TRANSELEC S.A. AND SUBSIDIARY

Reasoned Analysis of the Consolidated Financial Statements

As of September 30, 2008

Reasoned Analysis

A) Summary

In the period from January 1 to September 30, 2008, TRANSELEC S.A. and its subsidiary obtained net income of ThCh$45,407,501, which was 50.56% greater than in the same period for the year 2007. This net income comes from positive operating income of ThCh$88,515,561, negative non-operating income of ThCh$30,210,709, a first category and deferred income tax net charge to income of ThCh$12,897,199 and minority interest of ThCh$152. In 2007 the Company obtained net income of ThCh$30,158,419 which is explained by a operating income of ThCh$63,037,264, negative non-operating income of ThCh$28,269,046, a first category and deferred income tax charge to income of ThCh$4,609,637 and minority interest of ThCh$162.

During this period, sales reached ThCh$134,519,966 (ThCh$106,529,985 in 2007). These sales result mainly from the commercialization of the transmission capacity of the Company's facilities. This period includes recalculation of tolls for the Trunk 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 with a recalculation in September, 2008, for a total of (ThCh$7,522,953). Likewise, the recalculation of tolls for the Trunk Transmission System corresponding to the period from March 13, 2004 to December 31, 2006, as set forth in the aforementioned decree, which terms of net tariff income, contractual interest and discounts amounted to ThCh$13,448,311 is included. Additionally, in 2008 the incomes of previous years (net of returns of tariff income) as agreed with Puyehue S.A and Panguipulli S.A., amounting to ThCh$2,217,208 was registered.

Cost of sales amount to ThCh$41,930,352 (ThCh$40,235,018 in 2007) and are composed as follows: 61.5% depreciation of property, plant and equipment (62.4% in 2007), 7.0% personnel costs (7.8% in 2007), 25.0% supplies and services hired (22.7% in 2007) and 6.5% amortization of intangibles (7.1% in 2007).

Administrative and selling expenses amount to ThCh$4,074,053 (ThCh$3,257,703 in 2007) and are composed mainly of 33.3% personnel expenses (29.9% in 2007), 58.5% works, supplies and hired services expenses (61.7% in 2007) and 8.2% depreciation (8.4% in 2007).

Reasoned Analysis (continued)

A) Summary (continued)

Non-operating income for the period recorded a loss of ThCh$30,210,709 (ThCh$28,269,046 in 2007), generated mainly by interest expenses of ThCh$29,646,976 (ThCh$28,780,123 in 2007) including interests related to recalculation of income of ThCh$2,634,862 and amortization of goodwill of ThCh$6,619,443 (ThCh$5,368,712 in 2007). Other important accounts that affected non-operating income during the period were an interest income of ThCh$9,297,051 (ThCh$4,538,708 in 2007) of which ThCh$5,629,005 correspond to interests associated with the aforementioned recalculation of income. Foreign currency translation for the period, which was positive, of ThCh$366,916 (negative amount of ThCh$104,991 in 2007), valued in accordance with SVS Circular No. 1,560. In turn, price-level restatement was a negative amount of ThCh$2,303,204 (positive amount of ThCh$1,032,482 in 2007) and other non-operating income was a net negative amount of ThCh$1,305,053 (positive amount of ThCh$413,590 in 2007).

B) Income

DESCRIPTION	As of September 30, 2008	As of September 30, 2007	Variance September 2008/2007	Variance September 2008/2007
	ThCh$	ThCh$		ThCh$
Operating income	134,519,966	106,529,985	26.27%	27,989,981
Tools	131,622,683	104,883,210	25.49%	26,739,473
Works and services	2,897,283	1,646,775	75.94%	1,250,508
Cost of sales	(41,930,352)	(40,235,018)	4.21%	(1,695,334)
Fixed costs	(13,417,168)	(12,277,119)	9.29%	(1,140,050)
Depreciation	(25,769,228)	(25,088,950)	2.71%	(680,278)
Amortization of intangibles	(2,743,955)	(2,868,949)	(4.36%)	124,994
Administrative and selling expenses	(4,074,053)	(3,257,703)	25.06%	(816,350)
Operating income	**88,515,561**	**63,037,264**	**40.42%**	**25,478,297**
Non-operating income	**(30,210,709)**	**(28,269,046)**	**6.87%**	**(1,941,663)**
Income before income & extraordinary items	58,304,852	34,768,218	67,70%	23,536,634
Income taxes	(12,897,199)	(4,609,637)	179.79%	(8,287,562)
Minority interest	(152)	(162)	(6.17%)	10
Net income	**45,407,501**	**30,158,419**	**50.56%**	**15,249,082**
RA.I.I.D.A.I.E. *	114,119,492	92,502,404	23.37%	21,617,088

Reasoned Analysis (continued)

B) Income (continued)

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

The operating income for the period ended September 30th, 2008, includes extraordinary income corresponding to previous years for the following concepts: a) Agreement with companies Puyehue S.A and Panguipulli S.A for ThCh$2,217,208, b) income from the period from March 2004 to December 2006 derived from the Decree that determines the new trunk prices (ThCh$13,448,311) and c) income for the year 2007, derived from the aforementioned Decree, of ThCh$7,522,953. Also, non-operating income was impacted in 2008 by interests in the above mentioned recalculations, increasing interest income in ThCh$5,629,005 and interest expenses in ThCh$2,634,862.

The resulting tax rate for the current period (22.12%) is affected principally by price-level restatement of deferred income taxes and by some adjustments made to net income to arrive at net taxable income. Consequently, the effective tax rate would be closer to 16% if the effects of price-level restatement on deferred taxes were not considered.

The tax rate for the 2007 period is not a good point of comparison because it was strongly impacted by the effects of the absorption process carried out on June 30, 2007.

Profitability

Indexes	As of September 30, 2008	As of September 30, 2007	Variance September 2008/2007
Profitability of equity	5.19%	3.49%	48.71%
Profitability of assets	2.64%	1.73%	52.60%
Profitability of operating assets	7.28%	5.11%	42.47%
Gain per share (Ch$)	45,407.50	30,158.42	50.56%

The figures calculated as of September 30, 2008 consider the extraordinary income previously mentioned in section B).

Reasoned Analysis (continued)

C) Balance Sheet Analysis

	As of September 30, 2008 ThCh$	**As of September 30, 2007 ThCh$**	**Variance September 2008/2007**	**Variance September 2008/2007 ThCh$**
Current assets	89,514,531	129,200,524	(30.72%)	(39,685,993)
P. P. & E.	1,067,148,258	1,080,917,963	(1.27%)	(13,769,705)
Other assets	564,800,695	535,129,029	5.54%	29,671,666
Total Assets	**1,721,463,484**	**1,745,247,516**	**(1.36)%**	**23,784,032**
Current liabilities	59,012,342	64,940,646	(9.13%)	(5,928,304)
Long-term liabilities	787,767,041	815,482,060	(3.40%)	(27,715,019)
Minority interest	4,728	4,814	(1.79%)	(86)
Shareholders' equity	874,679,373	864,819,996	1.14%	9,859,377
Total Liabilities & Shareholders' Equity	**1,721,463,484**	**1,745,247,516**	**(1.36)%**	**(23,784,032)**

Value of the Principal Operating Property, Plant and Equipment

Assets	**As of September 30, 2008**	**As of September 30, 2007**	**Variance September 2008/2007**	**Variance September 2008/2007**
	ThCh$	**ThCh$**	**%**	**ThCh$**
Land	17,693,252	17,241,733	2.62%	451,519
Buildings and infrastructure	795,518,617	789,005,809	0.83%	6,512,808
Machinery and equipment	330,589,836	315,787,429	4.69%	14,802,407
Other property, plant & equipment	1,496,896	1,556,224	(3.81%)	(59,328)
Accumulated depreciation	(78,150,343)	(42,673,232)	83.14%	(35,477,111)
Total	**1,067,148,258**	**1,080,917,963**	**(1.27%)**	**(13,769,705)**

As of September 30, 2008 and 2007, property plant and equipment consist mainly of land, buildings, infrastructure and machinery and equipment.

The assets of the Company and its subsidiary are presented valued in accordance with Chilean GAAP.

Reasoned Analysis (continued)

C) Balance Sheet Analysis (continued)

Difference between the book values and economic and/or market values of the principal 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.

Liquidity and Indebtedness

Ratios	As of September 30, 2008	As of September 30, 2007	Variance September 2008/2007
Common liquidity	1.52	1.99	(23.62%)
Acid ratio	1.20	0.99	21.21%
Liabilities / shareholders’ equity	0.97	1.02	(4.90%)
% Short-term debt	6.97	7.38	(5.52%)
% Long-term debt	93.03	92.62	0.44%
Interest expenses coverage	3.45	2.90	18.79%

In addition, in order to ensure availability of funds to cover working capital needs, project financing (for both projects under development and potential projects), acquisitions of transmission lines and possible debt refinancing, the Company has the following committed lines of credit from the banks detailed below:

Bank	Amount (up to)	Expiration	Type of Loan
Scotiabank Sudamericano	ThUS$15,000	August 21, 2009	Working capital
BCI	ThUS$30,000	February 28, 2010	Working capital
Santander	ThUS$15,000	September 30, 2009	Working capital
Scotiabank Sudamericano - Corpbanca	UF 3,206,453	September 15, 2010	Project financing and/or debt refinancing

Reasoned Analysis (continued)

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 come 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 sector 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 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.

The business of Transelec is centered mainly on commercialization of the electricity transportation and transformation capacity of its facilities, in accordance with established quality standards. The transmission system of Transelec S.A. and its subsidiary, which extends to 2,900 kilometers between Arica in the I Region and the Island of Chiloé in the X Region, includes a majority participation in the trunk 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: trunk transmission, sub-transmission and additional transmission. It also establishes that electricity transportation – both by trunk 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)

D) Most Important Changes In The Market In Which The Company Participates (continued)

Finally, Law 19,940 contemplates that the new payment regime for the use of the trunk facilities which is effective as of March 13, 2004 and determines a transitory period that was effective until enactment of the first trunk transmission decree. In this manner, during 2004, 2005, 2006 and 2007, a collection and payment of the transmission facilities was carried out in a provisional manner in accordance with legal and regulatory standards in force until the publication of Short Law I and will be subject to reassessment. On January 15, 2008, the Decree from the Ministry of Economy, Economic Development and Reconstruction was published, setting the new Investment Value (VI) of the facilities, the trunk tariff for the period beginning March 14, 2004 up to December 31, 2010 and the indexation formulas applicable during that period. It is worth mentioning that in accordance with this Decree, the highest VI assigned to facilities that receive this new tariff was ThUS$110,740. The new trunk transmission system tariffs began to be applied in April 2008, and as of June 30, 2008, trunk income for the period from March 13, 2004 up to December 31, 2007 was fully reassessed. The only reassessment that is still pending is for the period from January to March 2008, which according to current regulation must be recalculated by March 2009. The decree that will regulate sub-transmission tariffs has not been published yet.

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 trunk facilities that each user company must pay, the payment and reassessment 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 facilities, 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)

E) Market Risk Factors (continued)

Concentration of Income

Seventy point five percent (70.5%) of Transelec's income is generated by a 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 assets, financial condition or operating income of this company or its subsidiaries 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 forces of nature, damages to transmission facilities, on-the-job 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 environmental standards which, among other things, require it to carry out environmental impact studies on future projects and obtain the corresponding regulatory authorizations. It is not possible to ensure 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 facilities

The success of the program for extending the transmission network and building new facilities will depend on numerous factors, including financing cost and availability. Although Transelec has experience in large-scale construction projects, the construction of new facilities could be negatively affected by factors commonly associated with 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 these factors could cause delays in the partial or total completion of the capital investment program, and could increase the costs of the projects.

Reasoned Analysis (continued)

E) Market Risk Factors (continued)

Technological Changes

Compensation for the investments that Transelec carries out in electrical transmission facilities is obtained through an annual valuation of the existing facilities. If there is important technological progress in the equipment that composes Transelec's facilities, the facilities 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 and also to guarantee income in Chilean pesos of income in dollars that is adjusted biannually. 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 September 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$494,600 (includes accrued interest) in addition to other short-term liabilities for the amount of ThUS$13,333. On the other hand, assets denominated in United States dollars correspond to the credit on mercantile current account of related companies (mainly to Transelec Holdings Rentas Limitada) for a total amount of ThUS$30,818 (includes interest earned), short-term investments in the financial market for the amount of ThUS$29,690 (includes interest earned), swap contracts at fair value in the amount of ThUS$282,586, trade accounts receivable and other current assets for the amount of ThUS$1,693, and property, plant and equipment and intangibles at fair value for the amount of ThUS$165,136, which are greater than the respective liability by ThUS$2,000.

Additionally, the Company maintains forward contracts for sales of US dollars amounting to ThUS$31,500 linked to the income that the Company will invoice in October, November and December of this year, in order to fix the underlying amount of its income in Chilean pesos. Thus, it is important to highlight that toll contracts are in US dollars, but monthly invoices are expressed in the Chilean peso equivalent, using the monthly average observed dollar exchange rate for approximately 93.8% of the contracts and the observed dollar exchange rate as of the last day of each month for 4.8% of the contracts.

Reasoned Analysis (continued)

F) Foreign Exchange and Interest Rate Risk (continued)

Summary of Hedge Positions as of September 30, 2008:

Assets in US$	ThUS$	Type of hedge
Short-term investments	29,690	Bonds (Yankee bonds) and other liabilities
Related party loans	30,818	Bonds (Yankee bonds) and other liabilities
Swap contracts	282,586	Bonds (Yankee bonds) and other liabilities
Fixed and intangible assets	165,136	Bonds (Yankee bonds) and other liabilities
Other current assets	1,693	Bonds (Yankee bonds) and other liabilities
Liabilities in US$		
Bonds (Yankee bonds)	494,600	Hedged item
Other liabilities	13,333	Hedged item
Forward contracts	31,500	Operating income

As of September 30, 2007, the Company had part of its debt denominated in United States dollars due to the placement of bonds abroad of US$503,063,672 (US$508,783,620 in 2006) which includes accrued interest, in addition to other liabilities of US$46,416,701 (US$27,922,601 in 2006). Assets denominated in United States dollars correspond to credit in the mercantile current account of its Parent Company Transelec Holdings Rentas Limitada of US$43,856,611 (includes interest earned) (US$0 in 2006), short-term investments in the financial market of US$29,831,837 (US$82,606,587 in 2006), which includes interest earned, trade accounts receivable of US$3,328,516 (US$1,603,000 in 2006), swap contracts of US$237,763,072 (US$241,144,626 in 2006), which includes accrued interest, lease contracts of US$2,113,458 (US$2,185,362 in 2006), property, plant and equipment of US$195,347,598 (US$177,146,502 in 2006) and forward contracts for US$36,764,350 (US$64,800,000 in 2006). Therefore liabilities denominated in United States dollars exceed respective assets by US$474,931. In 2006, assets in dollars were greater than liabilities in dollars by US$32,779,856.

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.

Reasoned Analysis (continued)

F) Foreign Exchange and Interest Rate Risk (continued)

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 93.8% of the contracts and the current observed United States dollar exchange rate for the last day of the month for 4.8% 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
July	502.24	502.78	519.80	523.08
August	516.70	516.47	522.92	524.63
September	530.17	552.47	516.91	511.72
Average for the Period	**483.37**	**488.12**	**529.10**	**529.38**

The indexation formulas applied twice yearly incorporated in the toll contracts and those applied monthly for regulated trunk income, reflect the variations in the value of the facilities 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 8.6% 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 3.5% to 6.2%, depending on each bond. Likewise, the Company has a mercantile current account with related companies denominated in 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.

Reasoned Analysis (continued)

G) Main Cash Flows for the Period

In the period from January 1 to September 30, 2008, positive net cash flows were generated for the amount of ThCh$48,020,800 as follows: operating activities for the amount of ThCh$78,335,434, financing activities in the negative amount of ThCh$22,704,100, and investing activities for the negative amount of ThCh$41,824,755. In the period from January 1 to September 30, 2007, cash flows were positive for the amount of ThCh$64,082,519 as follows: operating activities for a positive amount of ThCh$48,507,309, financing activities for a negative amount of ThCh$25,004,680 and investing activities for a negative amount of ThCh$30,101,787.

Net cash flows from financing activities during the period from January 1 to September 30, 2008 were negative amounting to ThCh$22,704,100, product of payment of dividends. In the 2007 period, financing activities reached a negative amount of ThCh$ 25,004,680 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$126,465,352, and offset with the new placement of Series C bonds in UF in March 2007 for ThCh$123,824,849. In addition, dividends of ThCh$22,364,177 were paid in the period.

In this period, investing activities generated negative net cash flows of ThCh$41,824,755, mainly as a product of other investment disbursements due to price adjustment with HydroQuebec amounting to ThCh$74,479,162 and net additions to property, plant and equipment of ThCh$26,893,905, which were positively affected by net cash flows with related entities of Ch$78,211,016. In the 2007 period, cash flows from investing activities were negative in the amount of ThCh$30,101,787 mainly due to negative net cash flows from other loans to related companies for ThCh$19,210,789 and net additions to property, plant and equipment of ThCh$10,890,998.

In this period the effect of inflation on cash and cash equivalents was negative for the amount of ThCh$588,141. In the 2007 period the effect was negative for the amount of ThCh$3,287,577.

The final balance of cash and cash equivalents as of September 30, 2008 amounted to ThCh$48,020,800 considering an opening balance of ThCh$34,802,362. In 2007, the final balance of cash and cash equivalents amounted to ThCh$64,082,517 considering an opening balance of ThCh$73,969,252.