receive | 229 | 229 | - | - |

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Note 6 –Deferred taxes and Income taxes

a) General information

As of June 30, 2007, as it is explained in Note 2g), the Company had not made provisions for income taxes, due to the application of the current regulations that state if the tax income is negative, then no provision for this concept is allowed. As a matter of fact, the tax income amounted to ThCh\$(24,241,363).

The subsidiary Transelec Norte S.A. has provisioned an amount of ThCh\$244,507 as of June 30, 2007, considering a taxable base of ThCh\$1,438,278.

As of June 30, 2007, the income tax provision is recorded in current assets and shown under Recoverable Taxes; in the same period of 2006 income tax provision is recorded under Income Taxes on the account current liabilities. The detail is as follows:

| | 30/06/2007 | 30/06/2006 |
|---|-------------------|-------------------|
| | ThCh\$ | ThCh\$ |
| First category tax | (244,507) | (3,130,517) |
| Single article No. 21 tax | (3,612) | (2,929) |
| Subtotal | (248,119) | (3,133,446) |
| Monthly prepaid tax installments | 1,859,517 | 2,138,775 |
| Prepayments due to absorbed net incomes | 322,967 | - |
| Total | 1,934,365 | (994,671) |

b) Deferred taxes

S.V.S Circular No. 1.466 established the application of Technical Bulletin No. 60, issued by the Chilean Association of Accountants, from January 1, 2000.

As described in Note 2 g), deferred taxes have been adjusted as of June 30, 2007 to recognize the effect of the changes in the rate introduced by the tax reform published in September 2001.

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Note 6 –Deferred taxes and Income taxes (Cont.)

c) Income taxes

The composition of the net charge to income, after recognizing the effect of deferred taxes as stated

| Item | 30/06/2007 | 30/06/2006 |
|--|--------------------|-------------------|
| | ThCh\$ | ThCh\$ |
| Common tax expense (income tax provision) | (248,119) | |
| Effect of deferred tax on assets or liabilities for the period | (1,428,396) | 552,571 |
| Effect of amortization of deferred complementary assets accounts and deferred liabilities. | | |
| Total | <u>(1,676,515)</u> | <u>552,571</u> |

in S.V.S Circular No. 1,466 and Technical Bulletin No. 60 and complementary bulletins issued by the Chilean Institute of Accountants, is as follows:

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Note 6 – Deferred taxes and Income taxes (continued)

| Description | 30/06/2007 | | | | 30/06/2006 | | | |
|--|---------------------|------------|--------------------------|-----------|---------------------|-----------|--------------------------|------------|
| | Deferred tax assets | | Deferred tax liabilities | | Deferred tax assets | | Deferred tax liabilities | |
| | Short-term | Long-term | Short-term | Long-term | Short-term | Long-term | Short-term | Long-term |
| Temporary Differences | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ |
| Staff vacation accrual | 106,745 | | | | 85,646 | | | |
| Leased assets | | | | | | | | |
| Fixed Asset Depreciation | | 45,010,066 | | | | | | 9,002,388 |
| Staff severance indemnities | | | | 216,478 | | 4,594 | | |
| Other events | 7,943 | 27,514 | | | 81,794 | | | |
| Tax Looses | 4,121,032 | | | | 552,571 | | | |
| Difference in valuation, fixed assets | | 4,999,413 | | | | | | |
| Difference in valuation, other assets | | 312,651 | | | | | | |
| Fair value Bonds and Swaps | | 4,732,428 | | | 350,563 | 5,772,827 | | |
| Bonds discounts and prices | | 580,201 | | | | | | |
| Capitalization of financial expenses | | | | | | | | 1,367,719 |
| Negative goodwill fixed asset (absorption) | | | | | | | | 35,396,999 |
| Fixed asset former leasing | | | | 190,426 | | | | 4,317,611 |
| Write off of assets | | | | | | 215,230 | | |
| Prepaid expenses bond issuances | | 2,366,977 | | 1,304,721 | | 370,053 | | |
| Forward contracts | | | 4,758 | | | | 172,777 | |
| Swap contracts | | | | | | 135,170 | | |
| Others | 63,240 | | | | | 16,026 | | |
| Others | | | | | | | | |
| Complementary accounts – net of amortization | - | - | - | - | | | | |
| Total | 4,298,960 | 58,029,250 | 4,758 | 1,711,625 | 1,070,574 | 6,513,900 | 172,777 | 50,084,717 |

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Note 7 – Other current assets

Other current assets are summarized as follows:

| | 30/06/2007 | 30/06/2006 |
|------------------------------------|-------------------|-------------------|
| | ThCh\$ | ThCh\$ |
| Securities under resale agreements | 9,834,140 | 12,970,997 |
| Bond issuance expenses | 752,311 | |
| Bond placement discount | | |
| Other | 37,621 | 1,016,547 |
| Total | <u>10,624,072</u> | <u>13,987,544</u> |

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Note 8 – Information about investments under repurchase (VCR) and resale agreements (CRV) of securities

As of June 30, 2007 these transactions are summarized as follows:

| Code | Dates | | Counterpart | Currency of origin | Subscription value ThCh\$ | Rate | Final value ThCh\$ | Identification of instruments | Market value ThCh\$ |
|------|------------|------------|--------------------------------|--------------------|------------------------------|------|-----------------------|----------------------------------|---------------------------|
| | Inception | Maturity | | | | | | | |
| CRV | 12/06/2007 | 03/07/2007 | BANCO SANTANDER SANTIAGO | PESOS | 150,000 | 0.38 | 150,399 | BCD | 150,342 |
| CRV | 12/06/2007 | 06/07/2007 | BANCO SANTANDER SANTIAGO | PESOS | 121,000 | 0.38 | 121,368 | BCD | 121,276 |
| CRV | 12/06/2007 | 10/07/2007 | BANCO SANTANDER SANTIAGO | PESOS | 100,000 | 0.38 | 100,355 | BCD | 100,228 |
| CRV | 12/06/2007 | 09/07/2007 | BANCO SANTANDER SANTIAGO | PESOS | 135,000 | 0.38 | 135,462 | BCD | 135,308 |
| CRV | 18/06/2007 | 04/07/2007 | CITIBANK N.A | PESOS | 2,000,000 | 0.37 | 2,003,947 | BCP | 2,002,960 |
| CRV | 18/06/2007 | 17/07/2007 | BANCO SECURITY | PESOS | 466,300 | 0.41 | 468,148 | BCD | 467,065 |
| CRV | 18/06/2007 | 09/07/2007 | BANCO SANTANDER SANTIAGO | PESOS | 100,000 | 0.35 | 100,245 | BCD | 100,140 |
| CRV | 21/06/2007 | 12/07/2007 | BANCO DE CHILE | PESOS | 611,900 | 0.39 | 613,570 | BCP | 612,616 |
| CRV | 21/06/2007 | 13/07/2007 | BANCO SANTANDER SANTIAGO | PESOS | 113,439 | 0.36 | 113,738 | BCD | 113,561 |
| CRV | 22/06/2007 | 05/07/2007 | CITIBANK N.A | PESOS | 1,343,600 | 0.31 | 1,345,405 | BCP | 1,344,711 |
| CRV | 25/06/2007 | 12/07/2007 | BANCO SECURITY | PESOS | 535,000 | 0.41 | 536,243 | BCD | 535,366 |
| CRV | 25/06/2007 | 12/07/2007 | CITIBANK N.A | PESOS | 1,665,000 | 0.40 | 1,668,774 | PRC | 1,666,110 |
| CRV | 25/06/2007 | 19/07/2007 | BANCO DE CREDITO E INVERSIONES | PESOS | 170,000 | 0.42 | 170,571 | BCP | 170,119 |
| CRV | 25/06/2007 | 12/07/2007 | BANCO DE CHILE | PESOS | 1,860,000 | 0.39 | 1,864,111 | BCP | 1,861,209 |
| CRV | 26/06/2007 | 19/07/2007 | BANCO SANTANDER SANTIAGO | PESOS | 113,151 | 0.39 | 113,489 | BCD | 113,210 |
| CRV | 26/06/2007 | 17/07/2007 | BANCO SANTANDER SANTIAGO | PESOS | 85,116 | 0.39 | 85,349 | BCD | 85,161 |
| CRV | 28/06/2007 | 19/07/2007 | HSBC | PESOS | 200,000 | 0.40 | 200,560 | BCD | 200,050 |
| CRV | 26/06/2007 | 03/07/2007 | BANCO DE CHILE | DOLARES | 54,680 | 0.39 | 54,708 | BCP | 54,708 |

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Note 9 - Fixed Assets

Fixed Assets are summarized on the table below.

Depreciation for the first semester 2007 totaled ThCh\$14,917,209 (ThCh\$0 in the same period 2006). The amount of ThCh\$14,842,955 was charged to Cost of sales (ThCh\$0 in 2006) and ThCh\$74,254 (ThCh\$0 in 2006) was recorded in Administrative and selling expenses.

| | Gross Value ThCh\$ | 30/06/2007 Accumulated Depreciation ThCh\$ | Net Value ThCh\$ | Gross Value ThCh\$ | 30/06/2006 Accumulated Depreciation ThCh\$ | Net Value ThCh\$ |
|---|--------------------------|--|------------------------|--------------------------|--|------------------------|
| Land | 15,387,735 | - | 15,387,735 | 9,072,836 | | 9,072,836 |
| Buildings and infrastructure | | | | | | |
| Buildings | 12,357,918 | (405,183) | 11,952,735 | 12,560,861 | | 12,560,861 |
| Access roads | 221,134 | (5,524) | 215,610 | 788,077 | | 788,077 |
| Lines | 534,900,870 | (12,401,624) | 531,499,246 | 449,658,367 | (15,880) | 449,642,487 |
| Houses and apartments | 84,405 | (2,108) | 82,297 | 711,108 | | 711,108 |
| Non-hydraulic civil projects | 104,911,976 | (3,143,187) | 101,768,789 | 47,091,767 | | 47,091,767 |
| Works in progress | 40,039,335 | | 40,039,335 | 25,829,886 | | 25,829,886 |
| Total Buildings and infrastructure | 701,515,638 | (15,957,626) | 685,558,012 | 536,640,066 | (15,880) | 536,624,186 |
| Machinery and equipment | | | | | | |
| Telecommunications equipment | 6,488,849 | (1,018,467) | 5,470,382 | 16,861,859 | | 16,861,859 |
| Furniture, machinery and office equipment | 134,098 | (13,241) | 120,857 | 317,248 | | 317,248 |
| Service furniture and equipment | 27,526 | (2,330) | 25,196 | 56,908 | | 56,908 |
| Tools and instruments | 1,102,891 | (75,377) | 1,027,514 | 3,256,235 | | 3,256,235 |
| Power generation unit | 1,005,746 | (76,565) | 929,181 | 1,023,622 | | 1,023,622 |
| Electrical equipment | 237,628,220 | (9,059,818) | 228,568,402 | 344,352,882 | | 344,352,882 |
| Mechanical, protection and measurement equipment | 28,591,293 | (3,299,453) | 25,291,840 | 53,092,582 | | 53,092,582 |
| Transport and loading equipment | 333,303 | (43,923) | 289,380 | 966,721 | | 966,721 |
| Computers | 558,350 | (135,585) | 422,765 | 1,271,125 | | 1,271,125 |
| Software | 1,522,351 | (259,944) | 1,262,407 | 3,658,845 | | 3,658,845 |
| Total Machinery and equipment | 277,392,627 | (13,984,703) | 263,407,924 | 424,858,027 | | 424,858,027 |
| Subtotal Fixed Assets | 994,296,000 | (29,942,329) | 964,353,671 | 970,570,928 | (15,880) | 970,555,049 |
| Other Fixed Assets | | | | | | |
| Construction materials | 1,423,000 | - | 1,423,000 | 1,608,455 | | 1,608,455 |
| Total other Fixed Assets | 1,423,000 | | 1,423,000 | 1,608,455 | | 1,608,455 |
| Increased value from technical reappraisal | | | | 2,303 | | 2,303 |
| Total Fixed Assets | 995,719,000 | (29,942,329) | 965,776,671 | 972,181,686 | (15,880) | 972,165,807 |

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Note 10 – Investment in other companies

This balance corresponds to a 6.6666667% of Sociedad Centro de Despacho Económico de Carga del Sistema Eléctrico Interconectado Central Limitada (CDEC-SIC), whose exclusive objective is to administrate the operations of the power stations and transmission lines that are interconnected within the SIC electric system. The value of the investment as of June 30, 2007 is of ThCh\$ 16,424. It also includes the 14,29% participation that the subsidiary has in the Center of Economic Dispatch of Load of Norte Grande Interconnected System Ltda. (CDEC-SING), whose exclusive objective is to manage and operate the Center of Economic Dispatch of Load of Norte Grande Interconnected System (CDEC-SING) and coordinate the direction and operation of the SING electrical system. The value of this investment at June 30, 2007 is of ThCh\$137,591 (ThCh\$79,706 as of June 30, 2006).

| Taxpayer No. | Company | Ownership interest Percentage | Book value | |
|-----------------|------------------|-------------------------------------|----------------------|----------------------|
| | | | 30/06/2007 ThCh\$ | 30/06/2006 ThCh\$ |
| 77286570-8 | CDEC - SIC LTDA | 6.6667 | 16,424 | 0 |
| 77345310-1 | CDEC – SING LTDA | 14.29 | 137,591 | 79,706 |
| Total | | | 154,015 | 79,706 |

Note 11 – Goodwill

a) Goodwill is summarized as follows:

| | 30/06/2007 ThCh\$ | 30/06/2006 ThCh\$ |
|--|----------------------|----------------------|
| HQI Transelec Chile S.A. | 253,567,955 | 355,276,870 |
| Adjustment due to absorption June 30, 2007 | (2,366,977) | - |
| Amortization of goodwill | <u>(10,965,104)</u> | - |
| Total | <u>240,235,874</u> | 355,276,870 |

Corresponds to goodwill generated in the acquisition of the shares of HQI Transelec Chile S.A. (company dissolved), after the adjustments of the financial statements to fair value accordingly to the Technical Bulletin No. 72 issued by the Chilean Institute of Accountants.

This difference is being amortized in 40 years.

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Note 11 – Goodwill (Cont.)

The purchase of the shares of HQI Transelec Chile S.A. amounted to ThCh\$942,160,997.

b) Goodwill and the corresponding amortization are originated as follows:

| Taxpayer No. | Company | 30/06/2007 | | 30/06/2006 | |
|--------------|--------------------------|------------------------------------|------------------------|------------------------------------|------------------------|
| | | Amortization during the year | Balance of goodwill | Amortization during the year | Balance of goodwill |
| | | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ |
| 77498870-K | HQI Transelec Chile S.A. | 3,187,235 | 240,235,874 | - | 355,276,870 |
| | Total | 3,187,235 | 240,235,874 | - | 355,276,870 |

Note 12 – Intangibles

Intangibles are summarized as follows:

| | 30/06/2007 ThCh\$ | 30/06/2006 ThCh\$ |
|--------------------------|----------------------|----------------------|
| Rights-of-way | 140,331,620 | 137,372,470 |
| Accumulated amortization | (3,558,543) | (521) |
| Net value | <u>136,773,077</u> | <u>137,371,949</u> |

The amortization charge to income amounted to ThCh\$1,668,492 (ThCh\$0 in the same period 2006).

Note 13 – Other Assets

The balance at each end of period is summarized as follows:

| | 30/06/2007 ThCh\$ | 30/06/2006 ThCh\$ |
|---|----------------------|----------------------|
| Prepaid general expenses | 187,147 | 237,558 |
| Prepaid expenses on bond placements UF Series D | 9,189,018 | - |
| Other | <u>23,397</u> | <u>288,864</u> |
| Total | <u>9,399,562</u> | <u>526,422</u> |

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Note 14 – Short and long-term obligations (promissory notes and bonds)

a) During 2001, the absorbed Company made the following public offering of bonds in the local market:

- On April 2, 2001 the Company registered the first bond issue for a maximum of UF 10,000,000 with the Superintendency of Securities and Insurance Companies under number 249. Of this amount, UF 9,200,000 were finally placed on April 11, 2001.

As of June 30, 2007, the risk ratings obtained for this issue are the following:

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

The terms of issuance of these bonds are as follows:

Issuer: HQI Transelec Chile S.A. (now Transelec S.A.)

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

Maximum issued: 10,000,000 Unidades de Fomento divided into:

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

- Series B-1: Up to UF1,000,000 (1,000 bonds of UF1,000 each).
- Series B-2: Up to UF3,000,000 (300 bonds of UF10,000 each).

Indexation: Variation of the Unidades 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).

Capital amortization: Series A, in a single installment, upon maturity and Series B, payable semi-annually, in increasing amounts, and effective from September 1, 2007.

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Note 14 – Short and long-term obligations (promissory notes and bonds).

Early redemption: Series A without advanced redemption and Series B effective from 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-annually payments, upon maturity on March 1 and September 1 yearly starting on September 1, 2001.

Interest accrued as of June 30, 2007 amounts to ThCh\$2,575,700 and is presented in Current liabilities.

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

Period of placement: 36 months, as from the date of register with the Superintendency of Securities and Insurance Companies.

On March 01, 2007, capital of the Series A-1 and the Series A-2 were fully paid.

b) The absorbed Company issued and placed notes in the international market on April 17, 2001 as follows:

As of June 30, 2007, the risk ratings obtained are the following:

| Rating Agency | Rating |
|----------------------------------|--------|
| Standard and Poor's Rating Group | BBB- |
| Fitch Ratings Ltd. | BBB- |
| Moody's Investors Service Inc. | BAA3 |

Issuer: HQI Transelec Chile S.A.

Securities issued: US\$ (Yankee Bonds) traded in the United States Market.

Issue value: ThUS\$465,000 in a single series.

Indexation: Expressed in United States dollar.

Capital amortization: At maturity on April 15, 2011.

Nominal interest rate: 7.875% annual.

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Note 14 – Short and long-term obligations (promissory notes and bonds)

Interest payments: On April 15 and October 15 each year, effective from October 15, 2001. Interest accrued as of June 30, 2007 amounts to ThCh\$4,186,839 and is presented in Current liabilities.

c) During 2006, the absorbed 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 13,500,000 with the SVS under number 481. Of this amount, UF 13,500,000 was finally placed on the market on December 14, 2006.

As of June 30, 2007, the risk ratings obtained are the following:

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

The terms of issuance of these bonds are as follows:

Issuer: Nueva Transelec S.A.

Securities issued: Bonds as of carrier in Chilean pesos, denominated in UF.

Maximum Amount of the issue: Thirteen million five hundred thousand UF (UF13,500,000).

- Series D: Up to UF 13,500,000, comprised of 13,500 instruments of UF 1,000 each one.

Amortization period: 21 years

Capital amortization: in one single installment, as of expiration December 15, 2027.

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

Rate of interest of issue: on the outstanding capital expressed in UF at an annual interest rate of 4.25%, calculated based on a 360 day-years, after the year, made up every six months, each period consisting of 180 days.

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Note 14 - Short and Long-term Obligations (Promissory Notes and Bonds) (continued)

Payment of interest: Payments of interest will be due every six months, after the period, on June 15, and December 15 of each year starting on June 15, 2007. Interest accrued as of June 30, 2007 amounts to ThCh\$469,975 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 SVS's Securities Registry.

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 the first bond issuance for a maximum of UF 6,000,000 with the SVS under number 480. Of this amount, UF 6,000,000 was finally placed on the market on March 21, 2007.

As of June 30,, 2007, the risk ratings obtained are the following:

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

The terms of issuance of these bonds are as follows:

Issuer: Transelec S.A.

Securities issued: Bonds as of carrier in Chilean pesos, denominated in UF.

Maximum Amount of the issue: Six million UF (UF6,000,000).

- Series C: Up to UF 6,000,000, comprised of 6,000 instruments of UF 1,000 each one.

Amortization period: 9.5 years

Capital amortization: in one single installment, as of expiration September 1, 2016.

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

Rate of interest of issue: on the outstanding capital expressed in UF at an annual interest rate of 3.5%, calculated based on a 360 day-years, after the year, made up every six months, each period consisting of 180 days.

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Payment of interest: Payments of interest will be due every six months, after the period, on March 1, and September 1 of each year starting on September 1, 2007. Interest accrued as of June 30, 2007 amounts to ThCh\$1,292,480 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 SVS's Securities Registry.

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Note 14 – Short and long-term obligations (promissory notes and bonds) (continued)

c) The detail of bonds is as follows:

| Registration or identification No. of the instrument | Series | Current nominal amount placed | Indexation unit | Interest rate | Maturity date | Periodicity | | Par value | | Placement in Chile or abroad |
|--|-------------|-------------------------------|-----------------|---------------|---------------|------------------|----------------------|---------------|---------------|------------------------------|
| | | | | | | Interest payment | Amortization payment | 30/06/2007 | 30/06/2006 | |
| Short-term portion of long-term bonds | | | | | | | | | | |
| 249 | B1 | 4,071 | UF | 6.2% | 01/09/2007 | Semiannually | Semiannually | ThCh\$ 75,822 | ThCh\$ 76,037 | CHILE |
| 249 | B2 | 61,068 | UF | 6.2% | 01/09/2007 | Semiannually | Semiannually | 1,137,335 | 1,140,616 | CHILE |
| First issuance | SINGLE | 7,946,777 | US\$ | 7.875% | 15/10/2007 | Semiannually | AT THE END | 4,186,839 | 4,411,127 | ABROAD |
| SWAP contracts | 5 CONTRACTS | 9,160 | UF | 6,94% | 12/10/2007 | Semiannually | AT THE END | 170,597 | 15,905,357 | CHILE |
| 249 | B1 | 2,000 | UF | 6.2% | 01/09/2007 | Semiannually | Semiannually | 37,248 | | CHILE |
| 249 | B2 | 30,000 | UF | 6.2% | 01/09/2007 | Semiannually | Semiannually | 558,725 | | CHILE |
| 249 | B1 | 2,000 | UF | 6.2% | 01/03/2008 | Semiannually | Semiannually | 37,248 | | CHILE |
| 249 | B2 | 30,000 | UF | 6,2% | 01/03/2008 | Semiannually | Semiannually | 558,725 | | CHILE |
| 481 | D | 25,235 | UF | 4,25% | 15/12/2007 | Semiannually | AT THE END | 469,975 | | CHILE |
| 480 | C | 69,398 | UF | 3,5% | 31/08/2007 | Semiannually | AT THE END | 1,292,482 | | CHILE |
| 249 | A1 | 40,712 | UF | 6,2% | 01/09/2006 | Semiannually | AT THE END | | 760,395 | CHILE |
| 249 | A2 | 81,424 | UF | 6.2% | 01/09/2006 | Semiannually | AT THE END | | 1,520,821 | CHILE |
| 249 | A1 | 2,000,000 | UF | 6.2% | 01/03/2007 | Semiannually | AT THE END | | 38,042,891 | CHILE |
| 249 | A2 | 4,000,000 | UF | 6.2% | 01/03/2007 | Semiannually | AT THE END | 552,034 | 76,085,782 | CHILE |
| Total – short-term portion | | | | | | | | 8,524,996 | 137,943,026 | |

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Note 14 – Short and long-term obligations (promissory notes and bonds) (continued)

| Registration or identification No. of the instrument | Series | Current nominal amount placed | Indexation unit | Interest rate | Maturity date | Periodicity | | Par value | | Placement in Chile or abroad |
|--|-------------|-------------------------------|-----------------|---------------|---------------|------------------|----------------------|--------------------|--------------------|------------------------------|
| | | | | | | Interest payment | Amortization payment | 30/06/2007 | 30/06/2006 | |
| | | | | | | | | | | |
| Long-term bonds | | | | | | | | | | |
| ThCh\$ ThCh\$ | | | | | | | | | | |
| 249 | B1 | 196,000 | UF | 6.2% | 01/03/2022 | Semiannually | Semiannually | 4,177,159 | 4,299,570 | CHILE |
| 249 | B2 | 2,940,000 | UF | 6.2% | 01/03/2022 | Semiannually | Semiannually | 62,657,383 | 64,493,563 | CHILE |
| First issuance | SINGLE | 465,000,000 | US\$ | 7.875% | 15/04/2011 | Semiannually | AT THE END | 256,589,581 | 273,520,978 | ABROAD |
| 481 | D | 13,500,000 | UF | 4,25% | 15/12/2027 | Semiannually | AT THE END | 251,426,295 | | CHILE |
| 480 | C | 6,000,000 | UF | 3,5% | 01/09/2016 | Semiannually | AT THE END | 111,745,020 | | CHILE |
| SWAP contracts | 2 CONTRACTS | 3,473,602 | UF | 7.01% | 14/04/2011 | Semiannually | AT THE END | 15,444,959 | 20,825,855 | CHILE |
| SWAP contracts | 2 CONTRACTS | 2,303,243 | UF | 6.94% | 14/04/2011 | Semiannually | AT THE END | 8,558,751 | | CHILE |
| SWAP contracts | 1 CONTRACT | 1,906,538 | UF | 6.81% | 14/04/2011 | Semiannually | AT THE END | 10,992,698 | 10,087,500 | CHILE |
| Total – Long-term | | | | | | | | <u>721,591,846</u> | <u>373,227,466</u> | |

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Note 15 – Provisions and write offs

Provisions at each end of period are as follows:

| | 30/06/2007 | 30/06/2006 |
|---------------------------------------|--------------------|-------------------|
| | ThCh\$ | ThCh\$ |
| a) Short-term provisions | | |
| Staff severance indemnities (Note 16) | 264,481 | 47,964 |
| Accrued payroll | 974,686 | 797,477 |
| Accrued vacations | 627,914 | 503,796 |
| Collective agreement Bonus | - | 341,333 |
| Cost of fixed assets accidents | <u>.....-.....</u> | <u>51,995</u> |
| Total | <u>1,867,081</u> | <u>1,742,565</u> |
| b) Long-term provisions | | |
| Staff severance indemnities (Note 16) | 1,486,861 | 1,529,980 |
| Other provisions long term | <u>.....</u> | <u>1,228,277</u> |
| Total | <u>1,486,861</u> | <u>2,758,257</u> |

Note 16 – Staff severance indemnities

As of June 30, the change in staff severance indemnities during each period is as follows:

| | 30/06/2007 | 30/06/2006 |
|--------------------------|---------------------|-------------------|
| | ThCh\$ | ThCh\$ |
| Opening balance | 1,713,484 | 1,540,116 |
| Price-level restatement | 32,556 | 16,941 |
| Provision for the period | 5,302 | 40,895 |
| Payments of the period | <u>..... -.....</u> | <u>(20,008)</u> |
| Total | <u>1,751,342</u> | <u>1,577,944</u> |
| Short-term | 264,481 | 47,964 |
| Long-term | <u>1,486,861</u> | <u>1,529,980</u> |
| Total | <u>1,751,342</u> | <u>1,577,944</u> |

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Note 17 - Minority Interest

a) The Minority Interest at June 30, 2007 corresponds to the other Shareholders participation in the subsidiary Transelec Norte S.A. as follows:

| Subsidiary | Equity | Participation | Participation |
|--------------------|----------------|----------------------|----------------------|
| | 06/2007 | Percentage | 06/2007 |
| | ThCh\$ | 06/2007 | ThCh\$ |
| | | % | |
| Transelec Holdings | 44,935,852 | 0.01% | 4,494 |
| Rentas Limitada | | | |

b) The Minority Interest corresponding to the participation in Net income is as follows:

| Subsidiary | Net Income | Participation | Participation |
|--------------------|--------------------|----------------------|----------------------|
| | Of The Year | Percentage | 06/2007 |
| | 06/2007 | 06/2007 | ThCh\$ |
| | ThCh\$ | % | |
| Transelec Holdings | | | |
| Rentas Limitada. | 1,170,874 | 0.01% | 117 |

Note 18 – Changes in the Shareholders' Equity

During 2006 and 2007, equity accounts had the following movements:

a) Capital

On June 6, 2006, Rentas Eléctricas III Ltda. was formed with stock 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, corresponding to 1.0% of the company's shares, and Brookfield Asset Management Inc. contributed US\$1,584, corresponding to 99.0% of the company's shares.

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Note 18 – Changes in the Shareholders' Equity (continued)

On June 15, 2006, Brookfield Asset Management Inc. sold, ceded and transferred to Rentas Eléctricas II Ltda., 99.0% of the Company's shares for US\$1,584. On the other hand, Brookfield Power Inc. sold, ceded and transferred to Rentas Eléctricas II Ltda., 0.99% of the Company's shares for US\$15.84. Brookfield Power Inc. sold, ceded and transferred to Rentas Eléctricas I Ltda., 0.01% of the Company's shares 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 shares of Rentas Eléctricas III Ltda. In addition, on that date capital was increased to US\$ 1,332,441,365.

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, which 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 June 30, 2007 those contributions were fully paid.

As per public deed dated March 26, 2007, the Company was transformed from a Limitada to an open stock corporation (Sociedad Anónima), under the name Rentas Eléctricas III S.A., with a capital amounted to ThCh\$733,545,500, divided in 1,000,000 common shares, with no face value. The referred capital is entirely subscribed and paid by the following Shareholders: 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 amounted to 1,000,000.

b) Dividends

On April 30th, 2007, the First Ordinary General Shareholders' Meeting agreed to the distribution of 2006 final and definitive dividends amounted to ThCh\$12,509,756, which will be paid from May 10, 2007. As of June 30, 2007, this dividend is fully paid.

On May 04, 2007, the distribution of an interim dividend amounted to ThCh\$ 7,130,147 (non price level restated), corresponding to the Net Income for the period between January 01st and March 31st, 2007, was agreed in Third Extraordinary Board Meeting held that day. As of June 30, 2007, this dividend is fully paid.

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Note 18 – Changes in the Shareholders' Equity (continued)

c) Ownership changes

The current and solely owners of the Company are:

- 1.- Transelec Holdings Rentas Limitada with 999,900 shares representing 99.99% of the capital stock and
- 2.- Rentas Eléctricas I Limitada with 100 shares representing 0.01% of the capital stock.

All the shares are entirely subscribed and paid.

| Description | Paid-in capital ThCh\$ | Retained Earnings ThCh\$ | Interim dividends ThCh\$ | Net income ThCh\$ | Total Shareholders' equity ThCh\$ |
|--|---------------------------|--------------------------------|--------------------------------|----------------------|--|
| Beginning balance as of June 30, 2006 | 718,772,170 | | - | (2,621,815) | 716,150,355 |
| Distribution of prior year's income | - | | - | | - |
| Final dividend, prior year | - | | - | - | |
| Price-level restatement of capital | | | - | - | |
| Net income | - | - | - | | |
| Ending balance as of June 30, 2006 | 718,772,170 | | - | (2,621,815) | 716,150,355 |
| Ending balance as of June 30, 2007 restated for comparison purposes | 739,616,563 | | - | (2,697,848) | 736,918,715 |
| Beginning balance as of January 1, 2007 | 733,545,501 | | (2,338,890) | 14,848,646 | 746,055,257 |
| Distribution of prior year's income | - | 12,509,756 | 2,338,890 | (14,848,646) | 0 |
| Final dividend, prior year | - | (12,509,756) | | - | (12,509,756) |
| Capital decrease | - | - | - | - | - |
| Prior year's adjustment (1) | - | - | - | - | - |
| Price-level restatement of capital | 13,937,365 | 87,568 | - | - | 14,024,933 |
| Net income | - | - | - | 19,517,945 | 19,517,945 |
| Interim dividends | - | - | (7,172,928) | - | (7,172,928) |
| Ending balance as of June 30, 2007 | 747,482,866 | 87,568 | (7,172,928) | 19,517,945 | 759,915,451 |

| Series | No. of shares subscribed | No. of paid shares | No. of voting shares |
|---------------|-----------------------------|--------------------|----------------------|
| Single series | 1,000,000 | 1,000,000 | 1,000,000 |

| Series | Subscribed capital ThCh\$ | Paid-in capital ThCh\$ |
|---------------|---------------------------------|---------------------------|
| Single series | 733,545,501 | 733,545,501 |

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Note 19 – Other non-operating income and expenses

These are summarized as follows:

a) Other non-operating income

| | 30/06/2007 | 30/06/2006 |
|---------------------------------|-------------------|-------------------|
| | ThCh\$ | ThCh\$ |
| Prior year income | 21,579 | - |
| Extraordinary incomes | 939,367 | - |
| Income on disposal of materials | <u>873,969</u> | - |
| Total | <u>1,834,915</u> | = |

b) Other non-operating expenses

| | | |
|----------------------------------|------------------|---------------|
| Prior year expenses | 192,549 | 11,087 |
| Loss on Fixed assets write offs | 318,010 | |
| Cost of sale of materials | 203,102 | |
| Amortization of prepaid expenses | 24,924 | |
| Fiscal and judicial fines | 189 | |
| Extraordinary expenses | 567,579 | |
| Directors' fees | <u>93,765</u> | |
| Total | <u>1,400,118</u> | <u>11,087</u> |

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Note 20 – Price-level restatement

The net effects of price-level restatements, as described in Note 2 e), resulted in a net credit to income amounting to ThCh\$558,234 and is summarized below:

| ASSETS (CHARGES) / CREDITS | Indexation | 30/06/2007 | 30/06/2006 |
|--|------------|--------------|------------|
| | | ThCh\$ | ThCh\$ |
| INVENTORIES | CPI | 27,007 | |
| FIXED ASSETS | CPI | 15,383,918 | |
| INVESTMENTS IN RELATED COMPANIES | CPI | 862,557 | |
| ACCOUNTS RECEIVABLE FROM RELATED COMPANIES | UF | 5,320,124 | |
| CASH AND BANKS | CPI | 491,080 | |
| GOODWILL | CPI | 4,582,935 | |
| RIGHTS-OF-WAY | CPI | 2,394,431 | |
| DEFERRED TAXES. | CPI | 1,112,651 | |
| OTHER NON-MONETARY ASSETS | CPI | 224,003 | |
| EXPENSE AND COST ACCOUNTS | CPI | 320,663 | |
| TOTAL (CHARGES) CREDITS | | 30,719,369 | |
| | | | |
| LIABILITIES (CHARGES) / CREDITS | | | |
| SHAREHOLDERS' EQUITY | CPI | (13,982,152) | |
| ACCOUNTS PAYABLE TO RELATED COMPANIES | UF | (3,807,877) | |
| BONDS PAYABLE | UF US\$ | (11,572,735) | |
| NON-MONETARY LIABILITIES | CPI | (2,938) | |
| REVENUE ACCOUNTS | CPI | (795,433) | |
| TOTAL (CHARGES) CREDITS | | (30,161,135) | |
| PRICE-LEVEL RESTATEMENT (LOSS) NET INCOME | | 558,234 | |

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Note 21 – Exchange Differences

The effects of exchange differences during the period 2007 amounted to a net credit to income of ThCh\$64,960 (net charge of ThCh\$3,239,332 in 2006) and is summarized as follows:

| ASSETS (CHARGES) / CREDITS | Currency | 30/06/2007 ThCh\$ | 30/06/2006 ThCh\$ |
|--|-----------------|------------------------------|------------------------------|
| TIME DEPOSITS | DOLLARS | (342,389) | |
| NOTES AND A/R FROM RELATED COMPANIES | DOLLARS | (1,673,189) | (3,239,332) |
| FORWARD CONTRACTS | DOLLARS | (37,142) | |
| ACCOUNTS RECEIVABLE | DOLLARS | (1,685) | |
| INVESTMENTS IN RELATED COMPANIES | DOLLARS | (1,345,735) | |
| BANKS | DOLLARS | (486,911) | |
| Total (Charges) Credits | | <u>(3,887,051)</u> | <u>(3,239,332)</u> |
| LIABILITIES (CHARGES) / CREDITS | | | |
| BONDS PAYABLE | DOLLARS | 7,433,779 | |
| ACCOUNTS PAYABLE | DOLLARS | 47,169 | |
| SWAP CONTRACTS | DOLLARS | (3,517,057) | |
| LEASE CONTRACT | DOLLARS | (11,880) | |
| Total (Charges) Credits | | <u>3,952,011</u> | |
| Exchange differences | | <u>64,960</u> | <u>(3,239,332)</u> |

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Note 22 – Debt Issuance and placement costs

The expenses for issuance and placement of the bonds in the domestic market, mainly include the following elements: stamp tax expenses, placement commissions, legal advisory expenses, financial advisory expenses, risk rating reports and printing expenses.

| Composition | 30/06/2007 | 30/06/2006 |
|---------------------|------------------|-----------------|
| | Local ThCh\$ | Local ThCh\$ |
| Bond issuance costs | 10,132,845 | - |
| Amortization | <u>(191,516)</u> | - |
| Total | <u>9,941,329</u> | - |

Balance Sheet Presentation

| | | |
|----------------------|------------------|---|
| Other current assets | 752,311 | - |
| Other assets – Other | <u>9,189,018</u> | - |
| Total | <u>9,941,329</u> | - |

Note 23 - Statement of Cash Flows

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

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Note 24 – Derivative contracts (continued)

As of June 30, 2007, the Company has forward and swap contracts to hedge the exchange rate position of the long-term debt for the bond issuance abroad, according to the following detail:

| Type of derivative | Type of contract | DESCRIPTION OF CONTRACTS | | | | | | Affected accounts | | | | |
|--------------------|------------------|--------------------------|-----------------------------|----------------------|------------------------|----------------------------------|-------------------------------|-------------------|----------------------|------------------|-------------------|-------------|
| | | Contract Value | Maturity or Expiration Date | Specific Item | Purchase Sale Position | Covered item or transaction Name | Value of covered items ThCh\$ | Asset / Liability | | Effect on Income | | |
| | | | | | | | | Name | Amount ThCh\$ | Realized ThCh\$ | Unrealized ThCh\$ | |
| S | CCTE | 50,000,000 | 2nd quarter 2011 | Exchange rate (US\$) | P | Dollar Bonds | 25,622,000 | 26,343,000 | Bonds payable | 11,027,990 | (101,070) | (886,915) |
| S | CCTE | 50,000,000 | 2nd quarter 2011 | Exchange rate (US\$) | P | Dollar Bonds | 25,622,000 | 26,343,000 | Bonds payable | 4,499,912 | 18,802 | (748,697) |
| S | CCTE | 50,000,000 | 2nd quarter 2011 | Exchange rate (US\$) | P | Dollar Bonds | 26,607,507 | 26,343,000 | Bonds payable | 6,810,414 | (6,160) | (764,297) |
| S | CCTE | 20,000,000 | 2nd quarter 2011 | Exchange rate (US\$) | P | Dollar Bonds | 10,643,000 | 10,537,200 | Bonds payable | 1,763,461 | (31,227) | (300,778) |
| S | CCTE | 50,000,000 | 2nd quarter 2011 | Exchange rate (US\$) | P | Dollar Bonds | 32,375,000 | 26,343,000 | Bonds payable | 11,065,229 | (84,253) | (3,123,103) |
| FR | CCPE | 7,400,000 | 3rd quarter 2007 | Exchange rate (US\$) | P | Dollar Bonds | 3,893,880 | 3,898,764 | Other current assets | 4,884 | | 4,884 |
| FR | CCPE | 10,000,000 | 3rd quarter 2007 | Exchange rate (US\$) | P | Dollar Bonds | 5,245,500 | 5,268,600 | Other current assets | 23,100 | | 23,100 |

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Note 25 – Contingencies and restrictions

a. Management restrictions

Due to the obligations assumed pursuant to the issuance of bonds, the Company must comply with certain indicators and obligations, among which we emphasize:

- During the full term of the bond issuances, maintain free of any type of encumbrances any assets whose book value is equal to or higher than 1.2 times the book value of all obligations and debts of the Issuer that are not backed by real guarantees over goods and assets owned. These assets include debts arising from the Bond Issuances.

- Not to sell, assign, transfer, contribute or dispose, in any manner, of the Essential Assets of the Investee, whether onerous or free title.

- Maintain a level of indebtedness at an individual and consolidated level in which the ratio of Total Mandatory Liabilities/Total Capitalization does not exceed 0.7 times.

- Maintain at all times during the term of the bond issuance a minimum individual and consolidated shareholders' equity of fifteen million Unidades de Fomento.

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 June 30, 2007, there are lawsuits pending against the Company for which the corresponding defense has been filed, which altogether represent ThCh\$67,337.

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

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Note 25 – Contingencies and restrictions (continued)

e. Other

1.- On May 15, 2000, the Superintendency of Electricity and Fuel fined Transelec for an amount of 300 UTA, equivalent as of June 30, 2007 to ThCh\$117,104 through Exempt Resolution No. 876, for an alleged responsibility in the power failure of the SIC on July 14, 1999, caused by the abrupt withdrawal from service of the San Isidro Plant of San Isidro S.A.. On May 25, 2000, an administrative motion was filed before the Superintendency of Electricity and Fuel, which is pending of resolution.

2.- On December 5, 2002, the Superintendency of Electricity and Fuel in Ordinary Official Letter No. 7183, charged the Company for its alleged responsibility in the interruption of the electrical supply in the Sistema Interconectado Central (SIC) on September 23, 2002; the Company presented replies to the charges on time and in the required form 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 UTA 2,500 (two thousand five hundred Annual Tax Units) equivalent as of June 30, 2007 to ThCh\$975,870. As of June 30, 2007, the Company had filed a judicial claim before the Santiago Court of Appeals, and 25% of the fine imposed was deposited for such. The Company sustains that it is not responsible for this situation since it is of a fortuitous or force major nature.

3.- The Superintendency of Electricity and Fuel in Ordinary Official Letter No. 1210, dated February 21, 2003, filed charges for the alleged responsibility of Transelec in the interruption of the electric supply in the Sistema Interconectado Central (SIC), on January 13, 2003. By Resolution No. 808, of April 27, 2004, the Superintendency of Electricity and Fuel imposed a fine of UTA 560 (five hundred and sixty Annual Tax Units) equivalent as of June 30, 2007 to ThCh\$218,595, therefore an administrative appeal for reversal was filed, which was rejected. A judicial claim was filed before the Santiago Court of Appeals, after 25% of the fine had been deposited. The Company sustains that it is not responsible for this event since it is a fortuitous or force major event.

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Note 25 – Contingencies and restrictions (continued)

4.- On June 30, 2005 the Superintendency of Electricity and Fuel (SEC) through Exempt Resolution No. 1117, applied the following sanctions to the Company: a fine amounting to 560 UTA (five hundred and sixty Annual Tax Units) equivalent as of September 30, 2006 to ThCh\$216,424, for allegedly not having coordinated to assure electric service, as determined in the investigation of the general failure of the SIC on November 7, 2003; a fine amounting to 560 UTA (five hundred and sixty Annual Tax Units) equivalent as of June 30, 2007 to ThCh\$218,595, as the owner of the installations, for allegedly operating the installations without adhering to the operation scheduling set forth by the CDEC-SIC, without a justified cause, as determined in the investigation of the general failure of the SIC on November 7, 2003. As of June 30, 2007 the Company had presented an appeal for reversal before the SEC, which is pending of resolution. Management believes it has no responsibility in these events.

5.- On December 17, 2004, the Superintendency of Electricity and Fuel (SEC) through Exempt Resolution No. 2334 fined the Company with 300 UTA (three hundred Annual Tax Units) equivalent as of June 30, 2007 to ThCh\$117,104, 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 June 30, 2007 the Company had filed an appeal for annulment and appeal for reversal which are still pending. Both appeals state that it was a fortuitous event and that the charges are not applicable and should be annulled.

6.- On December 31, 2005, the Superintendency of Electricity and Fuel (SEC) through Official Letter No. 1831, filed charges against the Company allegedly for performing the operation of its installations infringing various resolutions of the electrical regulations, which would have caused the interruption of the electrical supply in the Sistema Interconectado Central (SIC) on March 21, 2005. On February 7, 2006, the Superintendency of Electricity and Fuel (SEC) through Exempt Resolution No. 220 fined the Company for 560 UTA (five hundred and sixty annual tax units) equivalent as of June 2007 to ThCh\$218,595. An appeal for reversal was presented on February 16, 2006, which is pending resolution. As of June 30, 2007 the Company had presented the corresponding answers.

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Note 25 – Contingencies and restrictions (continued)

7.- On August 11, 2003, in an arbitration trial with Sociedad Austral de Electricidad S.A. (Saesa) for a preliminary amount of US\$2,300,000, the Company was notified of the arbitration resolution which rejected the demand filed by the Company. An appeal for annulment has been filed at the Santiago Court of Appeals. The purpose of this trial is to determine the amount that Saesa must pay to Transelec, for basic and additional tolls, accrued in a specific period. As of June 30, 2006 the Company has recognized and/or received part of that income in accordance with Ministerial Resolution No. 88 of 2001, issued by the Ministry of Economy, Development and Reconstruction.

8.- Through Official Letter No. 793, of December 12, 2005, the SEC VII Region, filed charges to the Company for the loss of electrical supply in Constitución, because of the power failure of November 21, 2005, caused by the fall of a tree on the San Javier – Constitución line during forestry work. The Company presented its answer on January 4, 2006. On May 7, 2006, the Superintendency of Electricity and Fuel (Region VII) through Exempt Resolution No. 33 fined the Company for 400 UTA (four hundred annual tax units) equivalent as of June 2007 to ThCh\$13,012. An appeal for dismissal was presented against the decision and through Exempt Resolution No. 42 was ratified. An appeal for reversal was filed before the Talca Court of Appeals, after 25% of the fine had been deposited. The Company sustains that it is not responsible for this event since it is a fortuitous or third party responsibility event.

f. Direct guarantees

| Creditor of guarantee | Debtor Name | Type of guarantee | Compromised | Balance pending as of | | Guarantees to |
|--------------------------|---|----------------------|-------------|----------------------------------|------------|---------------|
| | | | Assets | financial statement closing date | | be released |
| | | | Book value | 30/06/2007 | 30/06/2006 | 30/06/2007 |
| | | | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ |
| Banco Santander Santiago | Ministry of Economy, Development and Reconstruction | Pledge | 115,382 | 115,382 | | |
| Banco Santander Santiago | Ministry of Economy, Development and Reconstruction | Pledge | 165,171 | 165,171 | | |
| Banco Santander Santiago | Ministry of Economy, Development and Reconstruction | Pledge | 115,382 | 115,382 | | |

Note 26 – Guarantees obtained from third parties

As of June 30, 2007 the Company has received financial guarantees from contractors and third parties for the completion of constructions, maintenance work and repayment of housing loans, amounting to ThCh\$8,147,179.

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Note 27 – Local and Foreign Currency

Assets and liabilities held in foreign currency have been converted to Chilean pesos at their respective exchange rates at each end of period (see exchange rates in Note 2 f) and are summarized as follows:

a) Assets

| Description | Currency | Amount | |
|--|----------------|----------------------|----------------------|
| | | 30/06/2007 ThCh\$ | 30/06/2006 ThCh\$ |
| Current assets | | | |
| Cash and banks | Pesos | 3,565,714 | 3,596,398 |
| Cash and banks | Dollars | 51,455 | 377,256 |
| Time deposit | Dollars | 30,211,137 | 31,127,778 |
| Time deposit | Pesos | 6,110,331 | 6,357,430 |
| Trade accounts receivable | Pesos | 13,417,226 | 12,896,939 |
| Trade accounts receivable | Dollars | 1,749,884 | 1,476,099 |
| Other receivables | Pesos | 781,222 | 498,819 |
| Other receivables | Dollars | 27,727 | 39,006 |
| Accounts receivable from related companies | Dollars | 23,579,315 | |
| Accounts receivable from related companies | Pesos | 1,750,303 | |
| Accounts receivable from related companies | Pesos | 14,266 | |
| Inventories | Pesos | 42,737 | 45,243 |
| Recoverable taxes | Pesos | 1,934,365 | |
| Prepaid expenses | Pesos | 319,479 | 323,447 |
| Deferred taxes | Pesos | 4,294,202 | 897,797 |
| Other current assets agreements | UF | 9,834,142 | 12,971,416 |
| Other current assets agreements | Dollars | | |
| Other current assets bond discount expenses | Pesos | 752,311 | 752,395 |
| Other current assets | Pesos | 9,635 | |
| Other current assets forward | Dollars | 27,984 | 263,733 |
| Fixed Assets | | | |
| Fixed Assets | Pesos | 867,545,632 | 906,119,848 |
| Fixed Assets | Dollars | 98,231,039 | 66,045,959 |
| Other Assets | | | |
| Investments in other companies | Pesos | 154,015 | 79,706 |
| Goodwill | Pesos | 240,235,874 | 355,276,870 |
| Long-term receivables | UF | 30,709 | 25,578 |
| Long-term receivables | Dollars | 1,092,427 | 1,051,447 |
| Long-term receivables | Pesos | 8,205,036 | 8,066,867 |
| Notes and accounts receivable from related companies | UF | 27,695,205 | |
| Intangibles | Pesos | 134,601,417 | 137,372,470 |
| Intangibles | Dollars | 5,730,203 | |
| Amortization of intangibles | Pesos | (3,415,288) | (521) |
| Amortization of intangibles | Dollars | (143,255) | |
| Long-term deferred taxes | Pesos | 56,317,625 | |
| Other Assets | Pesos | 9,399,562 | 526,422 |
| Total Assets | Pesos | 1,346,035,664 | 1,432,810,130 |
| | Dollars | 160,557,916 | 100,381,278 |
| | UF | 37,560,056 | 12,996,994 |

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Note 27 – Local and Foreign Currency (continued)

b) Short-term liabilities

| DESCRIPTION | Currency | Up to 90 days | | | | 90 days to 1 year | | | |
|------------------------------------|----------|------------------|---------------------------------------|------------------|---------------------------------------|-------------------|---------------------------------------|------------------|---------------------------------------|
| | | 30/06/2007 | | 30/06/2006 | | 30/06/2007 | | 30/06/2006 | |
| | | Amount ThCh\$ | Annual Average Interest rate | Amount ThCh\$ | Annual Average Interest rate | Amount ThCh\$ | Annual Average Interest rate | Amount ThCh\$ | Annual Average Interest rate |
| Bond interests payable | UF | 2,505,639 | 4,72% | 3,497,867 | 6,11% | 469,975 | 4,72% | | |
| Bond interests payable | Dollars | | | | | 4,186,839 | 7,88% | 4,411,128 | 7.88% |
| Non distributed dividends | Pesos | | | | | | | | |
| Accounts payable | Dollars | 6,069,994 | | 6,567,594 | | | | | |
| Accounts payable | Pesos | 2,899,039 | | 4,766,416 | | | | | |
| Sundry creditors | Pesos | 9,112,387 | | 1,711,530 | | | | | |
| Sundry creditors | Dollars | 1,448,530 | | | | | | | |
| Accounts Payable Related Companies | Dollars | 1,176,283 | 6.24% | 225,272,796 | | | | | |
| Provisions | Pesos | 1,867,081 | | 1,742,565 | | | | | |
| Withholdings | Pesos | 2,058,372 | | 1,215,138 | | | | | |
| Deferred taxes | Pesos | | | | | | | | |
| Bonds capital payable | UF | 595,973 | | | | 595,973 | | 114,128,673 | |
| Other current liabilities | Pesos | 79,697 | | 43,930 | | | | | |
| Swap contracts | UF | | | | | 170,597 | | 15,905,358 | |
| Income taxes | Pesos | | | 994,671 | | | | | |
| Forward contracts | Dollars | | | | | | | | |
| Total short-term liabilities | UF | 3,101,612 | | 3,497,867 | | 1,236,545 | | 130,034,031 | |
| | Dollars | 8,694,807 | | 231,840,390 | | 4,186,839 | | 4,411,128 | |
| | Pesos | 16,016,576 | | 10,474,250 | | 0 | | 0 | |

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Note 27 – Local and Foreign Currency (continued)

c) Long-term liabilities as of June 30, 2007

| DESCRIPTION | Currency | 1 to 3 years | | 3 to 5 years | | 5 to 10 years | | Over 10 years | |
|-----------------------------|----------|------------------|---------------------------------------|------------------|---------------------------------------|------------------|---------------------------------------|------------------|---------------------------------------|
| | | Amount ThCh\$ | Average annual interest rate | Amount ThCh\$ | Average annual interest rate | Amount ThCh\$ | Average annual interest rate | Amount ThCh\$ | Average annual interest rate |
| Bonds payable | UF | | | | | 111,745,020 | 3,50% | 318,260,835 | 7,53% |
| Bonds payable | Dollars | | | 256,589,583 | 7.88% | | | | |
| Swap contracts | UF | | | 34,996,408 | 9.17% | | | | |
| Provisions | Pesos | 1,486,861 | | | | | | | |
| Sundry creditors | Pesos | 10,456,472 | | | | | | | |
| Other long-term liabilities | Pesos | 1,474,363 | | | | | | | |
| Other long-term liabilities | Dollars | 15,987,770 | | | | | | | |
| Total long-term liabilities | UF | 0 | | 34,996,408 | | 111,745,020 | | 318,260,835 | |
| | Dollars | 15,987,770 | | 256,589,583 | | 0 | | 0 | |
| | Pesos | 13,417,696 | | | | 0 | | 0 | |

d) Long-term liabilities as of June 30, 2006

| DESCRIPTION | Currency | 1 to 3 years | | 3 to 5 years | | 5 to 10 years | | Over 10 years | |
|-----------------------------|----------|------------------|---------------------------------------|------------------|---------------------------------------|------------------|---------------------------------------|------------------|---------------------------------------|
| | | Amount ThCh\$ | Average annual interest rate | Amount ThCh\$ | Average annual interest rate | Amount ThCh\$ | Average annual interest rate | Amount ThCh\$ | Average annual interest rate |
| Bonds payable | Dollars | | | 273,520,978 | 7.88% | | | | |
| Bonds payable | UF | | | | | 6,879,314 | 6.20% | 61,913,820 | 6.20% |
| Swap contracts | UF | | | 30,913,354 | | | | | |
| Provisions | Pesos | 2,758,257 | | | | | | | |
| Sundry creditors | Pesos | 7,058,154 | | | | | | | |
| Deferred tax long term | Pesos | 43,570,817 | | | | | | | |
| Other long term liabilities | Dollars | 2,263,888 | | | | | | | |
| Total long-term liabilities | UF | | | 30,913,354 | | 6,879,314 | | 61,913,820 | |
| | Dollars | 2,263,888 | | 273,520,978 | | | | 0 | |
| | Pesos | 53,387,228 | | 0 | | 0 | | 0 | |

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Note 28 – Sanctions

During 2007 and 2006, the Company, its Directors and Management have not been sanctioned by the Superintendency of Securities and Insurance Companies.

Note 29 – Subsequent events

On July 3, 2007, the Superintendency of Securities and Insurance Companies (S.V.S.) was informed that the Extraordinary Shareholders Meeting held on June 30, 2007, agreed the following:

- 1) Modify the name of the Company to “Transelec S.A.”, and, as a consequence of that fact, substitute the First Article of the By Law of the Company.
- 2) The Board of Directors was renovated, resulting the following titular and corresponding substitute directors: a) Mr. Jeffrey Blidner as a titular director and Mr. Derek Pannell as the respective substitute; b) Mr. Bruno Guilmette as a titular director and Mr. Patrick Charbonneau as the respective substitute; c) Mr. Graeme Bevans as a titular director and Mr. Scott Lawrence as the respective substitute; d) Mrs. Brenda Eaton as a titular director and Mr. Richard Dinneny as the respective substitute; e) Mr. Mario Marcel Cullell as a titular director and Mr. Juan Irrázabal Covarrubias as the respective substitute; f) Mr. Juan Andrés Fontaine Talavera as a titular director and Mr. Juan José Eyzaguirre Lira as the respective substitute; g) Mr. José Ramón Valente Vias as a titular director and Mr. Juan Paulo Bambach Salvatore as the respective substitute; h) Mr. Felipe Lamarca Claro as a titular director and Mr. Enrique Munita Luco as the respective substitute; and i) Mr. Blas Tomic Errázuriz as a titular director and Mr. Federico Grebe Lira as the respective substitute.
- 3) The necessary powers were granted to execute the reached agreements on the abovementioned issues.

There have not been other subsequent events between June 30, 2007 and the date these financial statements were issued, which could significantly affect their interpretation.

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Note 30 – Environment

During this period, the Company has made disbursements related to the environment as per the following detail:

| Description | 30/06/2007 | 30/06/2006 |
|---|-------------------|-------------------|
| | ThCh\$ | ThCh\$ |
| Urgent works | 1,428 | - |
| Design of ISO 14001 environmental quality management system | 3,749 | |
| Replacement of a PCB static compensator | 20,047 | |
| Construction of a pit to receive oil | 80,953 | |
| Other sundry disbursements (environmental studies) | 4,299 | 0 |
| Total | 110,476 | 0 |

Note 31 – Time Deposits

The detail of time deposits is as follows:

| Banks | 30/06/2007 | 30/06/2006 |
|-----------------------------|-------------------|-------------------|
| | ThCh\$ | ThCh\$ |
| Citibank NA | | 15,877,526 |
| Banco BBVA | | 3,792,988 |
| Banco de Chile | 2,528,206 | 2,685,438 |
| Banco Santander Santiago | 3,904,992 | 3,178,083 |
| Banco Crédito e Inversiones | 1,903,331 | 31,965 |
| Bank of America NA TD | - | 11,919,208 |
| Scotiabank | 502,347 | |
| Deutsche Bank | 2,604,160 | |
| HSBC | - | - |
| BNS Toronto T-Bills | 24,878,432 | - |
| Total | 36,321,468 | 37,485,208 |

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Note 32 – Long-term Miscellaneous Payables

The balance of long-term miscellaneous payables amounted to ThCh\$10,456,472 as of June 30, 2007 and mainly corresponded to provisions payable due to value differences related to tariff income defined in Article No. 71-29 introduced by Law No.19,940 dated 2004 (Short Law) in DFL No.1 dated 1982. Similarly, provisions receivable for the value differences related to tariff income for an amount of ThCh\$6,735,956 as of June 30, 2007 are presented in long-term receivables.

These differences are originated because the law stated the Company must charge tolls, that is, the annual value of transmission per branch less expected tariff income. However, when receiving from the CDEC real tariff income per branch, the law requires rebilling for the difference between expected tariff income and real tariff income, and the difference must be refunded or charged to the users of the transmission branch used, until the expected tariff income is reached. The timing and form of this rebilling will be established in the Electricity Regulations, which we expect to begin operating during 2007.

TRANSELEC S.A. AND SUBSIDIARY

Detailed Analysis of the Consolidated Financial Statements
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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.

TRANSELEC S.A. AND SUBSIDIARY

Essential Facts

(Figures in thousands of Chilean pesos)

June 30, 2007 and 2006

(Translation of financial statements originally issued in Spanish)

Transelec S.A.

During the period between January 1st and June 30th, 2007, and accordingly to the Norma General N° 30, the Company has not informed to the Chilean Superintendency of Securities and Insurance Companies (S.V.S.) any essential or relevant facts.

Transelec Norte S.A.

During the period between January 1st and June 30th, 2007, and according with the Norma de Carácter General N°30, the Subsidiary Transelec Norte S.A. has informed to the Superintendencia de Valores y Seguros (SVS) about the following essential or relevant facts:

On January 31st, 2007, the Company informed the SVS about the appointment of Mr. Andrés Kuhlmann Jahn, as the Company's new General Manager who would hold this position since March 1st, 2007.

On March 16th, 2007 the Company informed the SVS that Transelec Norte S.A.'s Board of Directors, at its meeting held on March 15th, 2007, agreed the call to the ordinary shareholders meeting to be held on April 26th, 2007 at 17:30 hrs, at the company's headquarters located in Apoquindo 3721, sixth floor, Las Condes. The purpose of calling to such meeting is to notice the shareholders and request their approval about the following matters:

- 1) The Annual Report, the Balance Sheet, the Financial Statements and the External Auditors' Report, corresponding to the year ended December 31st, 2006.
- 2) Distribution of the definitive dividends.
- 3) Policy of dividends and information about the procedures to be carried out for the payment.
- 4) Election of the Board of Directors.
- 5) Remuneration of the Board of Directors.
- 6) Appointment of the External Auditors.
- 7) Newspaper for calling to the Shareholders Meetings.
- 8) Other matters of interest for the Company and of the Shareholders' competence.

On April 27, 2007, the company informed the Chilean Superintendency of Securities and Insurance (S.V.S.) that, at the ordinary Shareholders meeting held on April 26, 2007, it was agreed the following:

- 1) The Annual Report, the Balance Sheet, the Financial Statements and the External Auditors' Report, corresponding to the year ended December 31st, 2006, were approved.
- 2) The distribution, as the definitive dividends for the period ended December 31, 2006, for the amount of US\$3,499,617, was approved. This definitive dividend will be paid since May 22, 2007 to the Shareholders registered in the corresponding Shareholders Register on May 14, 2007.
- 3) The policy of dividends for the year 2007 was informed.

TRANSELEC S.A. AND SUBSIDIARY

Essential Facts

(Figures in thousands of Chilean pesos)

June 30, 2007 and 2006

(Translation of financial statements originally issued in Spanish)

- 4) The Board of Directors was renovated, resulting the following titular and corresponding substitute directors: a) Mr. Jeffrey Blidner as a titular director and Mr. Derek Pannell as the respective substitute; b) Mr. Bruno Guilmette as a titular director and Mr. Patrick Charbonneau as the respective substitute; c) Mr. Graeme Bevans as a titular director and Mr. Scott Lawrence as the respective substitute; d) Mrs. Brenda Eaton as a titular director and Mr. Richard Dinneny as the respective substitute; e) Mr. Mario Marcel Cullell as a titular director and Mr. Juan Irrázabal Covarrubias as the respective substitute; f) Mr. Juan Andrés Fontaine Talavera as a titular director and Mr. Juan José Eyzaguirre Lira as the respective substitute; g) Mr. José Ramón Valente Vias as a titular director and Mr. Juan Paulo Bambach Salvatore as the respective substitute; h) Mr. Felipe Lamarca Claro as a titular director and Mr. Enrique Munita Luco as the respective substitute; and i) Mr. Blas Tomic Errázuriz as a titular director and Mr. Federico Grebe Lira as the respective substitute.
- 5) The appointment of Ernst & Young as the External Auditors for the year 2007 was approved.
- 6) The newspaper “El Diario Financiero” was chosen for calling to the Shareholders Meetings.

On April 27, 2007, the company informed the Chilean Superintendency of Securities and Insurance (S.V.S.) that, at the ordinary meeting of the Shareholders, held on April 26, 2006, was agreed the distribution, as the definitive dividends for the period ended December 31, 2006, for the amount of US\$3,499,617, was approved. This definitive dividend will be paid since May 22, 2007 to the Shareholders registered in the corresponding Shareholders Register on May 14, 2007.

On May 04, 2007, the company informed the Chilean Superintendency of Securities and Insurance (S.V.S.) that, at the ordinary meeting of the Board, held on April 26, 2007, it was agreed the distribution, as an interim dividend associated with the net surplus of the period January 01 – March 31, 2007, for an amount of 982,449.53 dollars of the United States of America, which will be paid since May 25, 2007, to the Shareholders registered in the corresponding Shareholder Register on May 17, 2007.