TRANSELEC S.A. AND SUBSIDIARY

REASONED ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2010

INTRODUCTION

Transelec S.A. and its subsidiary Transelec Norte S.A. have prepared their financial statements as of June 30, 2010 in accordance with International Accounting Standard 34 (IAS 34), which has been adopted in Chile wholly, explicitly and without reserves as Chilean International Accounting Standard No. 34 (CIAS 34). The figures in this reasoned analysis are expressed in thousands of Chilean pesos, which is the functional currency of Transelec S.A.

The earthquake that took place on February 27, 2010 resulted in total supply loss at all of Transelec's delivery points in the Central Interconnected System (SIC). These delivery points were gradually recovered between the day the earthquake occurred and 2:00 pm on February 28th.

A) SUMMARY

In the six-month period ended June 30, 2010 Transelec S.A. and subsidiary recorded net income of ThCh$27,001,573, which is 12,7% lower than the same period in 2009. This net income is derived from operating income of ThCh$47,183,249, a non-operating loss of ThCh$15,881,468 and a net charge to income for first category income taxes and deferred taxes of ThCh$4,300,208. In the six-month period ended June 30, 2009, the Company recorded net income of ThCh$30,941,873, with operating income of ThCh$51,164,443, a non-operating loss of ThCh$14,462,057, and a net charge to income for first category income taxes and deferred taxes for ThCh$5.760.513.

In the first half of 2010, sales reached ThCh$86,012,894 (ThCh$87,011,458 in the first half of 2009), which is a decrease of ThCh$998,564. It is important to note that revenues are mainly obtained from sales of the transmission capacity of the Company's facilities, but also include sales of services related to its principal activity. In effect, during 2010 the Company has provided minor engineering services for hydroelectric power plants in Aysén totaling ThCh$3,389,244, compared with the same period in 2009. By the other hand, during the first half of 2010 the Company had an increased of subtransmission income. Despite the fact that the decree which regulates these tariffs was published January 9, 2009, this income was received after the first half of 2009.

In the six-month period between January and June 2010, cost of sales reached ThCh$35,653,189 (ThCh$32,633,275 in 2009). These costs are due primarily to maintaining and operating the Company's facilities, in addition to costs incurred in providing engineering services to hydroelectric power plants in Aysén during 2009. In percentage terms, the Company's costs consist of: 63.6% depreciation of property, plant and equipment (63% in 2009), 13.16% personnel costs (12.68% in 2009) and 23.24% supplies and services hired (24.32% in 2009). Depreciation increased by ThCh$2,133,668 during the first half of 2010 as compared to the same period in 2009, due fundamentally to equipment and parts retired or replaced because of damage from the February 27th earthquake.

Administrative and selling expenses amounted to ThCh$3,176,456 (ThCh$3,213,740 in 2009) and consist of 62.4% personnel expenses (56.5% in 2009), 31.6% work, supplies and services hired (24.9% in 2009), and 6.0% depreciation (18.6% in 2009).

The Company recorded a non-operating loss of ThCh$15,881,468 (loss of ThCh$14,462,057 in 2009), generated mainly by financial expenses of ThCh$8,402,882 (ThCh$32,441,556 in 2009). This decrease in financial expenses is due to the fact that interest on the Company's debt was offset by a reversal in the fair value of the Series B1 and B2 bonds, amortized in March 2010, resulting in a credit to income of ThCh$6,455,135, a negative effect from the mark to market swap on 2009 (Th$ 13.266.080) versus a profit accounted on 2010 (Th$ 1,666,688) and a lower exchange rate during 2010. Other important accounts that affected the non-operating loss recorded during the period include: financial income of ThCh$561,160 (ThCh$1,653,341 in 2009), a loss on foreign currency translation of ThCh$1,534,901 (loss of ThCh$781,198 in 2009), a loss on price-level restatement of ThCh$6,919,829 (a gain of ThCh$16,809,818 in 2009), and other non-operating income of ThCh$414,984 (ThCh$297,538 in 2009).

B) **INCOME**

Items	As of June 30, 2010 M$	As of June 30,2009 M$	Variation 2010/2009 %	Variation 2010-2009 M$
Operating Revenues	86.012.894	87.011.458	-1,15%	-998.564
Toll sales	82.525.713	84.064.879	-1,83%	-1.539.166
Work and services	3.487.181	2.946.579	18,35%	540.602
Operating costs	-35.653.189	-32.633.275	9,25%	-3.019.914
Fixed costs	-12.949.274	-12.063.028	7,35%	-886.246
Depreciation	-22.703.915	-20.570.247	10,37%	-2.133.668
Administraton and sales expenses	-3.176.456	-3.213.740	-1,16%	37.284
Operating Income	**47.183.249**	**51.164.443**	**-7,78%**	**-3.981.194**
Non-Operating Income	**-15.881.468**	**-14.462.057**	**9,81%**	**-1.419.411**
Income before Income Taxes	**31.301.781**	**36.702.386**	**-14,71%**	**-5.400.605**
Income tax	-4.300.208	-5.760.513	-25,35%	1.460.305
Net Income	**27.001.573**	**30.941.873**	**-12,73%**	**-3.940.300**
EBITDA	70.074.821	72.333.809	-3,12%	-2.258.988

PROFITABILITY

RATIOS (1)	As of June 30, 2010	As of December 31, 2009	Variation 2010/2009
Shareholders' Equity profitability	5,83%	5,96%	-2,11%
Assets profitability	3,06%	3,02%	1,32%
Operating assets profitability	7,48%	8,73%	-14,32%
Earnings per share ($)	54.003	54.708	-1,29%

(1) Ratios are calculated on an annual basis.

C) **BALANCE SHEET ANALYSIS**

	As of June 30, 2010 M$	As of December 31, 2009 M$	Variation 2010/2009 %	Variation 2010-2009 M$
Current assets	95.850.338	180.370.023	-46,86%	-84.519.685
Non-current assets	1.666.326.034	1.632.025.599	2,10%	34.300.435
Total Assets	**1.762.176.372**	**1.812.395.622**	**-2,77%**	**-50.219.250**
Current liabilities	189.506.402	43.915.476	331,53%	145.590.926
Non current liabilities	647.068.987	850.545.775	-23,92%	-203.476.788
Eqyity	925.600.983	917.934.371	0,84%	7.666.612
Total liabilities & Equity	**1.762.176.372**	**1.812.395.622**	**-2,77%**	**-50.219.250**

With respect to current assets as of December 2009, it is important to mention that in March 2010 the Company amortized its series B bonds in the amount of UF 3.1 million (6.2% annual interest), which meant reversing the fair value associated with these bonds in the amount of ThCh$6,455,135. This debt was refinanced early in December 2009 when the Company issued UF-denominated bonds in the amount of UF 3.1 million (UF 1.5 million at 3.5% per annum and UF 1.6 million at 4.6% per annum). Likewise, current liabilities as of June 2010 reflect the fact that the Company's Yankee bonds will mature within the next 12 months (April 2011).

VALUE OF PRINCIPAL OPERATING PROPERTY, PLANT AND EQUIPMENT

ASSETS	As of June 30, 2010 M$	As of December 31, 2009 M$	Variation 2010/2009 %	Variation 2010-2009 M$
Land	19.528.589	19.409.549	0,61%	119.040
Building, nfraestucture, works in progress	875.010.093	831.706.875	5,21%	43.303.218
Machinery and equipment	378.046.232	364.968.213	3,58%	13.078.019
Other fixed assets	443.879	1.802.790	-75,38%	-1.358.911
Depreciation (less)	-149.373.993	-127.445.084	17,21%	-21.928.909
Total	**1.123.654.800**	**1.090.442.343**	**3,05%**	**33.212.457**

LIQUIDITY AND INDEBTEDNESS

RATIOS	As of June 30, 2010 M$	As of December 31, 2009 M$	Variation 2010/2009
Current Ratio	0,51	4,11	-87,59%
Acid-Test Ratio	0,51	4,11	-87,69%
Debt to Equity	0,90	0,97	-7,22%
% Short term debt	22,65	4,91	361,38%
% Log term debt	77,35	95,09	-18,66%
Financial expenses coverage	4,22	2,56	65,15%

The percentage of short-term debt increased in 2010 due to the Yankee bonds maturing in April 2011, which also explains the decrease in the Company's liquidity.

In addition, in order to ensure funds are available to cover working capital needs, project financing (for projects under development and potential projects), and transmission line acquisitions, the Company has secured the following committed lines of credit:

Bank	Amount (up to)	Maturity	Type of Credit
Scotiabank Sudamericano	US$ 15,000,000	11-06-2010	Working capital
DnBNnor	US$ 30,000,000	02-28-2012	Working capital
Scotiabank Sudamericano	US$ 15,000,000	03-31-2011	Working capital
Scotiabank Sudamericano - Corpbanca	UF 3,206,453	09-15-2010	Project financing and refinancing liabilities

D) MOST IMPORTANT CHANGES IN THE COMPANY'S MARKET

Transelec S.A. carries out its activities in the electricity market, which has been divided into three different sectors: generation, transmission and distribution. The electricity generation sector consists of the companies that generate electricity, whether from hydroelectric, coal, oil, gas, wind energy or other types of power plants. This sector is dedicated to the production of electricity, which will subsequently be used throughout the country by end users. The purpose of the distribution sector is to carry electricity to the physical location where each end user will use the electricity. To do so, distribution companies have electrical networks that enable electricity to flow within cities, from the "points of entry" into their networks to the residence or business of each end user. Lastly, the primary goal of the transmission sector is to transport the generated electricity from where it is produced (electrical power plants) to the "points of entry" of the distribution companies' networks or those of large end users.

Transelec's business mainly centers on commercializing the capacity of its facilities to transport and transform electricity, in accordance with established quality standards. The transmission system of Transelec S.A. and subsidiary, which stretches 2,900 kilometers between Arica in the 1st Region to the Island of Chiloé in the 10th Region, encompasses the majority of the trunk transmission lines and substations in the SIC and the SING. This transmission system transports the electricity that supplies approximately 99% of Chile's population. The Company owns 100% of the 500 kV electricity transport lines, 51.1% of the 220 kV lines and 94.5% of the 154 kV.

The legal framework that governs the electrical transmission business in Chile is contained in DFL No. 4/2006, which establishes the modified, coordinated and systemized text of Decree with Force of Law No. 1 from the Ministry of Mining, issued in 1982; the General Electricity Services Law of 1982 (DFL(M) No. 1/82) and its subsequent modifications, including Law 19,940 (Short Law I) published on March 13, 2004, Law 20,018 (Short Law II) published on May 19, 2005 and Law 20,257 (Generation with Non-Conventional Renewable Energy Resources) published April 1, 2008. These standards are complemented by the Regulations of the General Electricity Services Law of 1997 (Supreme Decree No. 327/97 from the Ministry of Mining) and its respective modifications, as well as by the Technical Standard on Safety and Service Quality (Exempt Ministerial Resolution No. 40 of May 16, 2005) and its subsequent modifications.

Law 19,940, also called Short Law I, modified the General Electricity Services Law of 1982 in matters relating to electricity transmission activity, subdividing the transmission network into three types of systems: trunk transmission, sub-transmission and additional transmission. It also establishes that electricity transmission – both by trunk transmission as well as subtransmission systems – is considered a public service and is subject to regulated tariffs.

Finally, Law 19,940 established that the new payment regime for the use of the trunk facilities would become effective as of March 13, 2004 and determined a transitory period that was in effect until the first trunk transmission decree was issued. Thus, from 2004 to 2007, collection and payment for use of transmission facilities was carried out provisionally using subsequent recalculations in accordance with legal and regulatory standards in effect until Short Law I was published. On January 15, 2008, the decree from the Ministry of Economy N° 207, Development and Reconstruction was published that set 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, as well as the indexation formulas applicable during that period. New rates for the trunk transmission system began being applied in April 2008 and during 2008 trunk income was recalculated for the period from March 13, 2004 to December 31, 2007. The determination of trunk facilities and their Annual Transmission Value (VATT) is updated every four years using an internationally-tendered study. Such a study is being carried out in 2010 to set tariffs for the 2011-2014 period.

Decree No. 320 from the Ministry of Economy, Development and Reconstruction, which sets tariffs for subtransmission facilities, was published in the Official Gazette on January 9, 2009 and the new tariffs begin to be applied on January 14, 2009 and will be in effect until December 31, 2010. The new subtransmission tariffs that will be in effect during the 2011-2014 period are set by the Ministry of Energy based on valuation studies on subtransmission facilities that are being conducted during 2010.

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

Due to the nature of the electrical market and the legislation and standards that regulate this sector, the Company is not exposed to significant risks in developing its principal business. However, the following risk factors should be mentioned and considered:

Regulatory Framework

The laws governing the electricity transmission business in Chile were amended by the enactment of Law 19,940, referred to as Short Law I, published March 13, 2004.

Even though some application-related aspects of Short Law I still need to be defined in the electricity regulations, which have not yet been fully prepared, the most relevant methodological aspects for establishing tolls for trunk facilities to be paid by each user company, as well as mechanisms for payment and recalculation, are defined in decree No. 207, issued 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, although some application-related aspects of the new calculation method are still to be defined in the electricity regulations, which have not yet been prepared, decree No. 320 from the Ministry of Economy, Development and Reconstruction that sets subtransmission tariffs and indexation formulas, published in January 2009, contains provisions regarding application that have allowed payment amounts and mechanisms for the facilities to be established.

Operation of Transelec's transmission facilities is coordinated by the Load Dispatch Centers of the Central Interconnected System (SIC) and the Great North Interconnected System (SING), pursuant to provisions established in the Regulations on the Structure, Functioning and Financing of Load

Dispatch Centers, approved in Decree No. 291 of the Ministry of Economy, Development and Reconstruction, published August 4, 2008.

Operating Risks

Although the Company's management believes it has adequate risk coverage, in line with industry practices, it cannot guarantee the sufficiency of its insurance policy coverage for certain operating risks to which it is exposed, including forces of nature, damages to transmission facilities, on-the-job accidents and equipment failure. Any of these events could negatively affect the Company's financial statements.

Application of Environmental Standards and / or Policies

Transelec is also subject to regulatory environmental standards that, among other things, require it to conduct environmental impact studies for future projects and obtain the respective regulatory authorizations. Transelec cannot ensure that these environmental impact studies will be approved by government authorities within the periods and under the terms presented by the Company, or 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 manner that could adversely affect the Company's operations and plans.

Delays in Construction of New Transmission Facilities

The success of the program for extending the trunk transmission network and building new facilities will depend on numerous factors, including financing cost and availability. 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 disasters; 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

Transelec is compensated for investments it makes in electrical transmission facilities through an annual valuation of the existing facilities (AVI). Any important technological changes in the equipment at its facilities could lower this valuation, which could in turn prevent recovery of part of the investments made.

Foreign Exchange Risk

The following factors expose Transelec to foreign exchange risk:

- Income from its subsidiary Transelec Norte is denominated in US dollars.
- Transelec carries out diverse transactions in US dollars (awarding construction contracts, importing, etc.).
- Transelec maintains a portion of its debt in US dollars. This allows it, among other purposes, to finance its subsidiary's assets denominated in US dollars.

Exchange rate exposure is managed using a policy that involves fully hedging its net balance sheet exposure using diverse instruments such as dollar positions, forward contracts and cross currency swaps.

The following table details assets and liabilities denominated in US dollars and Chilean pesos as of each period end:

	Liabilities		Assets	
	06-30-2010	12-31-2009	06-30-2010	12-31-2009
	MCh$	MCh$	MCh$	MCh$
Dollar (amounts associated with balance sheet items)	113,554.71	117,509.64	112,672.7	118,808.83
Dollar (amounts associated with income statement items)	27,906.70	27,687.66	0	0
Chilean peso	725,229.77	803,708.48	1,651,930.98	1,701,882.18

b) Indexation polynominals for the Company's revenue should be temporarily applied so that, in the short term, they differ from long-term indexation. In order to ensure that short-term indexation is consistent with long-term indexation, the Company periodically (every six months) sells a percentage of its revenue fixed in dollars using forwards. These forwards are considered income hedges and, therefore, changes in their value are recorded in Other Reserves within Shareholders' Equity until realized. Once realized, they are classified in operating income.

EXCHANGE RATE

MONTH	Average 2010 ($)	Last day 2010 ($)	Average 2009 ($)	Last day 2009 ($)
January	500.66	531.75	623.01	612.43
February	532.56	529.69	606.00	595.76
March	523.16	526.29	592.93	582.10
April	520.62	520.99	583.18	588.62
May	533.21	529.23	565.72	564.64
June	536.67	543.09	553.08	529.07
Average for the Period	**524.48**	**543.09**	**587.32**	**529.07**

The indexation formulas, applied twice yearly, that are incorporated into toll contracts and subtransmission fees, as well as the those applied monthly for regulated trunk income, take into account variations in the value of the facilities and of operating, maintenance and administration costs. In general, those indexation formulas take into consideration variations in the international prices of equipment, materials and local labor.

For the 2010 period and in comparison with the 2009 period, the indexation effect increased the value of tolls in US$ dollars by an average of 6.75%, which was almost fully offset by the effect of the lower value of the US dollar that applied to the conversion of income in local currency.

Credit Risk

Credit risk for receivables from electricity transmission activity is historically very limited given the reduced number of customers, their risk ratings and the reduced collections term (less than 30 days).

However, the Company's transmission income is concentrated in one client since close to 74.95% is invoiced to that one client (or its subsidiaries and related parties) as of June 30, 2010. Therefore, changes in the financial situation of this client could affect the financial performance of Transelec S.A.

The toll agreements entered into with these companies will generate a large part of the Company's future cash flows and, therefore, a substantial change in their assets, financial condition and/or operating income could negatively affect the Company.

The Company believes no allowance for doubtful accounts is necessary as of period end.

In terms of the Company's credit risk associated with financial assets (time deposits, fixed-return mutual funds and sell-back agreements), the Treasury policy establishes certain limits on a particular institution's exposure; such limits depend on the risk rating and capital of each institution. Likewise, for investments in mutual funds, only funds with a risk rating qualify.

Liquidity Risk

Liquidity risk is the risk of the Company not satisfying a need for cash or debt payment upon maturity. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price.

In order to guarantee its capacity to quickly react to investment opportunities and pay its obligations by their maturity dates, in addition to its cash surpluses and short-term receivables, the Company has committed lines of credit for working capital for US$ 60 million (equivalent to MCh$ 32,831.4) and investments, acquisitions and/or refinancing for UF 3,206,453 (equivalent to MCh$ 67,983.7). To date, these lines have not been used and are expected to be renewed upon maturity. These credit lines were in effect during the entire year 2009 and continue to be in effect as of June 30, 2010.

The Company is exposed to risks associated with indebtedness, including refinancing risk when its debt matures.

These risks are lessened by using long-term debt and appropriately structuring their maturities over time.

The following table outlines capital amortizations for the Company's financial liabilities according to their maturity as of June 30, 2010, December 31, 2009 and January 1, 2009:

Debt maturity for bonds issued in UF, Ch$ and US$					
In thousands of pesos	**0 to 1 year**	**1 to 3 years**	**3 to 5 years**	**Over 5 years**	**Total**
June 30, 2010	134,137,062	0	135,370,368	510,972,056	780,479,486
December 31, 2009	1,340,344	129,000,685	139,487,202	556,996,836	826,825,067
January 1, 2009	1,372,566	299,380,664	5,490,263	474,478,826	780,722,319

Interest Rate Risk

Significant changes in fair values and future cash flows of financial instruments that can be directly attributable to interest rate risks include changes in the net proceeds from financial instruments whose cash flows are determined in reference to variable interest rates and changes in the value of financial instruments with fixed cash flows.

The Company's assets are principally fixed assets and long-lived intangible assets. As a result, financial liabilities used to finance such assets consist mainly of long-term debt at fixed interest rates. This debt is recorded in the balance sheet at amortized cost.

The objective of interest rate risk management is to achieve a balanced debt structure, decrease the impact on financial costs due to interest rate variations and, in that way, reduce volatility in the income statement.

The following is a comparative table of the Company's debt as of June 30, 2010, December 31, 2009 and January 1, 2009, illustrating that all of the Company's debt is at fixed rates. However, in the case of UF-indexed debt, variations in inflation rates could potentially impact the Company's financial expenses.

				Amount in original currency (thousands) Unpaid capital		
Debt	**Currency or index**	**Interest rate**	**Type of rate**	**June 30, 2010**	**December 31, 2009**	**January 1, 2009**
Yankee bond	US$	7.88%	Fixed	245,138	245,138	465,000
Series B bond	UF	6.20%	Fixed	-,-	3,040	3,104
Series C bond	UF	3.50%	Fixed	6,000	6,000	6,000
Series D bond	UF	4.25%	Fixed	13,500	13,500	13,500
Series E bond	UF	3.90%	Fixed	3,300	3,300	-.-
Series F bond	Ch$	4.80%	Fixed	33,600,000	33,600,000	-.-
Series H bond	UF	5.70%	Fixed	3,000	3,000	-.-
Series I bond	UF	3.50%	Fixed	1,500	1,500	-.-
Series K bond	UF	4.60%	Fixed	1,600	1,600	-.-

The Company possesses mercantile current accounts with related companies denominated in Chilean pesos that have a fixed interest rate. Therefore, the Company believes that its income is not exposed to risk from changes in market interest rates.

However, increases in inflation in Chile could impact the cost of UF-denominated debt and, therefore, the Company's financial expenses. These impacts are mitigated by the Company's income, which is partially indexed to local inflation using indexation polynomials.

G) PRINCIPAL CASH FLOWS FOR THE PERIOD

In the six-month period from January 1 to June 30, 2010, the Company recorded net negative cash flows of ThCh$80,221,830; operating activities generated positive cash flows of ThCh$34,864,218 and financing activities generated negative cash flows of ThCh$63,597,893, while investing activities required disbursements of ThCh$51,488,155. In the same period in 2009, the Company recorded net positive cash flows of ThCh$16,493,324, attributable to positive cash flows from operating activities of ThCh$31,729,835 and positive cash flows from financing activities of ThCh$10,307,514, offset by negative cash flows from investing activities of ThCh$25,544,025.

The net negative cash flows from financing activities during the period from January 1 to June 30, 2010 of ThCh$63,597,893 are due to the amortization of debt (UF-denominated series B1 and B2 bonds). In the first half of 2009, financing activities generated positive cash flows of ThCh$10,307,514, primarily as a result of loans from related parties.

In the current period, investing activities generated net negative cash flows of ThCh$51,488,155 because of net additions to property, plant and equipment. In the same period in 2009, investing activities generated negative cash flows of ThCh$25,544,025 also as a result of additions to property, plant and equipment.

The final balance of cash and cash equivalents as of June 30, 2010 amounted to ThCh$57,674,656 from an initial balance of ThCh$137,896,486. In 2009, the final balance of cash and cash equivalents amounted to ThCh$83,284,543 from an initial balance of ThCh$66,791,219.