

Consolidated Financial Statements

TRANSELEC S.A. AND SUBSIDIARY

Santiago, Chile

December 31, 2007 and 2006

Consolidated Financial Statements

TRANSELEC S.A. AND SUBSIDIARY

December 31, 2007 and 2006

(Translation of financial statements originally issued in Spanish—See Note 2)

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Consolidated Financial Statements

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ThCh\$:	Thousand 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

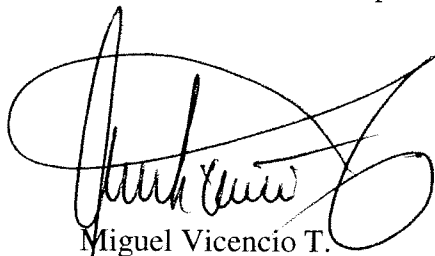
Report of Independent Auditors

(Translation of a report originally issued in Spanish - See Note 2)

To the Shareholders and Directors of
Transelec S.A. (Formerly - Rentas Eléctricas III Limitada):

1. We have audited the accompanying consolidated balance sheets of Transelec S.A. and subsidiary (the "Company") as of December 31, 2007 and 2006, and the related statements of income and cash flows for the year ended December 31, 2007 and the period between June 6 and December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.
2. We conducted our audits in accordance with generally accepted auditing standards in Chile. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.
3. In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Transelec S.A. and subsidiary as of December 31, 2007 and 2006 and the results of its operations and its cash flows for the year ended December 31, 2007 and the period between June 6 and December 31, 2006, in conformity with generally accepted accounting principles in Chile.
4. Rentas Eléctricas III Limitada was formed on June 6, 2006, and was transformed to a corporation on March 26, 2007. On May 16, 2007, it was registered under No. 974 in the Securities Registry with the Chilean Superintendency of Securities and Insurance. Subsequently, on June 30, 2007, the Company changed its name to Transelec S.A. In addition, as indicated in Note 1, the current Transelec S.A. acquired from Transelec Holdings Rentas Limitada 0.01% of the shares of Transelec S.A. (formerly - Nueva Transelec S.A.) concentrating 100% of its ownership. Consequently, Transelec S.A. (formerly - Nueva Transelec S.A.) was absorbed by Transelec S.A., which became the owner of the assets, liabilities, rights and obligations of the former. The Company recognized this reorganization using the pooling of interest method as it relates to companies under common control.

5. As indicated in the Subsequent Events note and Note 2 n), on January 15, 2008, Decree No. 207 issued by the Ministry of Economy, Economic Development and Reconstruction was issued in the Official Gazette of the Republic of Chile, which sets installations of the trunk system, the common influence area, the annual transmission value by segment and its components with its indexation formulas for the four-year period between 2007 and 2010. In conformity with the agreement to acquire shares of HQI Transelec Chile S.A. (a company which has since been dissolved), two final adjustments to the purchase price paid by Rentas Eléctricas IV Limitada, a subsidiary of the consortium led by Brookfield Asset Management “BAM”, which, in its turn was absorbed by Rentas Eléctricas III Limitada, are pending to HQI Hydro Québec and to IFC. The first adjustment was produced by the difference between the valuation of certain installations contemplated in the aforementioned Decree and the valuation of these installations in the share purchase and sale agreement. The second adjustment relates to the resettlement of revenues which the CDEC will have to perform for the period between March 13, 2004 and December 31, 2007. Any resettlement revenues related to the period between March 13, 2004 and June 30, 2006, the date of acquisition of the Company by the consortium, will have to be included in the purchase price.



Miguel Vicencio T.

Santiago, Chile
January 23, 2008

ERNST & YOUNG LTDA.

TRANSELEC S.A. AND SUBSIDIARY

Consolidated Balance Sheets

As of December 31,

(Translation of financial statements originally issued in Spanish—See Note 2)

ASSETS	2007 ThCh\$	2006 ThCh\$
Current Assets		
Cash	471,591	7,022,712
Time deposits	18,083,228	46,088,378
Securities	12,009,865	-
Trade accounts receivable, net	23,363,923	12,717,085
Miscellaneous receivables	479,706	533,679
Notes and accounts receivable from related companies	44,900,650	44,347,365
Inventories ,net	42,397	45,571
Recoverable taxes	2,895,517	1,311,676
Prepaid expenses	99,012	701,719
Deferred taxes	5,771,229	695,878
Other current assets	2,931,353	16,604,126
Total current assets	<u>111,048,471</u>	<u>130,068,189</u>
Property Plant and Equipment		
Land	16,322,737	16,279,760
Buildings and infrastructure, works in progress	736,823,491	735,066,094
Machinery and equipment	299,735,936	288,665,416
Other property, plant and equipment	1,433,071	1,520,294
Accumulated depreciation (less)	(47,734,341)	(15,719,879)
Total property, plant and equipment	<u>1,006,580,894</u>	<u>1,025,811,685</u>
Other Assets		
Investments in other companies	212,930	102,653
Goodwill	252,215,414	259,058,057
Long-term receivables	1,533,084	10,072,358
Notes and accounts receivable from related companies	30,095,953	-
Long-term deferred taxes	53,854,333	62,198,201
Intangibles	147,295,533	148,166,199
Amortization of intangibles (less)	(5,575,876)	(1,863,424)
Other	9,485,577	5,816,199
Total other assets	<u>489,116,948</u>	<u>483,550,243</u>
Total Assets	<u><u>1,606,746,313</u></u>	<u><u>1,639,430,117</u></u>

The accompanying notes 1 to 32 form an integral part of these financial statements

TRANSELEC S.A. AND SUBSIDIARY

Consolidated Balance Sheets

As of December 31,

(Translation of financial statements originally issued in Spanish—See Note 2)

LIABILITIES AND SHAREHOLDERS' EQUITY	2007 ThCh\$	2006 ThCh\$
Current Liabilities		
Bonds payable - short-term portion	8,733,661	128,163,349
Accounts payable	50,865,999	20,799,374
Miscellaneous payables	1,126,777	8,062,411
Notes and accounts payable to related companies	117,014	1,140,665
Provisions	2,708,094	2,217,030
Withholdings	1,412,703	1,863,053
Other liabilities	224,929	87,057
Total current liabilities	<u>65,189,177</u>	<u>162,332,939</u>
Long-term Liabilities		
Long-term bonds payable	741,830,043	652,255,279
Miscellaneous accounts payables	-	11,217,947
Provisions	1,486,861	1,596,889
Other long-term liabilities	1,513,925	10,660,669
Total long-term liabilities	<u>744,830,829</u>	<u>675,730,784</u>
Minority interest	<u>4,288</u>	<u>103,049</u>
Shareholders' Equity		
Paid-in capital	787,827,868	787,827,868
Retained earnings	87,568	-
Net income	31,686,669	15,947,446
Interim dividends (less)	(22,880,086)	(2,511,969)
Total Shareholders' Equity	<u>796,722,019</u>	<u>801,263,345</u>
Total Liabilities and Shareholders' Equity	<u><u>1,606,746,313</u></u>	<u><u>1,639,430,117</u></u>

The accompanying notes 1 to 32 form an integral part of these financial statements

TRANSELEC S.A. AND SUBSIDIARY

Consolidated Statement of Income

Years ended December 31,

(Translation of the financial statements originally issued in Spanish- See Note 2)

	2007 ThCh\$	2006 ThCh\$
Operating Income		
Revenue	130,399,949	63,932,433
Cost of sales (less)	(50,951,300)	(22,279,982)
Gross margin	79,448,649	41,652,451
Administrative and sales expenses	(4,626,628)	(5,566,052)
Net operating income	74,822,021	36,086,399
Non-operating Income		
Financial income	6,324,915	1,777,952
Other non-operating income	2,363,878	3,247,900
Financial expenses	(35,355,360)	(19,530,040)
Amortization of goodwill (less)	(6,710,880)	(8,196,592)
Other non-operating expenses	(5,208,923)	(4,099,557)
Price-level restatement, net	(1,286,420)	4,439,627
Foreign currency translation, net	422,387	7,757,448
Non-operating income	(39,450,403)	(14,603,262)
Income before income taxes	35,371,618	21,483,137
Income taxes	(3,684,778)	(5,534,150)
Income before minority interest	31,686,840	15,948,987
Minority interest	(171)	(1,541)
Net Income	31,686,669	15,947,446

The accompanying notes 1 to 32 form an integral part of these financial statements

TRANSELEC S.A. AND SUBSIDIARY

Consolidated Statement of Cash Flows

Years ended December 31,

(Translation of financial statements originally issued in Spanish- See note 2)

	2007 ThCh\$	2006 ThCh\$
Cash Flows from Operating Activities		
Net Income	31,686,669	15,947,446
Results from sale of assets:	(33,827)	-
Income on sale of property, plant and equipment	(33,827)	-
Charges (credits) to income that do not represent cash flows		
Depreciation for the period	31,278,151	15,667,187
Amortization of intangibles	3,537,715	1,863,424
Write-off and provision	3,677,787	-
Amortization of goodwill	6,710,880	8,196,592
Price-level restatement, net	1,286,420	(4,439,627)
Foreign currency translation, net	(422,387)	(7,757,448)
Other charges to income other than cash flows	-	21,293
Other credits to income other than cash flows	(6,164,309)	(4,628,718)
Changes in assets, that affect cash flows (increase) decrease		
Trade accounts receivable	(10,592,865)	2,467,807
Inventories	3,174	2,123
Other assets	4,538,055	115,240,812
Dividends received and other	-	(12,523)
Receivable interests	-	(81,710)
Changes in liabilities that affect cash flows increase (decrease)		
Accounts payable related to operating income	(3,975,451)	16,075,112
Interest payable	(642,019)	(14,898,761)
Income taxes payable	1,684,676	(110,931,939)
Income taxes payable	(214,203)	608,420
Other liabilities	-	111,875
Minority Interest	171	1,541
Net cash provided by operating activities	<u>62,358,637</u>	<u>33,452,906</u>
Cash Flows from Financing Activities		
Capital increase	-	787,827,868
Bond Payable	114,908,930	267,831,840
Loan from related company	-	233,914,792
Dividends paid	(36,227,996)	-
Payment of loans to related companies	(118,241,706)	(254,189,185)
Interim dividends	-	(2,511,968)
Net cash flows provided by (used in) financing activities	<u>(39,560,772)</u>	<u>1,032,873,347</u>

The accompanying notes 1 to 32 form an integral part of these financial statements

TRANSELEC S.A. AND SUBSIDIARY

Consolidated Statement of Cash Flows

Years ended December 31,

(Translation of financial statements originally issued in Spanish- See note 2)

	2007 ThCh\$	2006 ThCh\$
Cash Flows from Investing Activities		
Sale of property, plant and equipment	2,177,083	-
Collection of related companies loans	38,207,631	-
Investment in related companies	-	(1,021,742,658)
Purchase of property, plant and equipment	(24,962,622)	(13,282,624)
Payment of capitalized interest	(905,687)	(1,312,056)
Investments in related companies	(77,150)	-
Loans to related companies	(68,659,264)	(16,258,853)
Other investment disbursements	-	57,377,308
Net cash flows used in investing activities	<u>(54,220,009)</u>	<u>(995,218,883)</u>
Total Net Cash Flows for the Year	(31,422,144)	71,107,370
Effect of Inflation Foreign Currency Translation on Cash and Cash Equivalents	(5,178,298)	(1,950,930)
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(36,600,442)</u>	<u>69,156,440</u>
Cash and Cash Equivalents, Beginning of the Year	69,156,440	-
Cash and Cash Equivalents, End of the Year	<u>32,555,998</u>	<u>69,156,440</u>

The accompanying notes 1 to 32 form an integral part of these financial statements

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

(Translation of financial statements originally issued in Spanish- See Note 2)

Note 1 - Business Description

Rentas Eléctricas III Limitada was formed as a limited liability company by public instrument on June 6, 2006. On March 26, 2007, the Company changed its name to Rentas Eléctricas III S.A., becoming a corporation. 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, which corresponds to the total number of shares issued, subscribed and fully paid.

The subsidiary Transelec Norte S.A., was listed as number 939 in the Registry of Instruments of the Superintendency of Securities and Insurance ("SVS").

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.

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.

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

(Translation of financial statements originally issued in Spanish- See Note 2)

Note 2 - Summary of Significant Accounting Principles

a) Periods covered

These consolidated Financial Statements cover the years ended December 31, 2007 and the period between June 6, and December 31, 2006.

b) Basis of preparation

The financial statements have been prepared in accordance with generally accepted accounting principles in Chile ("Chilean GAAP") issued by the Chilean Association of Accountants, and specific instructions and regulations issued by the SVS, except for the investments in subsidiaries that are recorded on only one line of the balance sheet under the equity method and, therefore, have not been consolidated line by line. This treatment does not modify the net income for the period, or the shareholders' equity. In case of discrepancies, specific instructions and regulations issued by the SVS will prevail.

The proforma consolidated financial statements as of December 31, 2006, consist of the consolidated financial statements of Rentas Eléctricas III Limitada (currently Transelec S.A.), which were not filed with the SVS because at that time the entity was a limited liability company. This reorganization incorporates within the new Transelec S.A. (formerly Rentas Eléctricas III Limitada) all the activities carried out at that time by Transelec S.A. and its subsidiary (these activities are currently carried out by the merger of the companies Rentas Eléctricas III S.A. and Transelec S.A. as of June 30, 2007).

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

c) Basis of presentation

For comparison purposes, the figures of the consolidated financial statements from the previous year were restated off the balance sheet by the percentage variation of the Consumers Price Index for the twelve-month period ended on December 31, 2007, which was 7.4%.

d) Basis of consolidation

The effects on unrealized 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.

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

(Translation of financial statements originally issued in Spanish- See Note 2)

Note 2 - Summary of Significant Accounting Principles (continued)

d) Basis of consolidation (continued)

With respect to this investment, the difference between the accounting value and the equity value in United States dollars for the subsidiary has been recorded as a charge to Cumulative Translation Adjustment in the account Other Equity Reserves.

The Company has considered, as allowed by Technical Bulletin No. 64 of Chilean Association of Accountants, bonds issued abroad up to an amount of US\$30,002,000 as a hedge instrument of the risk of fluctuations in the exchange rate. Foreign currency translation, net of price-level restatement, has been registered against Cumulative Translation Adjustment, in the account Other Equity Reserves.

These consolidated financial statements include the balances of the following subsidiary for which participation is as follows:

Corporation	Direct Participation	
	2007	2006
	%	%
Transelec Norte S.A.	99.99	99.99

e) Price-level restatement

These financial statements have been restated in order to reflect variations in the purchasing power of the Chilean peso during the respective period. For this purpose, and in conformity with current Chilean regulations, non-monetary assets and liabilities and shareholders' equity accounts have been restated in constant year-end pesos. In accordance with Chilean tax regulations and accounting practices, the restatements were calculated based on the official Chilean Consumer Price Index (CPI) for the years ended as informed by the National Institute of Statistics, which applied a one-month lag, which was 7.4% for the year ended December 31, 2007 (1.0% for the year ended December 31, 2006). In addition, income and expense accounts have been restated to their end of period values.

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

(Translation of financial statements originally issued in Spanish- See Note 2)

Note 2 - Summary of Significant Accounting Principles (continued)

f) Assets and liabilities denominated in foreign currencies

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.

As of December 31, 2007 and 2006, assets and liabilities in foreign currency and Unidad de Fomento ("UF") have been translated into Chilean pesos at the closing exchange or conversion rates, detailed as follows:

	\$ per unit	
	2007	2006
Unidad de Fomento	19,622.66	18,336.38
United States dollar	496.89	532.39
Euro	730.94	702.08

g) Time deposits

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

h) Securities

This item includes investments in mutual funds valued at unit price as of year-end.

i) Allowance for doubtful accounts

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

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

(Translation of financial statements originally issued in Spanish- See Note 2)

Note 2 - Summary of Significant Accounting Principles (continued)

j) Property, plant and equipment

Property, plant and equipment are stated at acquisition cost based on fair value as of June 30, 2006, price-level restated at year-end. Financing costs for property, plant and equipment at construction sites are capitalized during the construction period. During the year ended December 31, 2007, financial costs amounting to ThCh\$905,687 have been capitalized. (ThCh\$586,703 for the period ended December 31, 2006).

k) Depreciation of property, plant and equipment

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

l) Lease contract

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

m) Intangibles

This item includes right-of-ways, valued at acquisition cost based on their fair value as of June 30, 2006, price-level restated as of December 31, 2007. These assets are amortized using the straight-line method over a period of 40 years, in conformity with Technical Bulletin No. 55, of the Chilean Association of Accountants.

n) Goodwill

This account includes goodwill from the acquisition of shares of the subsidiary HQI Transelec Chile S.A. (currently Transelec S.A.), regarding its equity value at the date of purchase, in accordance with Technical Bulletin No. 72 of the Chilean Association of Accountants. This goodwill is amortized over a 40-year period. This term was authorized by the SVS on July 23, 2007, through Official Letter No. 7749.

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

(Translation of financial statements originally issued in Spanish- See Note 2)

Note 2 - Summary of Significant Accounting Principles (continued)

n) Goodwill (continued)

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" No. 19,940, issued on March 13, 2004. The finalization of the tariff process is expected at the end of the first semester of 2008, when the adjustments to the purchase price pending as of December 31, 2007, could be reasonably determined.

ñ) Resale agreements

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

o) Bonds payable

The long-term portion of this item includes the liability determined based on the fair value as of June 30, 2006, for the placement of bonds issued by the Company at their par value plus price-level restatement, and the short-term portion includes the accrued interest at year-end. 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) Current and deferred income taxes

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

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

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

(Translation of financial statements originally issued in Spanish- See Note 2)

Note 2 - Summary of Significant Accounting Principles (continued)

q) Staff severance indemnities

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

r) Vacation provision

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

s) Operating income

Operating income is mainly income arising from the sales of the electric transmission capacity of the installations, which includes the transmission service provided but not billed at each period-end, which is valued at the selling prices as stipulated in current contracts and toll reports issued by the "Centro de Despacho Económico de Carga del Sistema Interconectado Central" (CDEC - SIC) and for the Centro de Despacho Económico de Carga del Sistema Interconectado del Norte Grande (CDEC-SING). These amounts are shown in Trade Accounts Receivable within Current Assets.

t) Operating estimates

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

u) Derivative contracts

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

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

(Translation of financial statements originally issued in Spanish- See Note 2)

Note 2 - Summary of Significant Accounting Principles (continued)

v) Computer software

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

w) Statement of cash flows

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

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

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

x) Debt security issuance and placement expenses

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

Note 3 - Accounting Changes

As mentioned in Note 2 b), the effects of the reorganization are reflected in the accounting of these proforma financial statements as of December 31, 2006, presented for comparison purposes as if the reorganization had already occurred as of December 31, 2006.

During the year ended December 31, 2007, there were no other accounting changes made, with respect to the previous year that could significantly affect the interpretation of these financial statements.

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

(Translation of financial statements originally issued in Spanish- See Note 2)

Note 4 - Securities

The detail of securities is as follows:

	2007 ThCh\$	2006 ThCh\$
Scotiabank	4,243,673	-
Banco Santander Santiago	1,578,481	-
Banco Credito e Inversiones	658,408	-
Banchile	5,529,303	-
Total	<u>12,009,865</u>	<u>-</u>

Note 5 - Short and Long-term Receivables

The detail of short and long-term receivables corresponds to transactions for the following concepts:

Short-term trade accounts receivable

	2007 ThCh\$	2006 ThCh\$
Trade accounts receivable from tolls	<u>23,363,923</u>	<u>12,717,085</u>
Total	<u>23,363,923</u>	<u>12,717,085</u>

The following table details receivables between 90 days and 1 year, which include the accruals related to tariff income of ThCh\$14,564,511 as of December 31, 2007 (ThCh\$3,680,727 for the period ended December 31, 2006). Additionally, in Accounts Payable the payable provisions are presented for the value differences related with the tariff incomes of ThCh\$21,879,198 as of December 31, 2007 (ThCh\$11,217,947 as of the period ended December 31, 2006).

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

(Translation of financial statements originally issued in Spanish- See Note 2)

Note 5 - Short and Long term Receivables (continued)

Short and long-term receivables

		Current				Long-Term	
		Up to 90 days		90 days to 1 year		Subtotal	
		2007	2006	2007	2006	2007	2006
Trade Receivable	8,799,412	9,036,358	14,564,511	3,680,727	23,363,923	23,363,923	12,717,085
Other Receivables	479,606	533,679	-	-	479,606	479,606	533,679
						Total-Long term debtors	1,533,084
							10,072,358

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

(Translation of financial statements originally issued in Spanish- See Note 2)

Note 6 - Balances and Transactions with Related Companies

Notes and Accounts Receivable

Rentas Electricas I Limitada

The following represents expenses and payments made on behalf of Rentas Eléctricas I Limitada for ThCh\$29,582.

Transelec Holdings Rentas Limitada

The balance receivable as of December 31, 2007 is mainly due to a series of loans, credited as a mercantile account, amounting to ThCh\$27,201,300 (ThCh\$ 28,365,789 as of the period ended December 31, 2006).

The loan is expressed and will be paid in US dollars and generates interest of 5.6%, considering a 360-day year.

There are some credits in mercantile current account in Chilean pesos for an accumulated amount as of December 31, 2007 of ThCh\$17,620,865, which generates interest of 6.5% considering a 360-day year.

On December 15, 2006, a loan amounting to UF 1,436,230.55 on December 3, 2007, which corresponds to ThCh\$30,095,953, was subscribed. This loan is expressed in UF and generates annual interest of 6.5% considering a 360-day year.

ETC Holdings Ltd.

The balance receivable corresponds to expenses and payments made on behalf of ETC Holdings Ltd. for ThCh\$48,903 (ThCh\$0 for period ended December 31, 2006).

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Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

(Translation of financial statements originally issued in Spanish- See Note 2)

Note 6 - Balances and Transactions with Related Companies (continued)

Notes and accounts payable

ETC Holdings Ltd.

The balance receivable corresponds to payments made on behalf of ETC Holdings Ltd. by ThCh\$117,014 (ThCh\$0 for period ended December 31, 2006).

Transelec Holdings Rentas Limitada

The balance receivable for the period ended December 31, 2006, corresponds to part of the accrued interest for the loan granted on June 30, 2006, for ThUS\$ 400,000. The capital was paid on December 14, 2006 and accrued a yearly interest of 6.24%.

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

(Translation of financial statements originally issued in Spanish- See Note 2)

Note 6 - Balances and Transactions with Related Companies (continued)

The following is the balance and most important transactions with related companies:

a) Notes and accounts receivable

Taxpayer ID	Company	Relationship	Transaction description	Current 2007 ThCh\$	Current 2006 Th\$	Long-term 2007 ThCh\$	2006 ThCh\$
76.559.580-0	Rentas Eléctricas I Limitada	Parent	Expenses / several Payments	29,582	5,466	-	-
76.560.200-9	Transelec Holdings Rentas Limitada	Parent	Expenses / several Payments	27,201,300	15,976,111	30,095,953	-
76.560.200-9	Transelec Holdings Rentas Limitada	Parent	Loans	17,620,865	28,365,788	-	-
0-E	ETC Holding Ltd	Parent	Expenses / several Payments	48,903	-	-	-
Total				44,900,650	44,347,365	30,095,953	-

b) Notes and accounts payable

Taxpayer ID	Company	Relationship	Transaction description	Current 2007 ThCh\$	Current 2006 ThCh\$
76.560.200-9	Transelec Holdings Rentas Limitada	Parent	Interests	-	1,140,665
0-E	ETC Holding Ltd	Parent	Expenses / several Payments	117,014	-
Total				117,014	1,140,665

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

(Translation of financial statements originally issued in Spanish- See Note 2)

Note 6 - Balances and Transactions with Related Companies (continued)

c) Transactions with related companies

Company	Taxpayer ID	Relationship	Description of the Transaction	2007		2006	
				Amount	Effect on Income (Charge)/Credit	Amount	Effect on Income (Charge)/Credit
Transelec Holdings Rentas Ltda.	76.560.200-9	Parent	Loans Granted	82,444,392	-	28,313,325	-
Transelec Holdings Rentas Ltda.	76.560.200-9	Parent	Loans Collected	38,207,620	-	235,124,376	-
Transelec Holdings Rentas Ltda.	76.560.200-9	Parent	Interests Accrued	-	-	6,498,325	(6,498,325)
Transelec Holdings Rentas Ltda.	76.560.200-9	Parent	Interests Recovered	3,350,988	3,350,988	81,710	81,710
Rentas Electricas I Ltda.	76.559.580-0	Indirect Parent	Loans Granted	28,592	-	-	-
Rentas Electricas I Ltda.	76.559.580-0	Indirect Parent	Interests Earned	990	990	-	-
Transelec Norte S.A.	99.521.950-6	Subsidiary	Interests Accrued	3,159,593	(3,159,593)	3,467,316	3,467,316
Transelec Norte S.A.	99.521.950-6	Subsidiary	Services Rendered	1,138,607	1,138,607	586,082	586,082
Transelec Norte S.A.	99.521.950-6	Subsidiary	Interests Recovered	3,148,875	-	3,467,316	-
ETC Holdings Ltd.	0-E	Indirect Parent	Services Rendered	48,903	48,903	-	-

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

(Translation of financial statements originally issued in Spanish- See Note 2)

Nota 7 - Current and Deferred Income Taxes

a) General information

As of December 31, 2007, the Company has not accrued any income tax because there is a tax loss of ThCh\$32,689,842, for the period. In 2006, there was an accrual for income tax of ThCh\$110,551 calculated on a base of ThCh\$650.301.

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

Its subsidiary as of December 31, 2007, has accrued income tax over the result of the period by ThCh\$400,087 (ThCh\$411,687 in the period 2006) considering a base of ThCh\$2,353,453 (ThCh\$2,421,686 in the period 2006).

In the periods of 2007 and 2006, the provision is presented as a current asset under the concept of recoverable tax, according to the following detail:

Recoverable taxes	2007 ThCh\$	2006 ThCh\$
First category tax	(400,087)	(5,207,094)
Art. No. 21 tax	(16,174)	(23,136)
Sub-total	(416,261)	(5,230,230)
Monthly prepaid tax installments	2,988,811	4,576,114
Prepaid tax installments due to absorbed net income (third parties)	322,967	1,958,337
Other credits	-	7,455
Total	<u>2,895,517</u>	<u>1,311,676</u>

b) Deferred taxes

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

As described in Note 2 p), deferred taxes have been restated as of December 31, 2007 to recognize the effect of the income tax rate changes instituted by the tax reform published in September 2001.

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

(Translation of financial statements originally issued in Spanish- See Note 2)

Nota 7 - Current and Deferred Income Taxes (continued)

b) Deferred taxes (continued)

Description	2007			
	Deferred tax assets		Deferred tax liabilities	
	Short-term	Long-term	Short-term	Short-term
Temporary differences	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Vacation provision	116,740	-	-	-
Severance indemnities provision	-	71,514	-	226,000
Other provisions	73,227	-	-	-
Fair value bonds and swap	-	4,381,408	-	-
Revaluation of property, plant and equipment (absorption)	-	50,376,148	-	-
Plant, property and equipments ex-leasing	-	38,327	-	-
Prepaid expenses	-	-	-	1,330,295
Forward contracts	23,989	-	-	-
Premium from bond placement	-	272,260	-	-
Discount from bond placement	-	270,971	-	-
Tax loss	5,557,273	-	-	-
Total	5,771,229	55,410,628	-	1,556,295

Description	2006			
	Deferred tax assets		Deferred tax liabilities	
	Short-term	Long-term	Short-term	Short-term
Temporary differences	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Vacation provision	115,000	-	-	-
Depreciation of plant, property and equipment	-	-	-	11,411,088
Severance indemnities provision	-	-	-	236,296
Other provisions	103,284	-	-	-
Fair value bonds and swap	92,406	5,543,546	-	-
Financial costs Activated	-	-	-	1,457,185
Revaluation of plant, property and equipment (absorption)	-	74,883,410	-	-
Plant, property and equipment ex-leasing	-	-	-	4,629,000
Disposals of plant, property and equipment	-	209,803	-	-
Prepaid expenses	-	-	-	990,701
Forward contracts	-	-	42,745	-
Premium from bond placement	-	285,712	-	-
Tax loss	427,933	-	-	-
Total	738,623	80,922,471	42,745	18,724,270

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

(Translation of financial statements originally issued in Spanish- See Note 2)

Nota 7 - Current and Deferred Income Taxes (continued)

c) Income tax

The composition of the net charge to income, after recognizing the effect of deferred taxes as stated in SVS Circular No. 1.466 and Technical Bulletin No. 60 and complementary bulletins issued by the Chilean Association of Accountants, is as follows:

Item	2007 ThCh\$	2006 ThCh\$
Income tax expense (income tax provision)	(416,261)	(542,318)
Tax expenses adjustment (previous period)	-	(1,417,435)
Effect in assets or liabilities for deferred tax of the period	(3,268,517)	(3,574,397)
Total	<u>(3,684,778)</u>	<u>(5,534,150)</u>

Note 8 - Other Current Assets

The detail of the other current assets is as follows:

	2007 ThCh\$	2006 ThCh\$
Securities under resale agreements	1,991,314	16,045,350
Bond issuance expenses	532,585	251,965
Bond discount	260,883	-
Forward contracts	-	251,441
Other	146,571	55,370
Total	<u>2,931,353</u>	<u>16,604,126</u>

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

(Translation of financial statements originally issued in Spanish- See Note 2)

Note 9 - Information about Investments Under Repurchase (VCR) and Resale Agreements (CRV) of Securities

As of December 31, 2007, these transactions are summarized as follows:

Code	Dates		Counterpart	Currency of origin	Subscription Value	Rate	Final Value ThCh\$	Identification of instruments	Market Value ThCh\$
	Inception	Maturity							
CRV	12/14/2007	01/04/2008	Banco Crédito e Inversiones	Dollar	999,320	0.33	996,099	BCP	995,657
CRV	12/14/2007	01/09/2008	Banco Crédito e Inversiones	Dollar	999,320	0.33	996,651	BCP	995,657

TRANSELEC S.A. AND SUBSIDIARY

Notes to the consolidated Financial Statements

December 31, 2007 and 2006

(Translation of financial statements originally issued in Spanish- See Note 2)

Note 10 - Property, Plant, and Equipment

The detail of Property, plant and equipment is showed following

The depreciation for 2007 amounted to ThCh\$31,278,151 (ThCh\$15,667,187 for 2006). ThCh\$31,101,029 (ThCh\$13,035,099 for 2006), were charged to Operating Costs and ThCh\$177,122 (ThCh\$2,632,088 for 2006), were charged to administrative and sales expenses:

Description	Gross value ThCh\$	2007 Accumulated depreciation ThCh\$	Net value ThCh\$	Gross value ThCh\$	2006 Accumulated depreciation ThCh\$	Net Value ThCh\$
Land	16,322,737	-	16,322,737	16,279,760	-	16,279,760
Buildings and infrastructure						
Buildings	13,640,318	(581,891)	13,058,427	13,064,219	(264,322)	12,799,897
Access roads	598,903	(11,785)	587,118	233,273	(2,911)	230,362
Lines	569,555,011	(21,369,057)	548,185,954	575,022,958	(4,782,367)	570,240,591
Houses and apartments	88,976	(3,335)	85,641	89,038	(1,111)	87,927
Non-hydraulic civil projects	113,884,990	(4,658,842)	109,226,148	109,630,893	(1,928,989)	107,701,904
Works in progress	39,055,293	-	39,055,293	37,025,713	-	37,025,713
Total Buildings and infrastructure	736,823,491	(26,624,910)	710,198,581	735,066,094	(6,979,700)	728,086,394
Machinery and equipment						
Telecommunications equipment	7,714,946	(1,351,525)	6,363,421	6,213,983	(776,996)	5,436,987
Furniture, machinery and office equipment	145,065	(28,313)	116,752	138,195	(6,858)	131,337
Service furniture and equipment	33,285	(3,851)	29,434	26,513	(1,195)	25,318
Tools and instruments	1,222,866	(118,779)	1,104,087	1,112,572	(41,020)	1,071,552
Power generation unit	1,123,588	(114,627)	1,008,961	1,063,798	(46,890)	1,016,908
Electrical equipment	254,657,026	(13,336,768)	241,320,258	248,559,915	(5,588,753)	242,971,162
Mechanical, protection and measurement	32,080,447	(5,270,548)	26,809,899	29,915,094	(2,099,364)	27,815,730
Transport and loading equipment	342,865	(69,243)	273,622	320,940	(22,467)	298,473
Computers	658,214	(249,834)	408,380	363,348	(61,562)	301,786
Software	1,757,634	(565,943)	1,191,691	951,058	(95,074)	855,984
Total machinery and equipment	299,735,936	(21,109,431)	278,626,505	288,665,416	(8,740,179)	279,925,237
Subtotal plant, property and equipment	1,052,882,164	(47,734,341)	1,005,147,823	1,040,011,270	(15,719,879)	1,024,291,391
Other property, plant and equipment						
Construction materials	1,433,071	-	1,433,071	1,520,294	-	1,520,294
Total other property, plant and equipment	1,433,071	-	1,433,071	1,520,294	-	1,520,294
Total property, plant, and equipment	1,054,315,235	(47,734,341)	1,006,580,894	1,041,531,564	(15,719,879)	1,025,811,685

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Financial Statements

December 31, 2007 and 2006

(Translation of financial statements originally issued in Spanish—See Note 2)

Note 11 - Investments in Other Companies

The following receivables correspond to Transelec S.A.'s 6.666667% participation in CDEC-SIC Ltda., whose exclusive objective is to administrate the operations of the power stations and transmission lines that are interconnected within the electric system and coordinate the direction and operation of the electrical system. The value of the investment as of December 31, 2007 is ThCh\$32,128.(ThCh\$17,311 as of the period ended December 31, 2006). It also includes the 14.29% participation of Transelec Norte S.A. in Sociedad Centro de Despacho Económico de Carga del Sistema Interconectado del Norte Grande ("CDEC-SING"), whose exclusive objective is to manage and operate the Center of Economic Dispatch of the interconnected electrical system in the SING and to manage and operate this electrical system. The value of this investment as of December 31, 2007 amounts to ThCh\$180,802 (ThCh\$85,342 in 2006).

Tax Id	Company	Participation percentage	Value	
			2007 ThCh\$	2006 ThCh\$
77.286.570-8	CDEC - SIC LTDA	6.6667	32,128	17,311
77.345.310-1	CDEC - SING LTDA	14.2900	180,802	85,342
Total			212,930	102,653

Note 12 - Goodwill

a) Goodwill is summarized as follows:

	2007 ThCh\$	2006 ThCh\$
Initial Balance		
Goodwill of HQI Transelec Chile S.A. acquisition	267,123,972	267,253,002
Goodwill of Transelec Norte S.A.	-	1,647
Accumulated amortization of Goodwill	(14,908,558)	(8,196,592)
Total	<u>252,215,414</u>	<u>259,058,057</u>

This account corresponds to the goodwill from the acquisition of HQI Transelec Chile S.A., by the Company, after adjusting the financial statements of the subsidiary in accordance with Technical Bulletin No. 72 of the Chilean Association of Accountants

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

The total cost of the acquisition amounted to ThCh\$ 942,160,997

TRANSELEC S.A. AND SUBSIDIARY

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December 31, 2007 and 2006

(Translation of financial statements originally issued in Spanish—See Note 2)

Nota 12 - Goodwill (continued)

b) The origin of Goodwill and its amortization is as follows:

Taxpayer No.	Company	2007		2006	
		Amortization during the period ThCh\$	Balance of goodwill ThCh\$	Amortization during the period ThCh\$	Balance of goodwill ThCh\$
77.498.870-K	HQI Transelec Chile S.A.	(6,710,880)	252,215,414	(8,196,550)	259,056,452
99.521.950-6	Transelec Norte S.A.	-	-	(42)	1,605
	Total	(6,710,880)	252,215,414	(8,196,592)	259,058,057

Note 13 - Intangibles

Intangibles are as follows:

	2007 ThCh\$	2006 ThCh\$
Right-of-way	147,295,533	148,166,199
Less: Accumulated amortization	(5,575,876)	(1,863,424)
Total	<u>141,719,657</u>	<u>146,302,775</u>

The amortization charge to income amounted to ThCh\$3,537,715 (ThCh\$1,863,424 in 2006)

Note 14 - Other Assets

The balance as of year-end is as follows:

	2007 ThCh\$	2006 ThCh\$
Discount in Issuance Bonds UF	2,000,099	-
Deferred Expenses Bonds UF Series C	1,896,841	-
Deferred Expenses Bonds UF Series D	5,395,842	5,575,686
Deferred General Installation Expenses	140,100	215,384
Other	52,695	25,129
Total	<u>9,485,577</u>	<u>5,816,199</u>

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Financial Statements

December 31, 2007 and 2006

(Translation of financial statements originally issued in Spanish—See Note 2)

Note 15 - Short and Long-term Obligations (Promissory Notes and Bonds)

- a) During 2001, the Company made a public offering of bonds in the local market according to the following detail:

On April 2, 2001 the Company registered the first bond issuance for a maximum of UF 10,000,000 with the Superintendency of Securities and Insurance under No. 249. From this initial amount, UF 9,200,000 was finally placed on April 11, 2001.

As of December 31, 2007, the risk ratings obtained are as follows:

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

Terms of Issuance

Issuer: HQI Transelec Chile S.A.

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

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

Series A

- Series A-1: Up to UF3,000,000, (3,000 bonds of UF1,000 each).
- Series A-2: Up to UF4,000,000, (400 bonds of UF10,000 each).

Series B

- 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 Unidad de Fomento

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

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Financial Statements

December 31, 2007 and 2006

(Translation of financial statements originally issued in Spanish—See Note 2)

Note 15 - Short and Long-term Obligations (Promissory Notes and Bonds) (continued)

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

Early redemption: Series A without advanced redemption and Series B effective as of September 1, 2009, on any of its denominated dates of payment of interest or interest and capital amortization.

Interest rate: Series A and B bonds accrue a 6.20% annual interest rate on the outstanding capital, expressed in Unidades de Fomento. Interest is calculated over a period of 360 days, upon maturity and payable semi-annually in two semesters of 180 days each.

Interest payments: Semi-annual payments, maturing on March 1 and September 1 yearly, beginning on September 1, 2001. The interest accrued during the year ended December 31, 2007 amounts to ThCh\$2,521,266 (ThCh\$3,688,042 in 2006) 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 SVS.

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

- b) The company issued and placed notes in the international market on April 17, 2001, detailed as follows:

The risk ratings obtained as of December 31, 2007, are as follows:

Rating Agency	Rating
Standard and Poor's Rating Group	BBB-
Fitch IBCA, Duff & Phelps	BBB-
Moody's Investors Service Inc,	BAA1

Issuer: HQI Transelec Chile S.A.

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

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Financial Statements

December 31, 2007 and 2006

(Translation of financial statements originally issued in Spanish—See Note 2)

Note 15 - Short and Long-term Obligations (Promissory Notes and Bonds) (continued)

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

Indexation: Expressed in United States dollars.

Capital amortization: At maturity on April 15, 2011.

Nominal interest rate: 7.875% annual.

Interest payments: Payments of interest are due every six months, on April 15 and October 15 of each year, starting October 15, 2001. Interest payments: Payments of interest are due every six months, on April 15 and October 15 of each year, starting October 15, 2001. The payment of interest as of December 31, 2007 amounts to ThCh\$3,948,674 (ThCh\$4,543,863 in 2006) and is presented in Current liabilities.

- c) During 2006, the company issued bonds for public offering in the Chilean market, as follows:

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

The bonds issuance risk ratings, as of December 31, 2007, are as follows:

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

Issuer: Nueva Transelec S.A.

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

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

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

Amortization period: 21 years

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Financial Statements

December 31, 2007 and 2006

(Translation of financial statements originally issued in Spanish—See Note 2)

Note 15 - Short and Long-term Obligations (Promissory Notes and Bonds) (continued)

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

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

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

Payment of interest: Interest payments 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 at the end of 2007 amounts to ThCh\$ 495,172 and is presented in Current liabilities. (ThCh\$496,956 in the period 2006) and it's presented under current liabilities.

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

Placement term: 36 months from the date of registration in the SVS' 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 in the SVS' Securities Registry under No. 480, the first issuance of bonds for a maximum of UF 6,000,000, from this amount. On March 21, 2007, UF 6,000,000 was finally placed.

As of September 30th, 2007, the risk ratings obtained are as follows:

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

Terms of Issuance

Issuer: Transelec S.A.

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Financial Statements

December 31, 2007 and 2006

(Translation of financial statements originally issued in Spanish—See Note 2)

Note 15 - Short and Long-term Obligations (Promissory Notes and Bonds) (continued)

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

- Maximum issuance: Six million Unidades de Fomento (UF 6,000,000).
- Series C: Up to UF 6,000,000, (6,000 bonds of UF1.000 each).

Amortization period: 9.5 years.

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

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

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

Interest payment: interest payment will be due every six months, on March 1, and September 1 of each year beginning on September 1, 2007. Interest accrued at the end of 2007 amounts to ThCh\$1,361,773 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' Securities Registry.

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Financial Statements

December 31, 2007 and 2006

(Translation of financial statements originally issued in Spanish—See Note 2)

Note 15 - Short and Long-term Obligations (Promissory Notes and Bonds) (continued)

e) 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	Interest payment	Periodicity Amortization payment	Par value 2007 ThCh\$	Par value 2006 ThCh\$	Placement in Chile or abroad
Long term bonds - short term portion										
249	A1	40,712	UF	6.20%	01-03-2007	Semiannually	Upon final payment	-	801,748	Chile
249	A2	81,424	UF	6.20%	01-03-2007	Semiannually	Upon final payment	-	1,603,497	Chile
249	B1	4,030	UF	6.20%	01-03-2008	Semiannually	Semiannually	79,079	80,175	Chile
249	B2	60,457	UF	6.20%	01-03-2008	Semiannually	Semiannually	1,186,336	1,202,622	Chile
First issuance	Single	7,946,777	US\$	7.88%	15-04-2008	Semiannually	Upon final payment	3,948,674	4,543,863	Abroad
Swap Contracts	5 Contracts	20,730	UF	6.94%	13-04-2008	Semiannually	Upon final payment	406,776	101,110	Chile
249	A1	2,000,000	UF	6.20%	01-03-2007	Semiannually	Upon final payment	-	39,566,770	Chile
249	A2	4,000,000	UF	6.20%	01-03-2007	Semiannually	Upon final payment	-	79,133,540	Chile
249	B1	4,000	UF	6.20%	01-09-2008	Semiannually	Semiannually	78,491	39,567	Chile
249	B2	60,000	UF	6.20%	01-09-2008	Semiannually	Semiannually	1,177,360	593,501	Chile
481	D	25,235	UF	4.25%	15-06-2008	Semiannually	Upon final payment	495,172	496,956	Chile
480	C	69,398	UF	3.50%	01-03-2008	Semiannually	Upon final payment	1,361,773	-	Chile
Total - short-term portion								8,733,661	128,163,349	
Long-term bonds										
249	B1	194,000	UF	6.20%	01-03-2022	Semiannually	Semiannually	4,342,939	4,475,321	Chile
249	B2	2,910,000	UF	6.20%	01-03-2022	Semiannually	Semiannually	65,144,087	67,129,828	Chile
First issuance	Single	465,000,000	US\$	7.88%	15-04-2011	Semiannually	Upon final payment	240,566,757	280,111,729	Abroad
481	D	13,500,000	UF	4.25%	15-12-2027	Semiannually	Upon final payment	264,905,910	265,859,174	Chile
480	C	6,000,000	UF	3.50%	01-09-2016	Semiannually	Upon final payment	117,735,960	-	Chile
Swap Contracts	2 Contracts	3,473,602	UF	7.01%	14-04-2011	Semiannually	Upon final payment	21,861,845	8,317,970	Chile
Swap Contracts	2 Contracts	2,303,243	UF	6.93%	14-04-2011	Semiannually	Upon final payment	12,911,058	15,258,853	Chile
Swap Contracts	1 Contract	1,906,538	UF	6.81%	14-04-2011	Semiannually	Upon final payment	14,361,487	11,102,404	Chile
Total - long-term								741,830,043	652,255,279	

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Financial Statements

December 31, 2007 and 2006

(Translation of financial statements originally issued in Spanish—See Note 2)

Note 16 - Provisions and Write-offs

The detail of provisions is as follows:

	2007 ThCh\$	2006 ThCh\$
a) Short-term provisions		
Staff severance indemnities provision (Note 17)	465,096	247,653
Accrued payroll	1,556,293	1,281,454
Vacation provision	686,705	676,470
Fees provision	-	11,453
Total	<u>2,708,094</u>	<u>2,217,030</u>
b) Long-term provisions		
Staff severance indemnities provision (Note 17)	<u>1,486,861</u>	<u>1,596,889</u>
Total	<u>1,486,861</u>	<u>1,596,889</u>

Note 17 - Staff Severance Indemnities

The balance of the account as of December 31, 2007 and 2006 is as follows:

	2007 ThCh\$	2006 ThCh\$
Opening balance	1,717,451	1,607,468
Price-level restatement, net	127,091	33,757
Provisions	721,699	237,582
Payments	(614,284)	(34,264)
Total	<u>1,951,957</u>	<u>1,844,543</u>
Short-term	465,096	247,654
Long-term	<u>1,486,861</u>	<u>1,596,889</u>
Total	<u>1,951,957</u>	<u>1,844,543</u>

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(Translation of financial statements originally issued in Spanish—See Note 2)

Note 18 - Minority Interest

- a) As per December, 31 2007, the Minority Interest is the participation of the other shareholder according to the following detail:

	Equity		Participation percentage		Participation	
	2007	2006	2007	2006	2007	2006
	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Transec Holdings Rentas Ltda.	43,075,079	1,029,416,972	0.01%	0.01%	4,288	103,049

- b) The minority interest corresponding to the participation of the other shareholders in the results of the subsidiary Transec S.A. is as follows:

	Result of the period		Participation percentage		Participation	
	2007	2006	2007	2006	2007	2006
	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Transec Holdings Rentas Ltda.	1,710,623	15,411,648	0.01%	0.01%	171	1,541

Note 19 - Shareholders' Equity

As of December 31, 2007 and 2006, the Equity accounts had the following movements:

a) Capital

On June 6, 2006, Rentas Eléctricas III Ltda. was formed with paid-in capital of US\$1,600 in its equivalent in local currency, contributed by the partners as follows: Brookfield Power Inc. contributed the sum of US\$16, corresponding to 1.0% of the company's equity interests, and Brookfield Asset Management Inc. contributed US\$1,584, corresponding to 99.0% of the company's equity interests.

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(Translation of financial statements originally issued in Spanish—See Note 2)

Note 19 - Shareholders' Equity (continued)

a) Capital (continued)

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

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

As per public deed dated March 26, 2007, the Company was transformed from a limited liability company to a corporation, under the name Rentas Eléctricas III S.A., with capital amounting to ThCh\$733,545,500, divided in 1,000,000 common shares, with no par value. The referred capital is subscribed to and paid in full 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 in full amounted to 1,000,000.

b) Dividends

According to the first ordinary meeting of Stockholders occurring on April 30, 2007, there was an agreement to distribute ThCh\$12,509,756 as a final dividend for the year ended December 31, 2006, which would be paid on May 10, 2007. On September 30, 2007 this dividend was fully paid.

In the third extraordinary Board meeting occurring on May 04, 2007, there was an agreement to distribute ThCh\$7,130,147 (historical value). This will be charged to income for the period between January 1 and March 31, 2007. As of September 30, 2007 this dividend is fully paid.

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Notes to the Financial Statements

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(Translation of financial statements originally issued in Spanish—See Note 2)

Note 19 - Shareholders' Equity (continued)

b) Dividends (continued)

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

c) Ownership

The current and sole owners of the company are:

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

The Company's equity as of December 31, 2007 is as follows:

Changes in equity	Paid capital ThCh\$	Accumulated results ThCh\$	Interim dividends ThCh\$	Net income ThCh\$	Total equity ThCh\$
Capital	863	-	-	-	863
Capital increment	726,387,380	-	-	-	726,387,380
Payments of the period	-	-	(2,338,890)	-	(2,338,890)
Price-level restatement of capital	7,157,257	-	-	-	7,157,257
Net income	-	-	-	14,848,646	14,848,646
Final balance as of December 31, 2006	733,545,500	-	(2,338,890)	14,848,646	746,055,256
Updated for comparative purposes	787,827,868	-	(2,511,969)	15,947,446	801,263,345
Opening balance as of January 01, 2007	733,545,500	-	(2,338,890)	14,848,646	746,055,256
Income distributed previous period	-	12,509,756	2,338,890	(14,848,646)	-
Final dividend previous period	-	(12,509,756)	-	-	(12,509,756)
Price-level restatement of capital	54,282,368	87,568	-	-	54,369,936
Net income	-	-	-	31,686,669	31,686,669
Interim dividends	-	-	(22,880,086)	-	(22,880,086)
Final balance as of December 31, 2007	787,827,868	87,568	(22,880,086)	31,686,669	796,722,019

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December 31, 2007 and 2006

(Translation of financial statements originally issued in Spanish—See Note 2)

Note 19 - Shareholders' Equity (continued)

c) Ownership (continued)

Number of shares

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

Capital (amount ThCh\$)

Series	Subscribed capital ThCh\$	Paid-in capital ThCh\$
Single	787,827,868	787,827,868

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Notes to the Financial Statements

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(Translation of financial statements originally issued in Spanish—See Note 2)

Note 20 - Other Non-operating Income and Expenses

These are summarized as follows:

	2007	2006
	ThCh\$	ThCh\$
Other non-operating income		
Prepaid tax for absorbed profits	322,967	1,958,337
Prior year income	1,268,618	1,195,985
Miscellaneous extraordinary gains	738,466	72,930
Gain on sale of materials	33,827	20,648
Total	<u>2,363,878</u>	<u>3,247,900</u>
Other non-operating expenses		
Prior year expenses	(435,209)	(3,820,374)
Directors' fees	(228,076)	(33,646)
Loss from write off of property, plant, and equipment	(1,567,964)	(193,481)
Loss for obsolescence of property plant and equipment	(230,279)	-
Miscellaneous extraordinary losses	(815,313)	-
Prepaid amortization expenses	(52,538)	(26,526)
Fiscal and judicial fines	(1,879,544)	(969)
Additional tax purchase of shares	-	(11,688)
Tax on behalf of HQ Puno Ltd.	-	(139)
Provision Post-Closing Support Fees Brookfield	-	(11,453)
Others	-	(1,281)
Total	<u>(5,208,923)</u>	<u>(4,099,557)</u>

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Notes to the Financial Statements

December 31, 2007 and 2006

(Translation of financial statements originally issued in Spanish—See Note 2)

Note 21 - Price-level Restatement

Price-level restatement generated a net charge to income for the year ended December 31, 2007 of ThCh\$1,286,420, and a net credit to income of ThCh\$4,439,627 for the period ended December 31, 2006, detailed as follows:

Assets (charges) / credits	Indexation	2007 ThCh\$	2006 ThCh\$
Notes and accounts receivable from related companies	UF	10,305,257	(29,246)
Inventory	CPI	105,938	11,250
Property, plant and equipment	CPI	62,166,235	9,097,750
Notes and accounts receivable from related companies	CPI	3,302,181	387,878
Rights-of-way	CPI	9,684,301	1,459,787
Cash and banks	CPI	1,363,815	(11,132)
Goodwill	CPI	17,719,143	3,133,774
Deferred taxes	CPI	4,333,484	36,532
Other non-monetary assets	CPI	803,286	11,243
Expense and cost accounts	CPI	2,567,521	1,167,339
Total (charges) credits		112,351,161	15,265,175
Liabilities (charges) / credits			
Shareholder's equity	CPI	(53,934,996)	(7,686,894)
Bonds payable	UF	(50,189,188)	(2,672,964)
Notes and accounts payable to related companies	UF	(3,855,378)	263,213
Non-monetary liabilities	CPI	(10,828)	(2,768)
Income accounts	CPI	(5,647,191)	(726,135)
Total (charges) credits		(113,637,581)	(10,825,548)
(Loss) gain from price-level restatement		(1,286,420)	4,439,627

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Notes to the Financial Statements

December 31, 2007 and 2006

(Translation of financial statements originally issued in Spanish—See Note 2)

Note 22 - Foreign Currency Translation

The effect of foreign currency translation generated a net credit to income for the year ended December 31, 2007 of ThCh\$422,387, and in 2006 generated a net credit to income for ThCh\$7,757,448 detailed as follows:

Assets (charges) / credits	Currency	2007 ThCh\$	2006 ThCh\$
Time deposits	US\$	(637,612)	(343,364)
Banks	US\$	(2,086,138)	(603,321)
Notes and accounts receivable related companies	US\$	(8,687,041)	(895,501)
Investments in related companies	US\$	(6,279,004)	566,880
Forward contracts	US\$	(885,859)	(344,163)
Accounts receivable	US\$	(5,349)	(1,764)
Total (charges) credits		(18,581,003)	(1,621,233)
Liabilities (charges) /credits			
Bonds payable	US\$	35,612,172	6,191,062
Notes and accounts payable to related companies	US\$	67,268	5,227,378
Accounts payable	US\$	269,421	(7,125)
Swap contracts	US\$	(16,870,166)	(2,016,031)
Leasing contracts	US\$	(75,305)	(16,603)
Total (charges) credits		19,003,390	9,378,681
Gain from foreign currency translation		422,387	7,757,448

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Notes to the Financial Statements

December 31, 2007 and 2006

(Translation of financial statements originally issued in Spanish—See Note 2)

Note 23 - Debt Issuance and Placement Costs

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

Detail	2007 National ThCh\$	2006 National ThCh\$
Placement and issuance expense	7,985,538	5,850,558
Less: amortization	(160,270)	(22,906)
Total	<u>7,825,268</u>	<u>5,827,652</u>
Balance sheet presentation		
Other current assets (Note No. 8)	532,585	251,966
Other assets - others (Note No. 14)	7,292,683	5,575,686
Total	<u>7,825,268</u>	<u>5,827,652</u>

Note 24 - Statement of Cash Flows

For future cash flow projections the Company did not consider any transactions or events that are not disclosed in these financial statements and their notes.

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Financial Statements

December 31, 2007 and 2006

(Translation of financial statements originally issued in Spanish—See Note 2)

Note 25 - Derivative Contracts

As of December 31, 2007, the Company has forward and swap contracts to hedge the exchange rate position of the long-term debt for the bond issuance abroad, detailed as follows:

Type of derivative	Description		Purchase and sale position	Covered item or transaction		Value of covered items		Asset / Liability		Amount		Result effect	
	Type of contract	Contract value	Maturity expiration date	Specific item	Name	Amount	ThCh\$	Name	ThCh\$	ThCh\$	ThCh\$	Realized	Unrealized
S	CCTE	50,000,000	2nd quarter 2011	Exchange Rate (US\$)	Dollar Bonds	25,622,000	24,844,500	Obligations with the public	14,238,754	(406,885)	(4,260,708)		
S	CCTE	50,000,000	2nd quarter 2011	Exchange Rate (US\$)	Dollar Bonds	25,622,000	24,844,500	Obligations with the public	7,813,357	(67,695)	(3,947,582)		
S	CCTE	50,000,000	3rd quarter 2011	Exchange Rate (US\$)	Dollar Bonds	35,830,500	24,844,500	Obligations with the public	9,237,690	(138,364)	(3,954,616)		
S	CCTE	20,000,000	3rd quarter 2011	Exchange Rate (US\$)	Dollar Bonds	14,110,000	9,937,800	Obligations with the public	3,760,140	(69,832)	(1,601,168)		
S	CCTE	50,000,000	2nd quarter 2011	Exchange Rate (US\$)	Dollar Bonds	32,375,000	24,844,500	Obligations with the public	14,491,225	(371,701)	(4,357,079)		
FR	CCTE	5,000,000	1st quarter 2008	Exchange Rate (US\$)	Dollar Bonds	2,495,250	2,484,450	Other Current Assets	10,800	-	(10,800)		
FR	CCTE	7,400,000	1st quarter 2008	Exchange Rate (US\$)	Dollar Bonds	3,807,300	3,676,986	Other Current Assets	130,314	-	(130,314)		

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Notes to the Financial Statements

December 31, 2007 and 2006

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Note 26 - Contingencies and Restrictions

a) Management restrictions

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

- Maintain, for the duration of the bond issuance, assets free of any kind of lien or encumbrance, whose book value is equal to or greater than 1.2 times the book value of all the liabilities and debts of the issuer that are not subject to any liens or guarantees on assets or instruments belonging to it, including among such liabilities, the debt arising from this bond issuance.
- Not sell, cede, transfer, contribute or in any way give up title to, either for money or for free, the Essential Assets of the Issuer.
- Maintain a level of indebtedness at the individual and consolidated level in which the ratio of Total demandable liabilities / Total capitalization, is no greater than 0.7.
- Maintain at all times during the issuance of the bonds, minimum individual and consolidated shareholders' equity of UF 15 million.
- Maintain in full force and effect the Debt Service Reserve Agreement.
- Not make any direct or indirect capital distribution, dividend payment (any than those obliged by law), any payment of principal of, or interest on, any loan to its shareholders, unless all the following conditions are met: (i) No Event of Default has occurred or is continuing, (ii) The Funds Flow from Operations ("FFO") to Interest Expense ratio is higher than 1.50x, and (iii) the Debt Service Reserve Agreement is maintained.

b) Direct commitments

There are no direct commitments.

c) Indirect commitments

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

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(Translation of financial statements originally issued in Spanish—See Note 2)

Note 26 - Contingencies and Restrictions (continued)

d) Pending lawsuits

As of December 31, 2007 there are lawsuits pending against the Company for which the corresponding defense has been filed, which altogether represent an amount of ThCh\$142,504.

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

e) Fines

1. On December 5, 2002, the Superintendence of Electricity and Fuel (SEC) in Ordinary Official Letter No. 7183, charged the Company for its alleged responsibility in the interruption of electrical supply in the Central Interconnected System (SIC) on September 23, 2002. The Company presented the answers in a timely manner and these were added to the corresponding evidence. By Exempt Resolution No. 1438 of August 14, 2003, the Superintendency applied various fines to Transelec for a total of Annual Tax Units (UTA) 2,500 equivalent as of December 31, 2007, to ThCh\$1,026,660. As of December 31, 2007, the Company had appealed the complaint before the Santiago Court of Appeals, and placed a deposit of 25% of the original fine. The Company maintains that it is not responsible for this situation since it considers it a case of force majeure.
2. The SEC in Ordinary Official Letter No. 1210, dated February 21, 2003, filed charges for the alleged responsibility of Transelec in the interruption of electric service in the (SIC), on January 13, 2003. By Resolution No. 808, of April 27, 2004, the SEC imposed a fine of 560 UTA equivalent as of December 31, 2007, to ThCh\$229,972, against which a writ of administrative reconsideration was filed, which was rejected. The Company appealed the complaint before the Santiago Court of Appeals and placed a deposit of 25% of the original fine. The Company maintains that it is not responsible for this situation since it considers it a case of force majeure.

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(Translation of financial statements originally issued in Spanish—See Note 2)

Note 26 - Contingencies and Restrictions (continued)

e) Fines (continued)

3. On June 30, 2005 the SEC through Exempt Resolution No. 1117, applied the following sanctions to the Company: a fine of 560 UTA equivalent as of December 31, 2007, to ThCh\$229,972, for allegedly not having coordinated to ensure electric service, as determined in the investigation of the general failure of the SIC on November 7, 2003; a fine of 560 UTA equivalent as of December 31, 2007, to ThCh\$229,972, in the Company's condition as the owner of the installations, for allegedly operating the installations without adhering to the operation scheduling set forth by the CDEC-SIC, without justified cause, as determined in the investigation of the general failure of the SIC on November 7, 2003. As of December 31, 2007, the Company had appealed the charges before the SEC, which is pending resolution. Management believes it has no responsibility in these events.
4. On December 17, 2004, the SEC through Exempt Resolution No. 2334 fined the Company 300 UTA, equivalent as of December 31, 2007, to ThCh\$123,199, for its alleged responsibility in the interruption of electrical supply south of Temuco, caused by a truck crashing into a structure of the Charrúa - Temuco line. As of December 31, 2007, the Company had filed a motion of invalidation and administrative reconsideration, firmly sustaining that it was a case of force majeure and that the charges are not applicable and should be annulled.
5. On December 31, 2005, the SEC through Official Letter No. 1831, filed charges against the Company for allegedly infringing on various provisions of the electrical regulations while operating its installations, which would have caused the interruption of electrical supply in the SIC on March 21, 2005. By Resolution SEC No. 220, on February 7, 2006, the Company was fined 560 UTA equivalent as of December 31, 2007, to Th\$229,972. An appeal was presented to order generation of power again on February 16, 2006, which is still outstanding. As of December 31, 2007, the Company had presented the required evidence.

As of December 31, 2007, the Company has registered a provision for this matter amounting to ThCh\$1,774,068. This estimation considers the fact that similar cases are being heard in the Appeals Court, and that, the Appeals Court and Supreme Court have confirmed the decision of the SEC in similar cases. In addition, there are similar cases with a reconsideration petition before the SEC for which the SEC has maintained the previously established fine.

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(Translation of financial statements originally issued in Spanish—See Note 2)

Note 26 - Contingencies and Restrictions (continued)

f) Other

1. In October 2006, an executive lawsuit against Empresa Eléctrica Panguipulli was filed for an invoice collection amounted to Ch\$22,100,732. The lawsuit is in progress with some exceptions pending. The Company maintains that the debt will be paid in full.
2. In October 2006, an executive lawsuit against Empresa Eléctrica Puyehue was filed for an invoice collection amounting to ThCh\$188,395,038. The lawsuit is in progress with some exceptions pending and seizure of property in progress. The Company maintains that the debt will be paid in full.
3. On October 1, 2007, an executive lawsuit against Empresa Eléctrica Panguipulli was filed for an invoice collection amounting to ThCh\$85,904,942. The lawsuit is in progress with some exceptions pending and seizure of property in progress. The Company maintains that the debt will be collected in full.
4. On October 1, 2007, an executive lawsuit against Empresa Eléctrica Panguipulli was filed for an invoice collection amounting to ThCh\$ 912,250,211. The lawsuit is in progress at civil court No. 12, case number 21.261-2007, with some exceptions pending and seizure of property in progress. The Company maintains that the debt will be collected in full.

g) Direct Guarantees

Creditor of guarantee	Debtor Name	Type of guarantee	Compromised Assets Book Value ThCh\$	Balance pending as of financial statement closing date 12/31/2007 ThCh\$
Banco Santander Santiago	Regional Director of Highways IV Region Coquímbo	Pledge	275	275
Banco Santander Santiago	Ministry of Economy, Development and Reconstruction	Pledge	155,775	155,775
Banco Santander Santiago	Director Regional de Vialidad IV Región Coquímbo	Pledge	392	392
Banco Santander Santiago	Ministry of Economy, Development and Reconstruction	Pledge	108,819	108,819

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December 31, 2007 and 2006

(Translation of financial statements originally issued in Spanish—See Note 2)

Note 26 - Contingencies and Restrictions (continued)

h) Transelec Norte S.A. (subsidiary)

1. Management restrictions

There are no restrictions.

2, Direct Commitments

There are not direct commitments.

3, Indirect Commitments

There are not endorsements or warranties given by the indirect commitments.

4, Pending Lawsuits

There are no lawsuits.

Note 27 - Guarantees obtained from third parties

As of December 31, 2007, the Company has received financial guarantees from contractors and third parties, mainly to guarantee the completion of constructions, maintenance work and the repayment of housing loans, amounting to ThCh\$8,063,926.

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Financial Statements

December 31, 2007 and 2006

(Translation of financial statements originally issued in Spanish—See Note 2)

Note 28 - Local and Foreign Currency

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

These assets and liabilities are detailed as follows:

Description	Currency	Amount	
		2007 ThCh\$	2006 ThCh\$
Current assets			
Cash and banks	Ch\$	18,948	5,964,532
Bash and banks	US\$	452,643	1,058,180
Time deposit	Ch\$	2,306,118	34,737,585
Time deposit	US\$	15,777,110	11,350,793
Securities	Ch\$	12,009,865	-
Trade accounts receivable	Ch\$	22,296,885	11,341,420
Trade accounts receivable	US\$	1,067,038	1,375,665
Miscellaneous receivable	Ch\$	452,128	505,147
Miscellaneous receivable	US\$	27,578	28,532
Accounts receivable from related companies	Ch\$	17,650,447	28,365,789
Accounts receivable from related companies	US\$	27,250,203	15,981,576
Inventories	Ch\$	42,397	45,571
Recoverable Tax	Ch\$	2,895,517	1,311,676
Prepaid expenses	Ch\$	99,012	701,719
Deferred taxes	Ch\$	5,771,229	695,878
Other current assets (Repurchase and Resale agreements)	US\$	1,991,314	16,045,325
Other current assets (bonds)	Ch\$	793,468	251,966
Other current assets	Ch\$	146,571	55,395
Other current assets	Ch\$	-	251,440
Property, plant, and equipment			
Property, Plant, and Equipment	Ch\$	917,137,102	925,256,724
Property, Plant, and Equipment	US\$	89,443,792	100,554,961
Other assets			
Investments in other companies	Ch\$	212,930	102,653
Goodwill	Ch\$	252,215,414	259,058,057
Long-term receivables	Indexed Ch\$	8,741	45,792
Long-term receivables	Ch\$	508,213	8,812,208
Long-term receivables	US\$	1,016,130	1,214,358
Notes and receivable from related companies	Indexed Ch\$	30,095,953	-
Intangibles	Ch\$	141,891,287	141,990,304
Intangibles	US\$	5,404,246	6,175,895
Amortization of intangibles	Ch\$	(5,373,218)	(1,828,627)
Amortization of intangibles	US\$	(202,658)	(34,797)
Deferred taxes, long term	Ch\$	53,854,333	62,198,201
Others	Indexed Ch\$	9,292,782	-
Others	Ch\$	192,795	5,816,199
Total assets	Ch\$	1,425,121,441	1,485,633,837
	US\$	142,227,396	153,750,488
	Indexed Ch\$	39,397,476	45,792

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Notes to the Financial Statements

December 31, 2007 and 2006

(Translation of financial statements originally issued in Spanish—See Note 2)

Note 28 - Local and Foreign Currency (Continued)

Description	Currency	Up to 90 days 12-31-2007		90 days to 1 year 12-31-2007		Up to 90 days 12-31-2006		90 days to 1 year 12-31-2006	
		Amount Thch\$	Annual average interest rate	Amount Thch\$	Annual average interest rate	Amount Thch\$	Annual average interest rate	Amount Thch\$	Annual average interest rate
Bonds payable	Indexed Ch\$	4,378,211	4.65%	-	-	122,489,462	-	1,130,024	-
Bonds payable	US\$	3,948,674	7.875%	-	-	-	-	4,543,863	-
Bonds payable swap	Indexed Ch\$	406,776	-	-	-	-	-	-	-
Accounts payable	Ch\$	31,073,989	-	-	-	19,978,451	-	-	-
Accounts payable	US\$	19,792,010	-	-	-	820,923	-	-	-
Other creditors	Ch\$	-	-	-	-	6,530,352	-	-	-
Other creditors	US\$	1,126,777	-	-	-	1,532,059	-	-	-
Notes and payable to Related Companies	US\$	117,014	6.24%	-	-	1,140,665	-	-	-
Provisions	Ch\$	2,708,094	-	-	-	2,217,030	-	-	-
Withholdings	Ch\$	1,412,703	-	-	-	1,863,053	-	-	-
Other current liabilities	Ch\$	224,929	-	-	-	87,057	-	-	-
Total current liabilities	Indexed Ch\$	4,784,987	-	-	-	122,489,462	-	1,130,024	-
	US\$	24,984,475	-	-	-	3,493,647	-	4,543,863	-
	Ch\$	35,419,715	-	-	-	30,675,943	-	-	-

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Financial Statements

December 31, 2007 and 2006

(Translation of financial statements originally issued in Spanish—See Note 2)

Note 28 - Local and Foreign Currency (Continued)

Long-term liabilities as of December 31, 2007

Description	Currency	1 to 3 years		3 to 5 years		5 to 10 years		Over 10 years	
		Amount ThCh\$	Yearly average interest rate	Amount ThCh\$	Yearly average interest rate	Amount ThCh\$	Yearly average interest rate	Amount ThCh\$	Yearly average interest rate
Bonds payable	Indexed Ch\$	-	-	69,487,026	6.93%	-	-	382,641,870	4.66%
Bonds payable	US\$	-	-	240,566,757	7.88%	-	-	-	-
Bonds payable swap	Indexed Ch\$	-	-	49,134,390	7.88%	-	-	-	-
Provisions	Ch\$	1,486,861	-	-	-	-	-	-	-
Other long-term liabilities	Indexed Ch\$	1,513,925	-	-	-	-	-	-	-
Total long-term liabilities	Indexed Ch\$	1,513,925	-	118,621,416	-	-	-	382,641,870	-
	US\$	-	-	240,566,757	-	-	-	-	-
	Ch\$	1,486,861	-	-	-	-	-	-	-

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Financial Statements

December 31, 2007 and 2006

(Translation of financial statements originally issued in Spanish—See Note 2)

Note 28 - Local and Foreign Currency (continued)

Long-term liabilities as of December 31, 2006

Description	Currency	1 to 3 years		3 to 5 years		5 to 10 years		Over 10 years	
		Amount ThCh\$	Yearly average interest rate	Amount ThCh\$	Yearly average interest rate	Montto ThCh\$	Yearly average interest rate	Amount ThCh\$	Yearly average interest rate
Bonds payable	Indexed Ch\$	-	-	34,679,227	6.93%	-	-	337,464,323	4.66%
Bonds payable	US\$	-	-	280,111,729	7.88%	-	-	-	-
Provisions	Ch\$	1,596,889	-	-	-	-	-	-	-
Other creditors	Ch\$	11,217,947	-	-	-	-	-	-	-
Other long-term liabilities	US\$	10,660,669	-	-	-	-	-	-	-
Total long-term liabilities	Indexed Ch\$	-	-	34,679,227	-	-	-	337,464,323	-
	US\$	10,660,669	-	280,111,729	-	-	-	-	-
	Ch\$	12,814,836	-	-	-	-	-	-	-

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Financial Statements

December 31, 2007 and 2006

(Translation of financial statements originally issued in Spanish—See Note 2)

Note 29 - Sanctions

During 2007, the Company, its Board and Management have not been sanctioned by the SVS or other regulatory authorities.

Note 30 - Subsequent Events

On January 15, 2008, the Trunk Tariff Process Supreme Decree of the Ministry of Economy, Development and Reconstruction was published in the Official Gazette. This Decree establishes the facilities of the Trunk Transmission Systems, the area of influence and the investment value for each branch (VI), the value of the transmission service per branch (VATT), the annuity of the investment value of each branch (AVI) and the annual cost of operations, maintenance and administration of the respective branch (COMA), of the before mentioned facilities, with their corresponding indexation formulae, for the period 2007-2010. In addition, the Decree fixes the application terms to determine the payment for the transmission services in the Trunk Transmission systems for the period 2007-2010 and for the period amid March 13, 2004 and December 31, 2006.

Pursuant to the Purchase Agreements of the shares of HQI Transelec Chile S.A. (dissolved company) and according to note No. 2n) of these financial statements, two final adjustments on the purchase price paid by the consortium led by BAM to HQI Hydro Québec and IFC are pending. The first adjustment is associated with the difference of the investment value (VI) of some facilities included in the abovementioned Supreme Decree and the value for those facilities established in the Purchase Agreement; The VI Adjustment amount is expected to be resolved within a three-months from the date of publication of the Supreme Decree. The second adjustment relates to the revenue reassessment that the CDEC shall perform from March 13, 2004 to June 30, 2006. According to this Decree, the CDEC has 120 days from the date of its publication to determine this revenues reassessment.

Pursuant to this Decree and in relation with the reassessment of the payment for the transmission services in the Trunk Transmission Systems from March 13, 2004 to December 31, 2007, the Company considers that the reassessment will imply approximate net revenue for Transelec amounting to ThUS\$20,000. In spite of this, the final amount for the revenue reassessment for this period will only be known once this amount is determined by the CDEC.

There have not been any other subsequent events between December 31, 2007 and the date these financial statements were issued, which could significantly affect their interpretation.

TRANSELEC S.A. AND SUBSIDIARY

Notes to the Financial Statements

December 31, 2007 and 2006

(Translation of financial statements originally issued in Spanish—See Note 2)

Note 31 - Environment

During this period, the Company has made disbursements related to the environment, detailed as follows:

	2007 ThCh\$	2006 ThCh\$
Archeologist inspection, new line 1x220Kv Charrúa - Chillán	-	2,608
Urgent work	2,321	5,216
Design of environment management system ISO 14001	3,863	9,384
Replacement of a static compensator with PCB	40,891	-
Oil pit construction	84,374	-
Environmental impact studies	19,126	-
Total	<u>150,575</u>	<u>17,208</u>

Note 32 - Time Deposits

The detail of time deposits is as follows:

Banks	2007 ThCh\$	2006 ThCh\$
Banco Créditos e Inversiones	8,842,941	3,784,419
Banco Santander Santiago	6,282,589	2,625,373
CJT US T-BILLS	-	28,574,367
Banco Security	-	430,258
Banco BBVA	-	4,154,760
Banco Chile	2,915,113	2,947,085
Deutsche Bank	-	3,226,403
Citibank	-	345,713
Scotiabank	42,585	-
Total	<u>18,083,228</u>	<u>46,088,378</u>