**TRANSELEC S.A. AND SUBSIDIARY**

Reasoned Analysis of the Consolidated Financial Statements

As of December 31, 2008 and 2007

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

## Reasoned Analysis

### a) Summary

In 2008 TRANSELEC S.A. and its subsidiary obtained net income of ThCh$56,588,891, which was 63.99% greater than the previous year. This net income comes from a positive operating income of ThCh$117,266,359, a negative non-operating income of ThCh$47,115,886, a first category and deferred income tax net charge to income of ThCh$13,561,348 and minority interest of ThCh$234. In 2007, the Company obtained net income of ThCh$34,506,783 which is explained by operating income of ThCh$81,481,180, a negative non-operating income of ThCh$42,961,488, a first category and deferred income tax charge to income of ThCh$4,012,723 and minority interest of ThCh$186.

In 2008, revenues reached ThCh$183,832,383 (ThCh$142,055,544 in 2007). These operating revenues result mainly from commercializing the transmission capacity of the Company's facilities consisting of the trunk transmission system, sub-transmission systems, and additional unregulated systems. This period includes reassessment of tolls for the Trunk Transmission System corresponding to the period from March 13, 2004 to December 31, 2007, as provided in DS 207 of January 15, 2008, for a net total of ThCh$20,971,264, of which ThCh$7,522,953 corresponds to 2007 recalculation, and ThCH$13,448,311 to the period from March 13, 2004 to December 31, 2006. Additionally, in 2008 prior year operating income totaling ThCh$2,217,208 was recorded as agreed upon with Puyehue S.A. and Panguipulli S.A.

Cost of sales amounted to ThCh$60,114.461 (ThCh$55,485,966 in 2007) and are composed as follows: 58.8% depreciation of property, plant and equipment (61.1% in 2007), 13,0% personnel costs (12.9% in 2007), 21.8% supplies and services hired (19.1% in 2007) and 6.4% amortization of intangibles (6.9% in 2007).

Administrative and selling expenses amounted to ThCh$6,451,563 (ThCh$5,083,398 in 2007) and are composed mainly by 52.5% personnel expenses (57.5% in 2007), 43.8% works, supplies and hired services expenses (38.4% in 2007) and 3.7% depreciation (4.1% in 2007).

## Reasoned Analysis (continued)

### a) Summary (continued)

The Company recorded a non-operating loss for the year of ThCh$47,115,886 (ThCh$42,961,488 in 2007), generated mainly by interest expenses of ThCh$40,466,862 (ThCh$38,501,987 in 2007) including interests related to reassessment of income of ThCh$2,634,862 and amortization of goodwill of ThCh$9,033,560 (ThCh$7,308,148 in 2007). Other important accounts that affected the non-operating loss during the period were interest income of ThCh$10,613,399 (ThCh$6,887,833 in 2007) of which ThCh$5,629,005 correspond to interests associated with the aforementioned reassessment of income. Foreign currency translation for the period, which was positive, at ThCh$120,956 (ThCh$459,979 in 2007), was valued in accordance with SVS Circular No. 1,560. In turn, price-level restatement was a negative amount of ThCh$6,181,821 (ThCh$1,400,911 in 2007) and other non-operating income was a net loss of ThCh$2,167,998 (income of ThCh$3,098,254 in 2007).

### b) Income

| **Description** | **For the year ended 2008 ThCh$** | **For the year ended 2007 ThCh$** | **Variance 2008/2007** | **Variance 2008-2007 ThCh$** |
|---|---|---|---|---|
| Revenues (1) | 183,832,383 | 142,005,544 | 29.45% | 41,826,839 |
| Tolls | 177,717,010 | 139,711,204 | 27.20% | 38,005,806 |
| Works and services | 6,115,373 | 2,294,340 | 166.54% | 3,821,033 |
| Cost of sales | (60,114,461) | (55,485,966) | 8.34% | (4,628,495) |
| Fixed costs | (20,913,201) | (17,764,374) | 17.73% | (3,148,827) |
| Depreciation | (35,325,687) | (33,869,020) | 4.30% | (1,456,667) |
| Amortization of intangibles | (3,875,573) | (3,852,572) | 0.60% | (23,001) |
| Administrative and selling expenses | (6,451,563) | (5,038,398) | 28.05% | (1,413,165) |
| **Operating income** | **117,266,359** | **81,481,180** | **43.92%** | **35,785,179** |
| **Non-operating income (2)** | **(47,115,886)** | **(42,961,488)** | **9.67%** | **(4,154,398)** |
| **Income before income taxes & extraordinary items** | **70,150,473** | **38,519,692** | 82.12% | 31,630,781 |
| Income taxes | (13,561,348) | (4,012,723) | 237.96% | (9,548,625) |
| Minority interest | (234) | (186) | 25.81% | (48) |
| **Net income** | **56,588,891** | **34,506,783** | **63.99%** | **22,082,108** |
| EBITDA* | 148,479,096 | 115,356,472 | 28.71% | 33,122,624 |

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

(1) Operating income for the year ended December 31, 2008, includes extraordinary income from prior 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 from the Decree that determines the new trunk rates of ThCh$13,448,311 and c) income for the year 2007 from the aforementioned Decree, of ThCh$7,522,953.

(2) Non-operating income was impacted by interest from the above mentioned recalculations, increasing interest income by ThCh$5,629,005 and interest expense by ThCh$2,634,862.

**Reasoned Analysis (continued)**

**b) Income (continued)**

**Profitability**

| Indexes | As of 2008 | As of 2007 | Variance 2008-2007 |
|---|---|---|---|
| Profitability of equity | 6.27% | 3.98% | 57.54% |
| Profitability of assets | 3.18% | 1.97% | 61.42% |
| Profitability of operating assets | 9.38% | 6.52% | 43.87% |
| Gain per share (Ch$) | 56,588.89 | 34,506.78 | 63.99% |

The figures calculated as of December 31, 2008 consider the extraordinary income previously mentioned in sections a) and b).

**c) Balance Sheet Analysis**

| | As of 2008 ThCh$ | As of 2007 ThCh$ | Variance 2008-2007 | Variance 2008-2007 ThCh$ |
|---|---|---|---|---|
| Current assets | 110,670,210 | 120,931,785 | (8.49%) | (10,261,576) |
| P. P. & E. | 1,098,924,386 | 1,096,166,594 | 0.25% | 2,757,792 |
| Other assets | 572,331,815 | 532,648,356 | 7.45% | 39,683,459 |
| Total assets | 1,781,926,411 | 1,749,746,735 | 1.84% | 32,179,675 |
| Current liabilities | 59,445,984 | 70,991,014 | (16.26%) | (11,545,030) |
| Long-term liabilities | 819,916,459 | 811,120,772 | 1.08% | 8,795,686 |
| Minority interest | 5,504 | 4,670 | 17.86% | 834 |
| Shareholders' equity | 902,558,464 | 867,630,279 | 4.03% | 34,928,185 |
| Total liabilities & shareholders' equity | 1,781,926,411 | 1,749,746,735 | 1.84% | 32,179,675 |

## Reasoned Analysis (continued)

### c) Balance Sheet Analysis (continued)

#### Value of Main Operating Property, Plant and Equipment

| Assets | As of Dec 31, 2008 ThCh$ | As of Dec 31, 2007 ThCh$ | Variance 2008-2007 % | Variance 2008-2007 ThCh$ |
|---|---|---|---|---|
| Land | 19,051,979 | 17,775,461 | 7.18% | 1,276,518 |
| Buildings and infrastructure | 810,873,358 | 802,400,782 | 1.06% | 8,472,576 |
| Machinery and equipment | 357,002,368 | 326,412,434 | 9.37% | 30,589,934 |
| Other property, plant & equipment | 1,506,567 | 1,560,614 | (3.46%) | (54,047) |
| Accumulated depreciation | (89,509,886) | (51,982,697) | 72.19% | (37,527,189) |
| Total | 1,098,924,386 | 1,096,166,594 | 0.25% | 2,757,792 |

As of December 31, 2008 and 2007, property, plant and equipment consist mainly of transmission lines, buildings, infrastructure and machinery and equipment.

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

#### Differences between book values and economic and/or market values of 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, it is estimated that the book value of the assets of Transelec Norte is 35.73% less than their economic and/or market value.

#### Liquidity and Indebtedness

| Ratios | As of Dec 31, 2008 | As of Dec 31, 2007 | Variance 2008-2007 |
|---|---|---|---|
| Current liquidity | 1.86 | 1.70 | 9.41% |
| Acid ratio | 1.54 | 0.62 | 148.39% |
| Demandable liabilities/equity | 0.97 | 1.02 | (4.90%) |
| % Short-term debt | 6.76 | 8.05 | (16.00%) |
| % Long-term debt | 93.24 | 91.95 | 1.40% |
| Interest expenses coverage | 3.66 | 2.99 | 22.47% |

The figures calculated as of December 31, 2008 consider the extraordinary income previously mentioned in sections a) and b).

**Reasoned Analysis (continued)**

## d) Most Important Changes in the Company's Market

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 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.

Transelec's business mainly centers on commercializing its capacity to transport and transform electricity at 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 Central Interconnected System (SIC) and the Great North Interconnected System (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, and law 20,257 (Generation with Unconventional Renewable Energy Resources), enacted April 1, 2008. 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.

**Reasoned Analysis (continued)**

**d) Most Important Changes in the Company's Market (continued)**

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, subtransmission and additional transmission. It also establishes that electricity transportation – both by trunk transmission systems as well as subtransmission – has the nature of a public service and is subject to the application of regulated tariffs.

Finally, Law 19,940 contemplates that the new payment regime for the use of the trunk facilities is effective since 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, Development and Reconstruction was published, setting the new Investment Value (VI), Annual Investment Value (AVI), Operation, Maintenance and Administration Costs (COMA) and Annual Transmission Value per Segment (VATT) for the trunk facilities for the period from March 14, 2004 to December 31, 2010 and the indexation formulas applicable during that period. Application of the new rates for the trunk transmission system began in April 2008 and during the year trunk income was recalculated for the period from March 13, 2004 to December 31, 2007, whose impact on income has been explained in detail in aforementioned points A) and B).

The Decree setting rates for subtransmission facilities was published in the Official Gazette on January 9, 2009 and the new rates are set to begin as of January 14, 2009.

**e) Market Risk Factors**

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

**Reasoned Analysis (continued)**

## e) Market Risk Factors

### Regulatory Framework

The laws that govern the electricity transmission business in Chile were modified through the enactment of Law 19,940, denominated Short Law I, published on March 13, 2004.

Even though some application-related aspects of Short Law I still need to be defined, the more relevant methodological aspects for establishing tolls for the trunk facilities to be paid by each user company, as well as its payment and recalculation mechanisms are defined in Decree No. 207 issued on July 9, 2007 by the Ministry of Economy, Development and Reconstruction, published in the Official Gazette on January 15, 2008. With respect to tolls for subtransmission facilities, the decree that sets subtransmission tariffs and indexation formulas contains provisions that allow it to be applied as of January 14, 2009.

### Concentration of Income

71.4% 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 of its infrastructure, workers and third parties, 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.

**Reasoned Analysis (continued)**

**e) Market Risk Factors (continued)**

**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 within the periods and under the terms presented by Transelec, nor that delays or modifications will not occur 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 cost and availability of the required financing. Although Transelec has experience with large-scale construction projects, 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.

**Technological Changes**

Compensation for the investments that Transelec carries out in electrical transmission facilities is obtained through an annual valuation of the existing facilities (AVI), which is periodically adjusted by authorities. If there is important technological progress that lowers replacement cost of the equipment that composes Transelec's facilities, or if the value of inputs and materials used in said facilities suffers substantial variation, that valuation could decrease (or increase), which, in turn, would prevent the investments made from being fully recovered.

**Reasoned Analysis (continued)**

## f) Foreign Exchange and Interest Rate Risk

### Foreign Exchange Risk

Depending on the market and other considerations, Transelec has carried out, when deemed 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 rate for its bonds denominated in United States dollars (US dollars) and also to guarantee income in Chilean pesos of income in dollars that is adjusted biannually. However it is not possible to 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 December 31, 2008, the Company and its subsidiary had a part of their fair value debt denominated in US dollars due to the placement of bonds abroad for an amount of US$480 million (includes accrued interest) in addition to other short-term liabilities for the amount of US$20.5 million. On the other hand, assets denominated in US dollars correspond to the credit on mercantile current account of related companies (mainly to Transelec Holdings Rentas Limitada) for a total of US$30.8 million (includes interest earned), short-term investments in the financial market for US$22.7 million (includes interest earned), swap contracts at fair value of US$274 million, trade accounts receivable and other current assets of US$3.2 million, and property, plant and equipment and intangibles at fair value for the amount of US$171.2 million, which are greater than the respective liability by US$1.4 million.

Additionally, the Company maintains forward contracts for sales of US dollars amounting to US$54 million linked to the income that the Company will invoice from January to June 2009, in order to establish the underlying amount of its income in Chilean pesos. Thus, it is important to highlight that toll contracts are denominated in US dollars, but monthly invoices are expressed in the Chilean peso equivalent, using the monthly average observed dollar exchange rate for approximately 94.3% of the contracts and the observed dollar exchange rate as of the last day of each month for 4.3% of the contracts.

## Reasoned Analysis (continued)

### f) Foreign Exchange and Interest Rate Risk (continued)

As of December 31, 2007, the Company and its subsidiary had a part of their fair value debt denominated in US dollars due to the placement of bonds abroad for US$492.1 million (including accrued interest) in addition to other short-term liabilities totaling US$42.3 million. On the other hand, assets denominated in US dollars correspond to the credit on mercantile current accounts of related companies (mainly to Transelec Holding Rentas Limitada and ETC Holding Ltda) for a total of US$54.8 million (including interest earned), short-term investments in the financial market for the amount of US$36.7 million (including interest earned), swap contracts at fair value of US$232.9 million, trade accounts receivable for US$2.1 million, leasing contracts for US$2.1 million, forward contracts for US$12.4 million and property, plant and equipment and intangibles at fair value in the amount of US$190.5 million. These assets denominated in US dollars are lower than the respective liabilities by US$2.9 million.

Exposure to exchange rate variation is partially mitigated by the fact that toll revenues are denominated in US dollars and indexed semiannually by an index formula partly linked to the dollar.

Toll amounts are denominated in United States dollars, but monthly invoices were sent in Chilean peso equivalents, applying the average observed exchange rate to approximately 94.3% of contracts and the current observed exchange rate as of the last day of the month to the remaining 4.3%. The majority of the remaining income (1.4%) is invoiced in pesos according to the value of the Unidad de Fomento. Corresponding exchange rates are shown below:

## Reasoned Analysis (continued)

### Foreign Exchange Rates

| 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 |
| October | 618.39 | 664.96 | 501.44 | 494.64 |
| November | 651.51 | 659.43 | 506.95 | 508.47 |
| December | 649.32 | 629.11 | 499.28 | 495.82 |
| Average for the Period | 522.46 | 528.88 | 522.47 | 521.95 |

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 equipment, materials and local labor.

For the 2008 period, the indexation effect increased the value of tolls by an average of 8.6% compared to 2007.

**Reasoned Analysis (continued)**

## f) Foreign Exchange and Interest Rate Risk (continued)

### Interest Rate Risk

The Company has debts with fixed interest rates. In effect, the debt denominated in US dollars contemplates a fixed 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. On the other hand, the Company has a mercantile current account with related companies denominated in US dollars, which contemplates a variable interest rate (Libor). Given that these mercantile current accounts represent only 1.1% of Total Assets, the Company deems that it is not exposed to risk that could affect its income due to a change in market interest rates.

## g) Principal Cash Flows for the Period

For the year ended December 31, 2008, positive net cash flows of ThCh$31,337,735 were generated, which were positively affected by operating activities of ThCh$105,673,650 and negatively affected by financing activities of ThCh$23,111,239 and investing activities of ThCh$50,876,689. In 2007, negative net cash flows of ThCh$39,857,883 were generated, mainly from positive operating activities of ThCh$67,908,554, which were negatively affected by financing activities of ThCh$43,081,681 and investing activities of ThCh$59,045,589.

Financing activities generated negative cash flows of ThCh$23,111,239, as a result of dividend payments. In 2007, financing activities generated negative cash flows of ThCh$43,081,681 mainly due to payments of amortization of the total capital of Series A bonds in UF, in March 2007 of ThCh$128,765,218, and offset with the new placement of Series C bonds in UF in March 2007 for ThCh$125,135,825. In addition, dividends of ThCh$39,452,288 were paid in the period.

Investing activities generated negative net cash flows of ThCh$50,876,689, mainly due to other investment disbursements associated with price adjustment with Hydro-Québec and IFC amounting to ThCh$76,439,600 and net additions to property, plant and equipment of ThCh$41,920,660, which were positively affected by net cash flows with related companies of Ch$78,253,577. In 2007, investing activities generated negative cash flows of ThCh$59,045,589 mainly due to negative net cash flows from other loans to related companies for ThCh$74,769,938 and net additions to property, plant and equipment of ThCh$27,184,295.

## Reasoned Analysis (continued)

### f) Foreign Exchange and Interest Rate Risk (continued)

In 2008, the effect of inflation on cash and cash equivalents was negative, amounting to ThCh$347,987. In 2007, the effect was also negative and amounted to ThCh$5,639,167.

The final balance of cash and cash equivalents as of December 31, 2008 amounted to ThCh$66,791,217 from an opening balance of ThCh$35,453,482. In 2007, the final balance of cash and cash equivalents amounted to ThCh$35,453,480 from an opening balance of ThCh$75,311,363.