Reasoned Analysis

TRANSELEC S.A. AND SUBSIDIARY

REASONED ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2008

A) SUMMARY

In the period from January 1 to June 30, 2008, TRANSELEC S.A. and subsidiary obtained net income of ThCh$34,886,408, which was greater by 64.13% than in the same period for the year 2007. This net income comes from positive operating income of ThCh$59,298,168, negative non-operating income of ThCh$16,634,727, a first category and deferred income tax net charge to income for the amount of ThCh$7,776,950 and minority interest for the amount of ThCh$83. In the 2007 period the Company obtained net income of ThCh$21,255,042 which comes from operating income of ThCh$41,063,297, negative non-operating income of ThCh$17,982,403, a first category and deferred income tax charge to income for the amount of ThCh$1,825,725 and minority interest of ThCh$127.

During this period, operating revenues reached ThCh$88,152,443 (ThCh$69,174,645 in the 2007 period). This operating revenue comes mainly from commercialization of the transmission capacity of the installations, and on this opportunity includes recalculation of tolls for the Grid Transmission System corresponding to 2007, as provided in DS 207 of January 15, 2008 and the Tolls Report for 2007 published by the CDEC-SIC in March 2008 (ThCh$5,258,957) and a recalculation of tolls for the Grid Transmission System corresponding to the period from March 13, 2004 to December 31, 2006, as set forth in the aforementioned decree (ThCh$13,448,311), in addition to related services sold. Additionally, in the semester they registered the income corresponding to the agreement with companies Puyehue S.A and Panguipulli S.A, in order to put a stop to resources before the Appeals Court of Santiago and various executive resources before orindary courts, in relation to payments of tolls owed amounting to ThCh$2,217,208.

Operating costs amount to ThCh$26,094,634 (ThCh$25,982,356 in the 2007 period) and are composed as follows: 64.7% depreciation of property, plant and equipment (62.2% in the 2007 period), 11.2% personnel costs (12.1% in the 2007 period), 17.0% supplies and services hired (18.7% in the 2007 period) and 7.2% amortization of intangibles (7.0% in the 2007 period).

Administration and selling expenses amount to ThCh$2,759,641 (ThCh$2,128,992 in the 2007 period) and are composed mainly of 49.2% personnel expenses (45.7% in the 2007 period), 46.71% works, supplies and hired services expenses (50.5% in the 2007 period) and 4.1% depreciation (3.8% in the 2007 period).

Reasoned Analysis (continued)

Non-operating income for the period recorded a loss of ThCh$16,634,727 (ThCh$17,982,403 in the 2007 period), generated mainly by financial expenses for the amount of ThCh$19,305,203 (ThCh$18,619,128 in the 2007 period) and amortization of goodwill for the amount of ThCh$4,204,844 (ThCh$3,470,899 in the 2007 period). Other important headings that affected non-operating income during the period were financial income for the amount of ThCh$7,601,231 (ThCh$2,955,473 in the 2007 period), foreign currency translation for the period, which was negative for the amount of ThCh$849,320 (positive in the 2007 period for the amount of ThCh$70,741), positive price-level restatement of ThCh$509,526 (positive for the amount of ThCh$607,917 in the 2007 period) and negative other non-operating income for the amount of ThCh$386,117 (negative in the 2007 period for the amount of ThCh$473,493).

B) INCOME

DESCRIPTION	**As of June 30, 2008**	**As of June 30, 2007**	**Variance June 2008/2007**	**Variance June 2008/2007**
	ThCh$	**ThCh$**		**ThCh$**
Operating income	88,152,443	69,174,645	27,43%	18,977,798
Sale of tools	86,818,228	68,206,215	27,29%	18,612,013
Works and services	1,334,215	968,430	37,77%	365,785
Operating costs	(26,094,634)	(25,982,356)	0,43%	(112,278)
Fixed costs	(7,354,236)	(8,001,390)	(8,09%)	647,154
Depreciation	(16,870,348)	(16,163,978)	4,37%	(706,370)
Amortization & intangibles	(1,870,050)	(1,816,988)	(2,92%)	(53,062)
Administration and selling expenses	(2,759,641)	(2,128,992)	29,62%	(630,649)
Operating income	**59,298,168**	**41,063,297**	**44,41%**	**18,234,871**
Non-operating income	**(16,634,727)**	**(17,982,403)**	**(7,49%)**	**1,347,676**
Income taxes	(7,776,950)	(1,825,725)	325,97%	(5,951,225)
Minority interest	(83)	(127)	(34,65%)	44
Net income	**34,886,408**	**21,255,042**	**64,13%**	**13,631,366**
R.A.I.I.D.A.I.E.	77,426,115	60,277,277	28,45%	17,148,838

(1) The operating income on June 30th, 2008, includes extraordinary income corresponding to re-liquidations of previous years for the following concepts: a) Agreement with companies Puyehue S.A and Panguipulli S.A for the amount of ThCh$2,217,208, b) corresponding income for the period from March 2004 to December 2007 derived from Decree N° 207 of the Department Of Economic Affairs and Reconstrucción published January 15, 2008 that determines the new principal rate for the amount of ThCh$13,448,311 and c) corresponding income for the year 2007, derived from the Decree recently mentioned for the amount of ThCh$5,258,957. Also, the non-operating income, was impacted upon in the 2008 period by the interests in the above-mentioned re-liquidations, increasing the interest income toThCh$5,170,783 and the interest expenses to ThCh$2,634,862.

Reasoned Analysis (continued)

PROFITABILITY

INDEXES	As of June 30, 2008	As of June 30, 2007	Variance June 2008/2007
Profitability of equity	4.17%	2.57%	62.26%
Profitability of assets	2.06%	1.26%	63.49%
Profitability of operating assets	5.00%	3.42%	46.20%
Gain per share (Ch$)	34,886.41	21,255.04	64.13%

The calculated indicators as of June 30, 2008 consider the operating income previously mentioned in Point B).

C) BALANCES SHEET ANALYSIS

	As of June 30, 2008	As of June 30, 2007	Variance June 2008/2007	Variance June 2008/2007
	ThCh$	**ThCh$**		**ThCh$**
Current assets	96,771,082	107,237,571	(9.76%)	(10,466,489)
P. P. & E.	1,042,610,352	1,051,730,795	(0.87%)	(9,120,443)
Other assets	551,404,626	522,614,944	5.51%	28,789,682
Total Assets	**1,690,786,060**	**1,681,583,310**	**0.55%**	**9,202,750**
Current liabilities	86,347,490	36,194,417	138.57%	50,153,073
Long-term liabilities	768,398,109	817,836,073	(6.04%)	(49,437,964)
Minority interest	4,493	4,894	(8.19%)	(401)
Shareholders' equity	836,035,968	827,547,926	1.03%	8,488,042
Total Liabilities & Shareholders' Equity	**1,690,786,060**	**1,681,583,310**	**0.55%**	**9,202,750**

Reasoned Analysis (continued)

VALUE OF THE MAIN OPERATING PROPERTY, PLANT AND EQUIPMENT

ASSETS	As of June 30, 2008	As of June 30, 2007	Variance June 2008/2007	Variance June 2008/2007
	ThCh$	ThCh$	%	ThCh$
Land	17,062,060	16,757,243	1.82%	304,817
Buildings and infrastructure	771,958,582	763,950,530	1.05%	8,008,052
Machinery and equipment	318,785,456	302,080,571	5.53%	16,704,885
Other Property, plant & equipment	1,500,123	1,549,647	(3.20%)	(49,524)
Accumulated depreciation	(66,695,869)	(32,607,196)	104.54%	(34,088,673)
Total	**1,042,610,352**	**1,051,730,795**	**(0.87%)**	**(9,120,443)**

As of June 30, 2008 and 2007, property plant and equipment concentrate mainly on land, buildings, infrastructure and machinery and equipment.

The assets of the Company and subsidiary are presented valued in accordance with generally accepted accounting principles in Chile.

DIFFERENCE BETWEEN THE BOOK VALUES AND ECONOMIC AND/OR MARKET VALUES OF THE MAIN ASSETS

Considering that the assets of the Company and its subsidiary were valued at market value in June 2006 in accordance with Technical Bulletin No. 72 issued by the Chilean Association of Accountants, for consolidation purposes, in Transelec Norte, it is estimated that their book value is 35.4% less than their economic and/or market value.

Reasoned Analysis (continued)

LIQUIDITY AND INDEBTEDNESS

RATIOS	As of June 30, 2008	As of June 30, 2007	Variance June 2008/2007
Common liquidity	1.12	2.96	(62.16%)
Acid ratio	0.68	1.50	(54.67%)
Demand liabilities / shareholders' equity	1,02	1.03	(0.97%)
% Short-term debt	10.10	4.24	138.36%
% Long-term debt	89.90	95.76	(6.12%)
Financial expenses coverage	4.00	3.23	23.87%

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

Transelec S.A. carries out its activities in the electricity market, which has been categorized into three different sectors: the generation sector, the transmission sector and the distribution sector. The electric energy generation sector comprises the companies that are dedicated to the generation of electricity, whether that electric energy and power comes from hydroelectric, coal, oil, gas, eolian, or other power plants. The importance of this sector is that it is dedicated to the production of electricity, which subsequently will be used throughout the country by end users. The mission of the distribution center is to carry the electricity to the physical locations where each of the final consumers will use that electricity. For this the distribution companies have electrical meshes or networks that allow that electricity to flow within the cities from the "points of entry" to their networks, to the domicile of each final consumer. Finally the basic objective of the transmission sector is to transport the generated electricity between its production place (electrical power plants), and the "points of entry" to the networks of the distribution companies.

Reasoned Analysis (continued)

The business of Transelec is centered mainly on commercialization of the electricity transportation and transformation capacity of its installations, in accordance with established quality standards. The transmission system of Transelec S.A. and its subsidiary which extends throughout 2,900 kilometers between Arica, in the I Region and the Island of Chiloé in the X Region, includes a majority participation in the grid electrical transmission lines and substations of the Sistema Interconectado Central (SIC) and the Sistema Interconectado del Norte Grande (SING). This transmission system transports the electricity that reaches the zones inhabited by approximately 99% of the population of Chile. The Company owns 100% of the 500 kV electricity transportation lines, 51.1% of the 220 kV lines and 94.5% of the 154 kV lines.

The legal framework that governs the electrical transmission business in Chile is regulated by DFL No. 4/2006, which establishes the Modified, Coordinated and Systemized Text of Decree with Force of Law No. 1 of the Ministry of Mining, issued in 1982, the General Electrical Services Law of 1982 (DFL (M) No. 1/82) and its subsequent modifications, which include Law 19,940 (Short Law I), enacted on March 13, 2004 and Law 20,018 (Short Law II), enacted on May 19, 2005. These regulations are complemented with the Regulations of the General Law on Electrical Services of 1997 (Supreme Decree No. 327/97 issued by the Ministry of Mining) and its respective modifications, and in addition to the Security and Quality of Service Technical Standard (R.M.EXTA No. 40 of May 16, 2005) and its subsequent modifications.

Law 19,940, also denominated Short Law I, modified the General Electrical Services Law of 1982 in matters referring to the electricity transmission activity and established the subdivision of the transmission network into three types of systems: grid transmission, sub-transmission and additional transmission. It also establishes that electricity transportation – both by grid transmission systems as well as sub-transmission – has the nature of a public service and is subject to the application of regulated tariffs.

Reasoned Analysis (continued)

Finally, Law 19,940 contemplates that the new payment regime for the use of the grid installations will come into force as of March 13, 2004 and determines a transitory period that will be in force until enactment of the first grid transmission decree. In this manner, during 2004, 2005, 2006 and 2007, a collection and payment of the transmission installations was carried out in a provisional manner and is to be recalculated in accordance with legal and regulatory standards in force until before the publication of Short Law I. On January 15, 2008, the Decree from the Ministry of Economy, Economic Development and Reconstruction was published, setting the grid tariff for the period beginning March 14, 2004 up to December 31, 2010. As of June 30, 2008, grid income for the period from March 13, 2004 up to December 31, 2007 was fully recalculated. The only recalculation that is still pending is for the period from January to March 2008 which according to current regulation has a maximum recalculation period for March 2009. The decree that will regulate sub-transmission tariffs has not been published yet.

E) <u>MARKET RISK FACTORS</u>

Due to the characteristics of the electrical market and the legislation and regulations governing this sector, the Company is not exposed to significant risks arising from the development of its main business. However, the following risk factors should be mentioned and considered:

Regulatory Framework
The legal standards that govern the electrical transmission business in Chile were modified through the enactment of Law 19,940, denominated Short Law I, published on March 13, 2004.

Although several aspects of the application of Short Law I are matters to be defined in the electrical regulation, which has not been prepared yet, the most relevant methodological aspects that establish the amount of the tolls for the grid installations that each user company must pay, the payment and recalculation mechanisms are contained in Decree No. 207 of July 9, 2007 issued by the Ministry of Economy, Economic Development and Reconstruction, published in the Official Gazette on January 15, 2008. Regarding tolls for sub-transmission installations, although the decree that sets the sub-transmission tariffs and indexation formulas has not been fully processed yet, its text contains the provisions that allow its application once it comes into effect.

Reasoned Analysis (continued)

Concentration of income on a single customer

Seventy two point two percent (72.2%) of Transelec's income is generated by single customer, Empresa Nacional de Electricidad S.A., Endesa, and its subsidiary generating companies. The toll agreements signed with Endesa and its subsidiaries Pangue and Pehuenche will generate a large part of the future cash flows of Transelec and a substantial change in its assets, financial condition or operating income could negatively affect Transelec.

Operating Risks

Notwithstanding that management believes that Transelec maintains adequate risk coverage, in accordance with industry practices, it is not possible to assure that insurance policy coverage will be enough to cover certain operating risks which Transelec is exposed to, including perils of nature, damages to transmission installations, labor accidents and equipment failure. Any of these events could affect the Company's business.

Application of environmental regulations and/or policies

Transelec is also subject to regulatory standards of an environmental nature which, among other things, require that it carry out environmental impact studies on future projects and obtain the corresponding regulatory authorizations. It is not possible to assure that these environmental impact studies will be approved by the government authorities, or that public opposition will not generate delays or modifications in the proposed projects, or that the laws and regulations will not change or be interpreted in a sense that could adversely affect the Company's operations and plans

Delays in the construction of new transmission installations

The success of the program for transmission network Extension and New Works will depend on numerous factors, including financing cost and availability. Although Transelec has experience in large scale construction projects, the construction of new installations could be negatively affected by factors commonly associated to projects including delays in obtaining regulatory authorizations; scarcity of equipment, materials, labor or changes in their prices; adverse weather conditions; natural catastrophes; and unforeseen circumstances and difficulties in obtaining financing at reasonable rates. Any of the factors described could cause delays in the partial or total completion of the capital investment program, and could increase the costs of the contemplated projects.

Reasoned Analysis (continued)

Technological Changes
The remuneration of the investments that Transelec carries out in electrical transmission installations is obtained through an annual valuation of the existing installations. Should there be important technological progress in the equipment that composes the installations of Transelec, that valuation could be decreased, which in turn would prevent full recovery of the investments made.

F) FOREIGN EXCHANGE AND INTEREST RATE RISK

Foreign Exchange Risk
Depending on the market and other considerations, Transelec has carried out, when necessary, certain hedging activities such as cross currency swaps and currency forwards in order to cover the risk of fluctuations in the UF-dollar exchange for its bonds denominated in United States dollars. However one cannot assure that Transelec will be fully protected by maintaining foreign exchange hedge contracts. In addition, cross currency swaps and forwards contain counterparty credit risks, cash requirements on the maturity dates and other associated risks.

As of June 30, 2008, the Company and its subsidiary had a part of their fair value debt denominated in United States dollars due to the placement of bonds abroad for an amount of ThUS$489,220 (includes accrued interest) in addition to other short-term liabilities for the amount of ThUS$44,647. On the other hand, assets denominated in United States dollars correspond to the credit on mercantile current account of Transelec Holdings Rentas Limitada for a total amount of ThUS$29,566 (includes interest earned), short-term investments in the financial market for the amount of ThUS$73,380 (includes interest earned), swap contracts at fair value in the amount of ThUS$231,357, trade accounts receivable and other current assets for the amount of ThUS$1,597, forward contracts for the amount of ThUS$3,000 and property, plant and equipment and intangibles at fair value for the amount of ThUS$193,752, which are lower than the respective liability by ThUS$1,215.

Reasoned Analysis (continued)

As of June 30, 2007, the Company had part of its debt denominated in United States dollars due to the placement of bonds abroad for the amount of ThUS$494,963 (includes accrued interest), in addition to other liabilities for the amount of ThUS$46,848. Assets denominated in United States dollars correspond to credit in mercantile current account of Transelec Holdings Rentas Limitada for the amount of ThUS$44,754 (includes interest earned), short-term investments in the financial market for the amount of ThUS$57,439 (includes interest earned), trade accounts receivable for the amount of ThUS$3,321, swap contracts for the amount of ThUS$234,111 (includes accrued interest), lease contracts for the amount of ThUS$2,126, property, plant and equipment for the amount of ThUS$197,050 and forward contracts for the amount of ThUS$17,400. Therefore assets denominated in United States dollars exceed the respective liabilities by ThUS$ 14,390.

Exposure to the exchange rate is partially mitigated by the fact that toll income is expressed in United States dollars and indexed twice a year using indexation formulas partially connected to the US dollar.

Toll contracts are denominated in United States dollars, but monthly invoices are sent expressed in the Chilean peso equivalent, using the average monthly observed United States dollar exchange rate for approximately 93.85% of the contracts and the current observed United States dollar exchange rate for the last day of the month for 4.92% of contracts. The following table shows the corresponding foreign exchange rates:

FOREIGN EXCHANGE RATE

MONTH	**Average 2008 (Ch$)**	**Last day 2008 (Ch$)**	**Average 2007 (Ch$)**	**Last day 2007 (Ch$)**
January	480.90	465.30	540.51	545.18
February	467.22	458.02	542.27	538.42
March	442.94	439.09	538.49	539.37
April	446.43	459.16	532.30	527.08
May	470.10	479.66	522.02	527.52
June	493.61	520.14	526.72	527.46
Average for the Period	**466.87**	**470.23**	**522.47**	**521.95**

Reasoned Analysis (continued)

The indexation formulas applied twice yearly incorporated in the toll contracts reflect the variations in the value of the installations and of operating, maintenance and administration costs. In general, those indexation formulas contemplate the variations in the international prices of the equipment, prices of materials and local labor.

For the 2008 period the indexation effect on average increased the value of tolls by 7.61% compared to the 2007 period.

Interest rate risk

The Company has debts contemplating fixed interest rates. In effect, the debt denominated in United States dollars contemplates a fixed equal 7.875% annual interest rate. On the other hand, all debts denominated in UF were placed at fixed interest rates varying from 4.25% to 6.2%, depending on each bond. Likewise, the Company has a mercantile current account with related companies that is denominated in Chilean pesos, UF and United States dollars, which also contemplates a fixed interest rate. In this manner the Company deems that it is not exposed to a risk that could affect its income due to a change in market interest rates.

G) <u>MAIN CASH FLOWS FOR THE PERIOD</u>

In the period from January 1 to June 30, 2008, positive net cash flows were generated for the amount of ThCh$23,606,744 as follows: operating activities for the amount of ThCh$55,041,920, financing activities in the negative amount of ThCh$640,117, and investing activities for the negative amount of ThCh$30,795,059. In the period from January 1 to June 30, 2007, cash flows were negative for the amount of ThCh$15,023,050 as follows: operating activities for a positive amount of ThCh$25,866,544, financing activities for a negative amount of ThCh$24,145,998 and investing activities for a negative amount of ThCh$16,743,596.

Net cash flows from financing activities during the period from January 1 to June 30, 2008 were negative amounting to ThCh$640,117, product of payment of obligations with the public. In the 2007 period, financing activities reached a negative amount of ThCh$ 24,145,998 mainly as a product of payment of the amortization of the total capital of Series A bonds in UF, in March 2007 for the amount of ThCh$122,038,678, and offset with the new placement of Series C bonds in UF in March 2007 for an amount of ThCh$119,490,600. In addition, dividends for the amount of ThCh$21,597,920 were paid in the period.

Reasoned Analysis (continued)

In this period, investing activities generated negative net cash flows for the amount of ThCh$30,795,059, mainly as a product of other investment disbursements due to price adjustment with HydroQuebec amounting to ThCh$71,953,113 and additions to property, plant and equipment in the amount of ThCh$14,302,340, which were positively affected by net cash flows with related entities for the amount of Ch$56,741,564. In the 2007 period, cash flows from investing activities were negative in the amount of ThCh$16,743,596 mainly due to negative net cash flows from other loans to related companies for the amount of ThCh$12,651,598 and additions to property, plant and equipment for the amount of ThCh$4,666,972.

In this period the effect of inflation on cash and cash equivalents was negative for the amount of ThCh$1,723,820. In the 2007 period the effect was negative for the amount of ThCh$2,044,175.

The final balance of cash and cash equivalents as of March 31, 2008 amounted to ThCh$58,928,354 considering an opening balance of ThCh$33,597,790. In the 2007 period the final balance of cash and cash equivalents amounted to ThCh$54,202,553 considering an opening balance of ThCh$71,269,778.