



TRANSELEC S.A. AND SUBSIDIARY
INTERIM CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2012

Ch\$: Chilean pesos
ThCh\$: Thousands of Chilean pesos
UF: Unidades de Fomento
US\$: U.S. dollars
ThUS\$: Thousands of U.S. dollars

INDEX

	Page
- CONSOLIDATED STATEMENTS OF FINANCIAL POSITION	1
- CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME	3
- CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY	5
- CONSOLIDATED INDIRECT STATEMENT OF CASH FLOW	7
- NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	8
NOTE 1 - GENERAL INFORMATION	8
NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES	9
2.1 Basis of preparation of the consolidated financial statements	9
2.2 New standards and interpretations issued but not yet effective	9
2.3 Basis of consolidation	12
2.4 Foreign currency translation	13
2.5 Segments reporting	14
2.6 Property, plant and equipment	14
2.7 Intangible assets	16
2.8 Impairment of non-financial assets	16
2.9 Financial assets	17
2.10 Financial instruments and hedge activities	19
2.11 Inventory	21
2.12 Cash and cash equivalents	21
2.13 Paid-in capital	21
2.14 Financial liabilities	21
2.15 Income tax and deferred taxes	21
2.16 Employee benefits	22
2.17 Provisions	23
2.18 Classification of current and non-current balances	24
2.19 Revenue recognition	24
2.20 Leases	25
2.21 Distribution of dividends	25
NOTE 3 - RISK MANAGEMENT POLICY	26
3.1 Financial risk	26
NOTE 4 - CRITICAL ESTIMATES, JUDGMENTS OR CRITERIA EMPLOYED BY MANAGEMENT	31
NOTE 5 - CASH AND CASH EQUIVALENTS	32

INDEX

	Page
NOTE 6 - TRADE AND OTHER RECEIVABLES	33
NOTE 7 - BALANCES AND TRANSACTIONS WITH RELATED PARTIES	35
7.1 Balances and transactions with related parties	35
7.2 Board of Directors and management	37
7.3 Board expenses	37
7.4 Audit committee	38
7.5 Compensation of key management that are not Directors	38
NOTE 8 - INVENTORY	39
NOTE 9 - FINANCIAL LEASES	39
9.1 Finance lease receivables	39
9.2 Operating leases payable	40
NOTE 10 - INTANGIBLE ASSETS	41
NOTE 11 - PROPERTY, PLANT AND EQUIPMENT	43
11.1 Detail of accounts	43
11.2 Reconciliation of changes in property, plant and equipment	44
11.3 Additional information on property, plant and equipment	44
NOTE 12 - DEFERRED TAXES	45
12.1 Detail of deferred tax assets and liabilities	45
12.2 Deferred tax movements in statement of financial position	46
NOTE 13 - FINANCIAL LIABILITIES	46
13.1 Other financial liabilities	46
13.2 Detail of other financial liabilities	47
13.3 Hedge debt	49
13.4 Other aspects	49
NOTE 14 - TRADE AND OTHER PAYABLES	49
NOTE 15 - DERIVATIVE INSTRUMENTS	50
15.1 Hedge assets and liabilities	50
15.2 Other Information	50
15.3 Fair value hierarchies	51

INDEX

	Page
NOTE 16 - PROVISIONS	52
16.1 Detail of provisions	52
16.2 Provision movements	52
16.3 Lawsuits and arbitration proceedings	53
NOTE 17 - POST-EMPLOYMENT AND OTHER BENEFIT OBLIGATIONS	56
17.1 Detail of account	56
17.2 Detail of post-employment and other similar obligations	56
17.3 Balance of post-employment and other similar obligations	56
17.4 Expenses recognized in income statement	57
17.5 Actuarial hypothesis	57
NOTE 18 - EQUITY	58
18.1 Subscribed and paid capital	58
18.2 Number of subscribed and paid shares	58
18.3 Dividends	58
18.4 Other reserves	59
18.5 Capital management	59
NOTE 19 - INCOME	60
19.1 Revenue	60
19.2 Other operating income	60
NOTE 20 - RELEVANT INCOME STATEMENT ACCOUNTS	61
20.1 Expenses by nature	61
20.2 Personnel expenses	61
20.3 Depreciation and amortization	61
20.4 Financial results	62
NOTE 21 - INCOME TAX RESULT	62
NOTE 22 - EARNINGS PER SHARE	63
NOTE 23 - SEGMENT REPORTING	64
NOTE 24 - THIRD-PARTY GUARANTEES, OTHER CONTINGENT ASSETS AND LIABILITIES AND OTHER COMMITMENTS	65

INDEX

	Page
NOTE 25 - DISTRIBUTION OF PERSONNEL	66
NOTE 26 - ENVIRONMENT	66
NOTE 27 - CASH FLOWS	67
NOTE 28 - SUBSEQUENT EVENTS	67

Report of Independent Auditors

(Translation of a report originally issued in Spanish—See Note 2.1)

To the Shareholders and Board of Directors of
Transelec S.A.

We have reviewed the interim consolidated statement of financial position as of June 30, 2012 of Transelec S.A. and subsidiary and the related interim consolidated statements of comprehensive income for the six- and three-month periods ended June 30, 2012 and 2011 and the related statements of cash flows and changes in equity for the six-month periods then ended. The Management of Transelec S.A. and subsidiary is responsible for the preparation and presentation of these interim consolidated financial statements and their corresponding notes in accordance with IAS 34 "Interim Financial Reporting" (IAS 34) incorporated into the International Financial Reporting Standards (IFRS).

We conducted our review in accordance with standards established in Chile. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the generally accepted auditing standards in Chile, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the interim consolidated financial statements referred to in the first paragraph for them to be in conformity with IAS 34 incorporated in IFRS.

On March 21, 2012, we issued an unqualified opinion on the consolidated financial statements as of December 31, 2011 and 2010 of Transelec S.A. and subsidiary, which include the statement of financial position as of December 31, 2011 presented in the accompanying consolidated financial statements, in addition to its corresponding notes.

ERNST & YOUNG LTDA.

Santiago, August 22, 2012



TRANSELEC S.A. AND SUBSIDIARY

Consolidated Statements of Financial Position
As of June 30, 2012 and December 31, 2011
(Expressed in thousands of Chilean pesos (ThCh\$))
(Translation of financial statements originally issued in Spanish-See Note 2.1)

ASSETS	Note	June 30, 2012 ThCh\$	December 31, 2011 ThCh\$
CURRENT ASSETS			
Cash and cash equivalents	5	46,725,441	64,211,994
Other financial assets		680,844	473,555
Other non-financial assets		10,039,697	14,819,816
Trade and other receivables	6	58,868,080	69,370,796
Receivables from related parties	7	2,413,121	4,172,013
Inventory	8	39,166	38,111
Current tax assets		332,603	1,622,778
TOTAL CURRENT ASSETS		<u>119,098,952</u>	<u>154,709,063</u>
NON-CURRENT ASSETS			
Other financial assets		10,158,248	10,741,295
Other non-financial assets		23,884,101	42,733,849
Receivables from related parties	7	68,934,259	67,896,855
Intangible assets other than goodwill	10	154,077,159	149,263,862
Goodwill	10	338,897,614	338,897,614
Property, plant and equipment	11	1,190,687,498	1,153,045,235
Deferred tax assets	12	18,853,972	23,689,884
TOTAL NON-CURRENT ASSETS		<u>1,805,492,851</u>	<u>1,786,268,594</u>
TOTAL ASSETS		<u><u>1,924,591,803</u></u>	<u><u>1,940,977,657</u></u>



TRANSELEC S.A. AND SUBSIDIARY

Consolidated Statements of Financial Position
 As of June 30, 2012 and December 31, 2011
 (Expressed in thousands of Chilean pesos (ThCh\$))
 (Translation of financial statements originally issued in Spanish-See Note 2.1)

EQUITY AND LIABILITIES	Note	June 30, 2012 ThCh\$	December 31, 2011 ThCh\$
CURRENT LIABILITIES			
Other financial liabilities	13	7,729,555	7,902,761
Trade and other payables	14	69,234,076	90,936,736
Payable to related parties	7	-	3,870,835
Current provisions for employee benefits	16	4,700,771	5,119,683
Other non-financial liabilities	18.3	30,314,163	902,527
TOTAL CURRENT LIABILITIES		<u>111,978,565</u>	<u>108,732,542</u>
NON-CURRENT LIABILITIES			
Other financial liabilities	13	874,708,279	861,758,340
Payable to related parties	7	38,632,693	39,970,247
Deferred tax liabilities	12	3,204,698	3,502,644
Non-current provisions for employee benefits	16	3,237,934	3,491,272
Other non-financial liabilities		3,088,049	2,480,793
TOTAL NON-CURRENT LIABILITIES		<u>922,871,653</u>	<u>911,203,296</u>
TOTAL LIABILITIES		<u>1,034,850,218</u>	<u>1,019,935,838</u>
EQUITY			
Paid-in capital	18	857,944,548	857,944,548
Retained earnings		30,203,257	61,938,528
Other reserves	18	1,590,308	1,155,110
Total equity attributable to owners of the parent		<u>889,738,113</u>	<u>921,038,186</u>
Non-controlling interest		3,472	3,633
Total Equity		<u>889,741,585</u>	<u>921,041,819</u>
TOTAL EQUITY AND LIABILITIES		<u>1,924,591,803</u>	<u>1,940,977,657</u>



TRANSELEC S.A. AND SUBSIDIARY

Consolidated Statement of Comprehensive Income
For the six and three month periods ended June 30, 2012 and 2011
(Expressed in thousands of Chilean pesos (ThCh\$))
(Translation of financial statements originally issued in Spanish-See Note 2.1)

Consolidated income statement by function	Note	01/01/2012 06/30/2012 ThCh\$	01/01/2011 06/30/2011 ThCh\$	04/01/2012 06/30/2012 ThCh\$	04/01/2011 06/30/2011 ThCh\$
Operating revenues	19	107,608,141	92,506,596	53,592,750	46,963,105
Cost of sales	20	(41,365,374)	(34,479,226)	(19,980,610)	(17,673,199)
GROSS MARGIN		66,242,767	58,027,370	33,612,140	29,289,906
Administrative expenses	20	(5,294,106)	(3,617,730)	(2,918,021)	(1,716,956)
Other gains (losses), net	19	535,970	883,066	158,510	617,299
Financial income	19	2,866,680	1,608,995	1,621,670	771,714
Financial costs	20	(18,191,105)	(16,762,634)	(9,284,282)	(7,592,335)
Foreign exchange differences, net	20	200,152	(882,269)	(417,932)	(391,322)
Gain (loss) for indexed assets and liabilities	20	(11,462,910)	(13,690,382)	(3,241,406)	(10,272,377)
Profit Before Income Taxes		34,897,448	25,566,416	19,530,679	10,705,929
Income tax expense	21	(4,780,306)	(3,101,488)	(3,394,159)	(828,728)
Profit from continuing operations		30,117,142	22,464,928	16,136,520	9,877,201
Profit (loss) from discontinued operations		-	-	-	-
Profit (loss)		30,117,142	22,464,928	16,136,520	9,877,201
PROFIT (LOSS) ATTRIBUTABLE TO					
Profit attributable to owners of parent		30,117,002	22,464,811	16,136,458	9,877,091
Profit (loss) attributable to non-controlling interest		140	117	62	110
PROFIT		30,117,142	22,464,928	16,136,520	9,877,201
EARNINGS PER SHARE					
Basic earnings per share	22				
Basic earnings per share from continuing operations	(\$/s)	30,117.14	22,464.93	16,136.52	9,877.20
Basic earnings (loss) per share from discontinued operations	(\$/s)	-	-	-	-
Basic earnings per share	(\$/s)	30,117.14	22,464.93	16,136.52	9,877.20
Diluted earnings per share		-	-	-	-
Diluted earnings per share from continuing operations	(\$/s)	30,117.14	22,464.93	16,136.52	9,877.20
Diluted earnings (loss) per share from discontinued operations		-	-	-	-
Diluted earnings per share (\$/s)		30,117.14	22,464.93	16,136.52	9,877.20



TRANSELEC S.A. AND SUBSIDIARY

Consolidated Statement of Comprehensive Income
 For the six and three month periods ended June 30, 2012 and 2011
 (Expressed in thousands of Chilean pesos (ThCh\$))
 (Translation of financial statements originally issued in Spanish-See Note 2.1)

	01/01/2012 06/30/2012 ThCh\$	01/01/2011 06/30/2011 ThCh\$	04/01/2012 06/30/2012 ThCh\$	04/01/2011 06/30/2011 ThCh\$
PROFIT (LOSS)	30,117,142	22,464,928	16,136,520	9,877,201
Foreign Currency Translation				
Gains (losses) on foreign currency translation differences, before taxes	193,004	130,903	527,304	(6,169)
Cash flow hedges				
Gains (losses) on cash flow hedges, before taxes	383,400	(335,657)	(699,442)	141,902
Income taxes related to components of other comprehensive Income				
Income taxes related to foreign currency translation differences	(141,206)	33,617	(13,954)	(27,147)
OTHER COMPREHENSIVE INCOME	435,198	(171,137)	(186,092)	108,586
Total comprehensive income	30,552,340	22,293,791	15,950,428	9,985,787
Comprehensive income attributable to owners of the parent	30,552,200	22,293,674	15,950,366	9,985,677
Comprehensive income attributable to non controlling Interest	140	117	62	110
Total comprehensive income	30,552,340	22,293,791	15,950,428	9,985,787



TRANSELEC S.A. AND SUBSIDIARY

Consolidated Statement of Changes in Equity
 For the six month period ended June 30, 2012
 (Expressed in thousands of Chilean pesos (ThCh\$))
 (Translation of financial statements originally issued in Spanish-See Note 2.1)

	Issued capital	Reserve for foreign translation differences	Reserve for cash flow hedges	Other reserves	Retained Earnings	Equity attributable to owners of parent	Non controlling interest	Total equity
	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Opening balance as of January 1, 2012	857,944,548	1,292,225	(137,115)	1,155,110	61,938,528	921,038,186	3,633	921,041,819
Increase (decrease) for changes in accounting policies	-	-	-	-	-	-	-	-
Increase (decrease) for changes correction of errors	-	-	-	-	-	-	-	-
Opening balance restated	857,944,548	1,292,225	(137,115)	1,155,110	61,938,528	921,038,186	3,633	921,041,819
Changes in equity:								
Comprehensive income	-	-	-	-	-	-	-	-
Profit	-	-	-	-	30,117,002	30,117,002	140	30,117,142
Other comprehensive income	-	121,767	313,431	435,198	-	435,198	-	435,198
Total comprehensive income	-	121,767	313,431	435,198	30,117,002	30,552,200	140	30,552,340
Dividends	-	-	-	-	(61,938,528)	(61,938,528)	-	(61,938,528)
Increase (decrease) from transfers and other changes	-	-	-	-	86,255	86,255	(301)	85,954
Total changes in equity	-	121,767	313,431	435,198	(31,735,271)	(31,300,073)	(161)	(31,300,234)
Closing balance as of June 30, 2012	857,944,548	1,413,992	176,316	1,590,308	30,203,257	889,738,113	3,472	889,741,585



TRANSELEC S.A. AND SUBSIDIARY

Consolidated Statement of Changes in Equity
 For the six month period ended June 30, 2011
 (Expressed in thousands of Chilean pesos (ThCh\$))
 (Translation of financial statements originally issued in Spanish-See Note 2.1)

	Issued capital	Reserve for foreign translation differences	Reserve for cash flow hedges	Other various reserves	Other reserves	Retained Earnings	Equity attributable to owners of parent	Non controlling interest	Total Equity
	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Opening balance as of January 1, 2011	838,211,823	(141,789)	344,694	19,732,725	19,935,630	61,365,952	919,513,405	3,201	919,516,606
Increase (decrease) for changes in accounting policies	-	-	-	-	-	-	-	-	-
Increase (decrease) for changes correction of errors	-	-	-	-	-	-	-	-	-
Opening balance restated	838,211,823	(141,789)	344,694	19,732,725	19,935,630	61,365,952	919,513,405	3,201	919,516,606
Changes in equity:									
Comprehensive income	-	-	-	-	-	-	-	-	-
Profit	-	-	-	-	-	22,464,811	22,464,811	117	22,464,928
Other comprehensive income	-	138,484	(309,621)	-	(171,137)	-	(171,137)	-	(171,137)
Total comprehensive income	-	138,484	(309,621)	-	(171,137)	22,464,811	22,293,674	117	22,293,791
Dividends	-	-	-	-	-	(32,365,903)	(32,365,903)	-	(32,365,903)
Increase (decrease) from transfers and other changes	19,732,725	-	-	(19,732,725)	(19,732,725)	(158,354)	(158,354)	(98)	(158,452)
Total changes in equity	19,732,725	138,484	(309,621)	(19,732,725)	(19,903,862)	(10,059,446)	(10,230,583)	19	(10,230,564)
Closing balance as of June 30, 2011	857,944,548	(3,305)	35,073	-	31,768	51,306,506	909,282,822	3,220	909,286,042



TRANSELEC S.A. AND SUBSIDIARY

Consolidated Indirect Statements of Cash Flows
For the six month periods ended June 30, 2012 and 2011
(Expressed in thousands of Chilean pesos (ThCh\$))
(Translation of financial statements originally issued in Spanish-See Note 2.1)

	Note	June 30, 2012 ThCh\$	June 30, 2011 ThCh\$
Cash Flows Provided by (Used in) Operating Activities			
Profit		30,117,142	22,464,928
Adjustments for reconciliation of net income :			
Adjustments for income tax expense		4,780,306	3,101,488
Adjustments for decreases (increases) in trade receivables		10,502,716	2,347,337
Adjustments for decreases (increases) in trade payables		(21,702,660)	(2,698,531)
Adjustments for depreciation and amortization expenses		22,917,524	21,430,149
Adjustments for provisions		(672,250)	(819,289)
Adjustments for unrealized foreign currency translation gains (losses)		(1,281,222)	55,959
Adjustments non-controlling interest		(140)	(117)
Adjustments for other non-cash items	(27)	27,671,378	30,359,059
Total adjustments for reconciliation of income		42,215,652	53,776,055
Interest paid		(18,024,099)	(18,380,962)
Income tax paid		(654,893)	(457,085)
Net cash flows provided by operating activities		53,653,802	57,402,936
Cash Flows Used in Investing Activities			
Additions of property, plant and equipment		(35,835,734)	(9,856,140)
Cash advances and loans to third parties		(3,860,862)	(29,865,249)
Cash flows provided by (used in) investing activities		(39,696,596)	(39,721,389)
Cash Flows Provided by (Used in) Financing Activities			
Proceeds from long term loans		-	146,934,648
Loans with related parties		-	36,041,143
Payment of loans to related entities		-	(49,605,631)
Loans payments		-	(115,881,635)
Dividends payments		(33,789,621)	(32,365,904)
Loan payments from related parties		2,345,862	-
Other disbursements (Swap contracts liquidation)		-	(20,086,828)
Net cash flows provided by (used in) financing activities		(31,443,759)	(34,964,207)
Net Increase (Decrease) in Cash and Cash Equivalents		(17,486,553)	(17,282,660)
Cash and Cash Equivalents, Opening Balance		64,211,994	35,495,497
Cash and Cash Equivalents, Closing Balance		46,725,441	18,212,837



TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 1 - GENERAL INFORMATION

Rentas Eléctricas III Limitada was formed as a limited liability company by public deed on June 6, 2006. On March 26, 2007, it changed its name to Rentas Eléctricas III S.A. and became a corporation. According to public deed dated May 9, 2007, the Company acquired 100 shares owned by Transelec Holdings Rentas Limitada, corresponding to 0.01% of the share capital of Transelec S.A. (formerly Nueva Transelec S.A.), leaving the Company with 100% ownership. Thus, the merger took place by absorption, and the assets, liabilities, rights and obligations of Transelec S.A. (formerly Nueva Transelec S.A.) passed to the Company. In this way, the Company directly assumed operation of the electricity transmission business previously conducted by the aforementioned subsidiary. On June 30, 2007, Rentas Eléctricas III S.A. changed its name to its current name, Transelec S.A. (here and after “the Company” or “Transelec”).

On May 16, 2007, the Company was listed as number 974 in the Securities Registry of the Chilean Superintendency of Securities and Insurance (SVS) and is subject to the supervision of the Superintendency of Securities and Insurance. Simultaneously, it registered 1,000,000 shares, which corresponds to the total number of shares issued, subscribed and fully paid.

The Company is domiciled at Av. Apoquindo No. 3721, floor 6, Las Condes, Santiago, Chile. Its only subsidiary, Transelec Norte S.A., is a corporation domiciled at Av. Apoquindo No. 3721, floor 6, Las Condes, Santiago, Chile. The subsidiary is registered in the Securities Register of the Superintendency of Securities and Insurance (SVS) under No. 939.

The Company has the exclusive objective of operating and developing electricity systems owned by the Company or by third parties designed to transport or transmit electricity and may, for these purposes, obtain, acquire and use the respective concessions and permits and exercise all of the rights and powers that current legislation confers on electric companies. Its line of business includes: commercializing the transport capacity of lines and transformation capacity of substations and equipment associated with them so that generating plants, both Chilean and foreign, may transmit the electricity they produce to their consumption centers; providing engineering or management consulting services related to the company’s line of business; and developing other business and industrial activities to use electricity transmission facilities. The Company may act directly or through subsidiaries or affiliates, both in Chile and abroad.

The Company is controlled directly by Transelec Holdings Rentas Limitada and indirectly by ETC Holdings Ltd. These interim consolidated financial statements were approved by the Board of Directors in Ordinary Meeting No.85 held on August 22, 2012.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

The principal accounting policies applied in preparing these financial statements consolidated are detailed below. These policies have been based on IFRS in effect as of June 30, 2012 and applied uniformly for periods presented.

2.1 Basis of preparation of the consolidated financial statements

These financial statements have been prepared in accordance with IFRS, issued by the International Accounting Standards Board (IASB). The figures in these financial statements and their notes are expressed in thousands of Chilean pesos, which is the functional currency of the Company.

The accounting policies used in preparing these interim financial statements are consistent with those applied in the preparation of the last annual financial statements as of December 31, 2011.

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

In preparing these financial statements, certain critical accounting estimates have been used to quantify some assets, liabilities, income and expenses. Management was also required to exercise judgment in applying Transelec's accounting policies. Areas involving a greater degree of judgment or complexity or areas in which assumptions and estimates are significant for these financial statements are described in Note 4.

The information contained in these financial statements is the responsibility of the Company's management.

2.2 New standards and interpretations issued but not yet effective

Below is a summary of new standards, interpretations and improvements to IFRS issued by the IASB that are not yet effective as of on 30 June 2012:

IFRS 7 - Financial Instruments: Disclosures

In December 2011 issued amendments to IFRS 7. This amendment requires entities to disclose in the financial information, the effects or potential effects of compensation arrangements in financial instruments on the entity's financial position. The standard is applicable from 1 January 2013.

IFRS 9 - Financial Instruments

Financial liabilities

This standard introduces new requirements for classifying and measuring financial assets, allowing early application. Requires all financial assets to be classified in its entirety on the basis of the business model of the entity for the management of financial assets and characteristics of the contractual cash flows of financial assets. Financial assets under this standard are either measured at amortized cost or fair value.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2.2 New standards and interpretations issued but not yet effective (continued)

Only assets classified as measured at amortized cost shall be tested for impairment. Its application is effective for annual periods beginning on or after January 1, 2015, early adoption is permitted

IFRS 10 “Consolidated Financial Statements”

IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 *Consolidation - Special Purpose Entities*. What remains in IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements.

IFRS 10 establishes a single control model that applies to all entities (including ‘special purpose entities’). The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27.

IFRS 11 “Joint arrangement”

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities — Non-monetary Contributions by Venturers*. IFRS 11 uses some of the terms that were used IAS 31, but with different meanings. For example, whereas IAS 31 identified three forms of joint ventures (i.e., jointly controlled operations, jointly controlled assets and jointly controlled entities), IFRS 11 addresses only two forms of joint arrangements (joint operations and joint ventures) where there is joint control.

Because IFRS 11 uses the principle of control in IFRS 10 to define joint control, the determination of whether joint control exists may change. In addition, IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. For joint operations (which includes former jointly controlled operations, jointly controlled assets, and potentially some former JCEs), an entity recognizes its assets, liabilities, revenues and expenses, and/or its relative share of those items, if any.

IFRS 12 “Disclosure of Interests in Other Entities”

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28 *Investment in Associates*. These disclosures relate to an entity’s interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2.2 New standards and interpretations issued but not yet effective (continued)

IFRS 13 "Fair Value Measurement"

IFRS 13 is a single source that describes how to measure fair value under IFRS, when fair value is required or permitted to be used, but does not change when an entity is required to use fair value.

The standard changed the definition of Fair value- Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date (an exit price). In addition the standard includes some new disclosure requirements.

IAS 1 "Presentation of Financial Statements"

"Annual Improvements to IFRS 2009-2011 Cycle", issued in May 2012, amended paragraphs 10, 38 and 41, deleted paragraphs 39-40 and added paragraphs 38A-38D and 40A-40D, which clarifies the difference between voluntary additional comparative information and minimum comparative information required. Generally, the minimum required comparative period is the prior period.

An entity must include comparative information in the related notes to the financial statements when the entity voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period need not contain a complete set of financial statements. In addition, the opening balance of statement of financial position (known as the third balance) must be presented in the following circumstances: when an entity changes its accounting policies, makes retrospective restatements or makes reclassifications and that change has a material effect on the statement of financial position. The opening statement of financial position would be at the beginning of the preceding period. However, unlike the voluntarily comparative information related notes are not required to accompany the third balance. An entity shall apply the amendments retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors for annual periods beginning on or after January 1, 2013. Earlier application is permitted, in which case it shall be disclosed.

IAS 16 "Property, Plant and Equipment"

"Annual Improvements to IFRS 2009-2011 Cycle", issued in May 2012, amended paragraph 8. The amendment clarifies that the spare parts and auxiliary equipment that meet the definition of property, plant and equipment are not inventory. An entity shall apply the amendment retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors for annual periods beginning on or after January 1, 2013. Earlier application is permitted, in which case disclosure.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2.2 New standards and interpretations issued but not yet effective (continued)

IAS 32 "Financial Instruments: Presentation"

"Annual Improvements 2009-2011 Cycle", issued in May 2012, amended paragraphs 35, 37 and 39 and add paragraph 35A, which clarifies that income tax distributions to shareholders of the entity are accounted for under IAS 12 Income Tax. The amendment removes the existing requirements of income tax of IAS 32 and requires entities to apply IAS 12 requirements to any income tax distributions to shareholders of the entity. An entity shall apply the amendments retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors for annual periods beginning on or after January 1, 2013. Earlier application is permitted, in which case disclosure.

In December 2011 the IASB issued amendments to IAS 32. These amendments are intended to clarify differences in the application relating to compensation and reduce the level of diversity in current practice. The standard is applicable to count from January 1, 2014 and early adoption is permitted.

IAS 34 "Interim Financial Reporting"

"Annual Improvements to IFRS 2009-2011 Cycle", issued in May 2012, amended paragraph 16A. The amendment clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in IFRS 8 Operating Segments. Total assets and liabilities for a particular reportable segment need to be disclosed only when amounts are regularly provided to the chief operating decision maker and there has been a material change in the total amounts disclosed in the entity's previous annual financial statements for that reportable segment.

An entity shall apply the amendment retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors for annual periods beginning on or after January 1, 2013. Earlier application is permitted, in which case disclosure.

2.3 Basis of consolidation

Subsidiaries are all entities (including special purpose entities) over which Transelec has the power to direct its financial and operating policies, in which case the Company generally holds a share of more than half of the voting rights. When evaluating whether the Company controls another entity, the existence and effect of potential voting rights that are currently exercisable or convertible should be considered.

Subsidiaries are consolidated from the date on which control is acquired and are excluded from consolidation from the date that control ceases.



TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2.3 Basis of consolidation (continued)

At the date of acquisition, the assets, liabilities and contingent liabilities of the subsidiary or jointly-controlled entity are recorded at fair value. In the event that there is a positive difference between the acquisition cost and the fair value of the assets and liabilities of the acquired entity, including contingent liabilities, corresponding to the parent's share, this difference is recorded as goodwill. In the event that the difference is negative, it is recorded with a credit to income.

The value of non-controlling interest in equity and the results of the consolidated subsidiary are presented, respectively, under the headings "Profit (loss) attributable to non-controlling interest" in the consolidated statement of comprehensive income.

All balances and transactions between consolidated companies have been eliminated upon consolidation.

These consolidated financial statements include the balances of the Company and its only subsidiary, Transelec Norte S.A. The Company's interest in that subsidiary was 99.99% as of June 30, 2012 and December 31, 2011.

2.4 Foreign currency translation

2.4.1 Functional and presentation currency

The Company's functional currency is the Chilean peso, while the functional currency of its subsidiary Transelec Norte is the US dollar. These consolidated financial statements are presented in Chilean pesos.

2.4.2 Transactions and balances

Transactions carried out by each company in a currency other than its functional currency are recorded using the exchange rates in effect as of the date of each transaction. During the period, any differences that arise between the exchange rate recorded in accounting and the rate prevailing as of the date of collection or payment are recorded as exchange differences in the income statement. Likewise, as of each period end, balances receivable or payable in a currency other than each company's functional currency are converted using the period-end exchange rate. Any valuation differences are recorded as exchange differences in the income statement. Losses and gains in foreign currency arising from settling these transactions and from converting monetary assets and liabilities denominated in foreign currency using period-end exchange rates are recorded in the income statement, except when they should be deferred in equity, such as the case of cash flow and net investment hedges.

Transelec has established a cash flow hedge policy for part of its revenues indexed to U.S. dollars. It also has a net investment hedge for its net investment in subsidiary Transelec Norte.



TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2.4 Foreign currency translation (continued)

2.4.3 Subsidiary conversion with functional currency other than the Chilean Peso

The conversion of the financial statements of the subsidiary with functional currency other than the Chilean peso is performed as follows:

- a) For assets and liabilities, the prevailing exchange rate on the closing date of the financial statements is used.
- b) For items in the income statement, the average exchange rate for the period is used.

Foreign currency translation produced in the conversion of the financial statements is registered under the heading "Reserve for foreign currency translation differences" within Equity (see Note 18).

2.4.4 Exchange rates

As of each year end, assets and liabilities in foreign currency and UF have been converted to Chilean pesos using the following exchange rates:

Currency	Pesos per unit	
	June 30, 2012	December 31, 2011
Unidad de Fomento	22,627.36	22,294.03
US\$	501.84	519.20
Euro	635.08	672.97

2.5 Segments reporting

The Company manages its operations based on one sole operating segment: transmission of electricity.

2.6 Property, plant and equipment

Property, plant and equipment is valued at acquisition cost, net of accumulated depreciation and any impairment losses it may have experienced. In addition to the price paid to acquire each item, the cost also includes, where appropriate, the following concepts:

- a) All costs directly related to placing the asset in the location and condition that enables it to be used in the manner intended by management.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2.6 Property, plant and equipment (continued)

b) Borrowing costs incurred during the construction year that are directly attributable to the acquisition, construction or production of qualified assets, which require a substantial period of time before being ready for use are capitalized. The interest rate used is that of the specific financing or, if none exists, the average financing rate of the company carrying out the investment.

c) Future disbursements that Transelec S.A. and its subsidiary must make to close their facilities are incorporated into the value of the asset at present value, recording the corresponding provision in accounting. On a annual basis, Transelec S.A. and subsidiary review their estimate of these future disbursements, increasing or decreasing the value of the asset based on the results of this estimate.

Assets under construction are transferred to operating assets once the testing period has been completed when they are available for use, at which time depreciation begins.

Expansion, modernization and improvement costs that represent an increase in productivity, capacity or efficiency or an extension of useful life are capitalized as a greater cost for the corresponding assets. Replacement or overhauls of whole components that increase the asset's useful life, or its economic capacity, are recorded as an increase in value for the respective assets, derecognizing the replaced or overhauled components. Periodic maintenance, conservation and repair expenses are recorded directly in income as an expense for the period in which they are incurred.

Property, plant and equipment, net of its residual value, is depreciated by distributing the cost of its different components on a straight-line basis over its estimated useful life, which is the period during which the companies expect to use them. The useful lives and residual values of fixed assets are reviewed on a yearly basis.

The following table details the ranges of useful lives periods applied to principal classes of assets and used to determine depreciation expense:

Range of estimated useful life	Minimum	Maximum
Buildings and infrastructure	20	50
Machinery and equipment	15	40
Other assets	3	15



TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2.7 Intangible assets

2.7.1 Goodwill

The goodwill represents the difference between the acquisition cost and the fair value of the net assets acquired in a business combination. Goodwill is not amortized; instead, at each year end, the company estimates whether any impairment has reduced its recoverable value to an amount less than the carrying amount and, if appropriate, adjusts for impairment.

For impairment testing purposes, goodwill acquired in a business combination is allocated from the date of acquisition to the cash generating units that are expected to benefit from this combination.

During the years covered by those financial statements, there were impairment losses of goodwill.

2.7.2 Rights of way

Rights of way are presented at historical cost. These rights have no defined useful life and, therefore, are not amortized. However, these indefinite useful lives are reviewed during each reporting year to determine if they remain indefinite. These assets are tested for impairment on an annual basis.

2.7.3 Computer software

Purchased software licenses are capitalized based on the costs incurred to purchase them and prepare them for use. These costs are amortized on a straight-line basis over their estimated useful lives that range from three to five years.

Expenses for developing or maintaining computer software are expensed when incurred. Costs directly related to creating unique, identifiable computer software controlled by the Company that is likely to generate economic benefits in excess of its costs during more than one year are recognized as intangible assets, and its amortization is included in the income statement under costs of sales.

2.8 Impairment of non-financial assets

Assets with an indefinite useful life, such as land and rights of way, are not amortized and are tested annually for impairment. Amortized assets are tested for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable.

An impairment loss is recognized for the difference between the asset's carrying amount and its recoverable amount. The recoverable amount is the higher of its fair value less costs to sell and its value in use.



TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2.8 Impairment of non-financial assets (continued)

In order to assess impairment losses, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash generating units).

Impairment losses from continuing operations are recognized in the income statement in the expenses categories in accordance with the function of the impaired assets. Non-financial assets other than goodwill that suffered an impairment loss are reviewed at each reporting date for possible reversal of the impairment, in which case the reversal may not exceed the amount originally impaired. Reversals are included in the income statement.

Impairment of goodwill is not reversed.

2.9 Financial assets

Upon initial recognition, Transelec and its subsidiary classify their financial assets, excluding equity method investments and investments held for sale, into four categories:

- **Trade and other receivables, including Receivables from related parties:** are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at amortized cost using the effective interest rate method.
- **Investments held to maturity:** non derivative financial assets with fixed or determinable payments and fixed maturities that the Company intends to hold and is capable of holding until their maturity. After initial recognition these assets are valued at its amortized cost as defined in the preceding paragraph.

During the years covered by these financial statements, the Company had no financial assets in this category.

- **Financial assets at fair value through profit or loss:** This includes the trading portfolio and those financial assets that have been designated as such upon initial recognition and those are managed and evaluated using fair value criteria. They are valued at its fair value in the statement of consolidated financial position, with changes in value recorded directly in income when they occur.



TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2.9 Financial assets (continued)

- **Available-for-sale investments:** These are financial assets specifically designated as available for sale or that do not fit within any of the three preceding categories and consist almost entirely of financial investments in shares/equity instruments. These investments are recorded in the statement of consolidated financial position at fair value when it can be reliably determined. In the case of interests in unlisted companies, normally the market value cannot be reliably determined and, thus, when this occurs, they are valued at acquisition cost or a lower amount if evidence of impairment exists. Changes in fair value, net of taxes, are recorded with a charge or credit to an Equity Reserve known as "Available-for-sale financial assets" until the investment is disposed of, at which time the amount accumulated in this account for that investment is fully charged to the income statement. Should the fair value be lower than the acquisition cost, if there is objective evidence that the asset has been more than temporarily impaired, the difference is recorded directly in the income statement.

Purchases and sales of financial assets are accounted for using their trade date.

A financial asset is derecognized when:

- (a) the rights to receive cash flows from the asset have expired; or
- (b) the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (i) the Company has transferred substantially all the risks and rewards of the asset, or (ii) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

At each reporting date, the Company assesses whether there is objective evidence that a financial asset or group of financial assets may be impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, for example delayed payments.

In the case of financial assets valued at amortized cost, the amount of the impairment loss is measured as the difference between the carrying amount and the present value of the future estimated cash flows. The carrying amount is reduced using a provision account and the loss is recognized in the income statement. If in a later period the amount of the expected loss increases or decreases as a consequence of an event occurred after the recognition of the impairment, the impairment loss previously recognized is increased or reduced adjusting the provision account. If the write off is later recovered, this reversal is recognized in the income statement.



TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2.9 Financial assets (continued)

In the case of financial assets classified at available-for-sale, in order to determine if the assets have been impaired, it will be considered if a significant or prolonged decrease in fair value of the assets below cost has occurred. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the income statement, is reclassified from equity and recognized in the income statement. Impairment losses recognized in the income statement for equity instruments are not reversed in the income statement.

2.10 Financial instruments and hedge activities

The Company selectively uses derivative and non-derivative instruments, to manage its exposure to exchange rate risk (See Note 15).

Derivatives are initially recognized at fair value as of the date the derivative contract is signed and are subsequently re-measured at fair value as of each year end. Any gains or losses from variations in these fair values are recognized in the statement of comprehensive income unless the derivative is designated as a hedge instrument, in which case recognition of the gain or loss depends on the nature of the hedge relationship.

The types of hedges are as follows:

- Fair value hedge.
- Cash flow hedge.
- Hedges for a net investment in a foreign entity (net investment hedge).

At the inception of the transaction, the Company documents the relationship existing between the hedge instruments and the hedged items, as well as its risk management objectives and its strategy for handling various hedge transactions. The Company also documents its assessment, both at inception and subsequently on an ongoing basis, of the effectiveness of the hedge instruments in offsetting movements in the fair values or cash flows of the hedged items.

A derivative is presented as a non-current asset or liability if its maturity is greater than 12 months and it is not expected to be realized within 12 months. Other derivatives are presented as current assets or liabilities.

2.10.1 Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, along with any change in the fair value of the hedged asset or liability that is attributable to the hedged risk.

The Company has not used fair value hedges during the years presented.



TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2.10 Financial instruments and hedge activities (continued)

2.10.2 Cash flow hedges

Changes in the fair value of the effective portion of derivatives are recorded in equity account "Reserve for cash flow hedges". The cumulative loss or gain in this account is transferred to the income statement to the extent that the underlying item impacts the income statement because of the hedged risk, netting the effect in the same income statement account. Gains or losses from the ineffective portion of the hedge are recorded directly in the income statement. A hedge is considered highly effective when changes in the fair value or the cash flows of the underlying item directly attributable to the hedged risk are offset by changes in the fair value or the cash flows of the hedging instrument, with effectiveness ranging from 80% to 125%.

Hedge accounting is discontinued when the Company revokes the hedging relationship, the hedged item expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity is retained and is recognized when the forecasted transaction is ultimately recognized in the income statement.

2.10.3 Net investment hedges

Hedges of net investments in foreign operations are accounted for on a similar basis to cash flow hedges. Foreign currency translation originated by a net investment in a foreign entity and derived from the hedge transaction should be registered in equity reserve (under "Other reserves" heading) until the investment's disposal. Gains or losses relating to the ineffective portion are recognized immediately in the income statement in the line item "Other gains (losses)". The Company applies this policy for the hedge of its investment in the subsidiary Transelec Norte S.A., which is not a foreign operation but has a different functional currency than the Parent Company (US Dollars).

2.10.4 Derivatives not recorded as hedge accounting

Certain derivatives are not recorded as hedge accounting and are recognized as instruments at fair value through profit or loss. Changes in the fair value of any derivative instrument recorded like this are recognized immediately in the income statement within "Financial expense/income".

2.10.5 Embedded derivatives

Derivatives embedded in other financial instruments or other contracts are treated as derivatives when their risks and characteristics are not closely related to the principal contracts and the principal contracts are not measured at fair value through profit and loss. In the case that they are not closely related, they are recorded separately, and any changes in value are recognized in the income statement.

As of the years presented in these financial statements, the Company did not identify any contracts that met the conditions for embedded derivatives.



TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2.11 Inventory

Inventory is valued at acquisition cost using the weighted average price or net realizable value if this is lower.

2.12 Cash and cash equivalents

Cash and cash equivalents presented in the statement of consolidated financial position includes cash, time deposits and other highly-liquid, short-term investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.13 Paid-in capital

Paid-in capital is represented by one class of ordinary shares with one vote per share. Incremental costs directly attributable to new share issuances are presented in equity as a deduction, net of taxes, from issuance proceeds.

2.14 Financial liabilities

All financial liabilities are initially recognized at its fair value. In the case of loans they also include the direct transactions costs.

Trade and other payables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method.

Loans, bonds payable and financial liabilities of a similar nature are initially recognized at fair value, net of costs incurred in the transaction.

Subsequently, they are valued at amortized cost and any difference between the funds obtained (net of costs to obtain them) and repayment value are recognized in the income statement over the life of the debt using the effective interest rate method.

2.15 Income tax and deferred taxes

Differences between the book value and tax base of assets and liabilities generate deferred tax asset and liability balances, which are calculated using tax rates expected to be in effect when the assets and liabilities are realized.

Current taxes and changes in deferred tax assets and liabilities not from business combinations are recorded in income or in equity accounts in the statement of financial position, based on where the gains or losses originating them were recorded.



TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2.15 Income tax and deferred taxes (continued)

Deferred tax assets and tax credits are recognized only when it is likely that there are future tax gains sufficient enough to recover deductions for temporary differences and make use of tax losses.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities are recognized for all temporary differences, except those derived from the initial recognition of goodwill and those that arose from valuing investments in subsidiaries, associates and jointly-controlled companies in which Transelec can control their reversal and where it is likely that they are not reversed in the foreseeable future.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

2.16 Employee benefits

2.16.1 Employee vacation

The Company recognizes personnel vacation expenses on an accrual basis. This benefit is provided to all personnel and is a fixed amount based on each employee's particular contract. This benefit is recorded at nominal value.

2.16.2 Staff severance indemnity

The Company records liabilities for staff severance indemnity obligations based on collective and individual employment contracts, payable when their employees cease to provide services. If this benefit is contractual, the obligation is treated in the same way as defined benefit plans in accordance with IAS 19 and is recorded using the projected unit credit method.

Defined benefit plans define the amount of the benefit that an employee will receive upon termination of employment, which usually depends on one or more factors such as the employee's age, rotation, years of service and compensation.



TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2.16 Employee benefits (continued)

2.16.2 Staff severance indemnity

The liability recognized in the statement of financial position represents the present value of the defined benefit obligation plus/minus adjustments for unrecorded actuarial gains or losses and past service costs. The present value of the defined benefit obligation is determined by discounting cash outflows estimated using as a reference BCU (rate of Chilean Central Bank bonds denominated in Unidades de Fomento) interest rates for terms similar to the maturity of the staff severance indemnity obligation.

Actuarial gains and losses that arise from adjustments based on experience and changes in actuarial assumptions are charged in full in the income statement in the period in which they arise. The methodology is pursuant to paragraph 93 of IAS 19, which allows more accelerated recognition than “the corridor” approach defined in paragraphs 92 and 93 of the same standard.

Past service costs are recognized immediately in the income statement.

2.16.3 Profit sharing

The Company recognizes a liability and an expense for profit sharing arrangements based on respective collective and individual contracts with its employees and executives, using a formula that takes into account the net income attributable to the Company's shareholders after certain adjustments. Transelec recognizes a provision when it has a contractual obligation or when a past practice has created a constructive obligation.

2.17 Provisions

Provisions for environmental restoration, asset retirement, restructuring costs, onerous contracts, lawsuits and other contingencies are recognized when:

- The Company has a present obligation, whether legal or implicit, as a result of past events;
- It is more likely than not that an outflow of resources will be required to settle the obligation;
- The amount can be reliably estimated.

Provisions are measured at the present value of management's best estimate of the expenditures required to settle the obligation. The discount rate used to determine the present value reflects current market assessments, as of the reporting date, of the time value of money, as well as the specific risk related to the particular liability, if appropriate. Increases in provisions due to the passage of time are recognized in interest expense.

As of the date of issuance of these financial statements, Transelec and subsidiary have no obligation to establish provision for environmental restoration and similar expenses.



TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2.18 Classification of current and non-current balances

In the consolidated statement of financial position, balances are classified based on maturity (i.e. current balances mature in no more than twelve months and non-current balances in more than twelve months).

Should the Company have any obligations that mature in less than twelve months but can be refinanced over the long term at the Company's discretion, through unconditionally available credit agreements with long-term maturities, such obligations may be classified as non-current liabilities.

2.19 Revenue recognition

The regulatory framework that governs electrical transmission activity in Chile comes from the by - Law of the Electric Services dated 1982 (DFL (M) No. 1/82), and subsequent amendments thereto, including Law 19.940 (called also the "Short Law") enacted on March 13, 2004. These are complemented by the by - Law of the Electric Services Regulations dated 1997 (Supreme Decree No. 327/97 of the Mining Ministry), and its amendments, and by the Technical Standard for Liability and Quality of Service (R.M.EXTA No. 40 dated May 16, 2005) and subsequent amendments thereto.

The Company's revenues correspond mainly to remuneration from the use of its electricity transmission facilities. This remuneration is earned in part from arrangements subject to the tariff regulation and in part from contractual arrangements with the users of the transmission facilities. The total remuneration for the use of the transmission facilities for both regulated and contractual arrangements includes in general two components: **i)** the AVNR, which is the annuity of the New Replacement Value (VNR), calculated in such a way that the present value of these annuities, using an annual real discount rate and the economic useful life of each of the facilities equals the cost of replacing the existing transmission facilities with new facilities with similar characteristics at current market prices, plus, **ii)** the COyM, which corresponds to the cost required to operate, maintain and administrate the corresponding transmission facilities.

Revenues from both regulatory and contractual arrangements are recognized and invoiced on a monthly basis, using fixed monthly amounts resulting from the application of the AVNR and COyM values stipulated in the contracts or resulting from the regulated tariffs and indexed as applicable. The transmission service is invoiced usually at the beginning of the month following the month when the service was rendered and thus the revenue recognized each month includes transmission service provided but not invoiced up to the month end.



TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2.20 Leases

Leases in which substantially all risks and benefits inherent to the property are transferred to the lessee are classified as finance leases. Other leases that do not meet this criterion are classified as operating leases.

Operative leasing installments are recognized in the income statement on a straight-line basis.

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at the inception date, whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or whether or not the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

2.20.1 Lessor

Finance leases in which Transelec is the lessor are valued at the present value of the lease payments at an effective rate, which implies including expenses associated with the agreement's origin.

For lease agreements with past due lease payments, a provision should be established for the amount of the delayed payments.

2.20.2 Lessee

Finance leases in which Transelec acts as lessee are recognized when the agreement begins, recording an asset based on the nature of the lease and a liability for the same amount, equal to the lesser of the fair value of the leased asset or the present value of the minimum lease payments. Subsequently, the minimum lease payments are divided between finance expense and reducing the debt. The finance expense is recorded in the income statement and distributed over the period of the lease term so as to obtain a constant interest rate for each period over the balance of the debt pending amortization. The asset is amortized in the same terms as other similar depreciable assets, as long as there is reasonable certainty that the lessee will acquire ownership of the asset at the end of the lease. If no such certainty exists, the asset will be amortized over the lesser term between the useful life of the asset and the term of the lease.

Operating lease payments are expensed on a straight-line basis over the term of the lease unless another type of systematic basis of distribution is deemed more representative.

2.21 Distribution of dividends

Dividends payable to the Company's shareholders are recognized as a liability in the financial statements in the period in which they are approved by the Company's shareholders or when the liability is constituted according to the legal regulations in force.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2.21 Distribution of dividends (continued)

Company makes a provision at the end of each year for the 30% of the profit of the year, in accordance with Law N° 18.046.

On the Company's Board meeting No. 57 held on September 30, 2010, the policy used for the determination of distributable net profit was approved. This policy does not consider adjustments to the profit.

NOTE 3 - RISK MANAGEMENT POLICY

3.1 Financial risk

Transelec is exposed to the following risks as a result of the financial instruments it holds: Market risk stemming from interest rates, exchange rates and other prices that impact market values of financial instruments, credit risk and liquidity risk. The following paragraphs describe these risks and how they are managed.

3.1.1 Market risk

Market risk is defined for these purposes as the risk of changes in the fair value or future cash flows of a financial instrument as a result of changes in market prices. Market risk includes the risk of changes in interest and exchange rates, inflation rates and variations in market prices due to factors other than interest or exchange rates such as commodity prices or credit spread differentials, among others.

Company policy regulates investments and indebtedness, in an attempt to limit the impact of changes in the value of currencies and interest rates on the Company's net results by:

- a) Investing cash surpluses in instruments maturing within no more than 90 days.
- b) Entering into forward contracts and other instruments to maintain a balanced foreign exchange position.
- c) Entering into long-term fixed rate indebtedness thus limiting risk from variable interest rates.



TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 3 - RISK MANAGEMENT POLICY (continued)

3.1 Financial risk (continued)

3.1.1 Market risk (continued)

3.1.1.1 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 floating interest rates and changes in the value of financial instruments with fixed cash flows.

The Company's assets are primarily fixed and long-lived intangible assets. Consequently, financial liabilities that are used to finance such assets consist primarily of long-term liabilities at fixed 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 costs due to interest rate variations and, reduce volatility in the income statement.

The following table presents the Company's debt as of June 30, 2012 and December 31, 2011. The table indicates 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.

Deb	Currency or index	Interest Rate	Type of rate	Amount in Original Currency (thousand)	
				June 30, 2012	December 31, 2011
Bono Series C	UF	3.50%	Fixed	6,000	6,000
Bono Series D	UF	4.25%	Fixed	13,500	13,500
Bono Series E	UF	3.90%	Fixed	3,300	3,300
Bono Series F	CLP	5.70%	Fixed	33,600,000	33,600,000
Bono Series H	UF	4.80%	Fixed	3,000	3,000
Bono Series I	UF	3.50%	Fixed	1,500	1,500
Bono Series K	UF	4.60%	Fixed	1,600	1,600
Bono Series L	UF	3.65%	Fixed	2,500	2,500
Bono Series M	UF	4.05%	Fixed	3,400	3,400
Bono Series N	UF	3.95%	Fixed	3,000	3,000



TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 3 - RISK MANAGEMENT POLICY (continued)

3.1 Financial risk (continued)

3.1.1 Market risk (continued)

3.1.1.1 Interest rate risk (continued)

The Company has mercantile current accounts with related companies denominated in US dollars that have a variable interest rate. Given the fact that the Company's net assets with variable interest rates are an insignificant portion of its total assets, the Company believes that its income is not exposed to significant risk from changes in market interest rates.

However, increases in inflation could impact the cost of UF-denominated debt and, therefore, the Company's financial expenses. These impacts are to some extent offset by the mechanism of indexation of the Company's revenues, which are also adjusted for inflation using indexation formulas.

3.1.1.2 Exchange rate risk

Transelec's exposure to the risk of exchange rate variations is due to the following:

- The revenues of its subsidiary Transelec Norte are denominated in U.S. dollars.
- Transelec carries out several types of transactions in U.S. dollars (certain construction contracts, import purchases, etc.).
- Transelec maintains a portion of its debt denominated in U.S. dollars in order to finance the dollar-denominated assets of its subsidiary, among other uses. Exchange rate exposure is managed using an approved policy that involves:

a) Fully hedging net balance sheet exposure using diverse instruments such as foreign exchange forward contracts and cross currency swaps. The following table details the amounts of monetary assets and liabilities as of June 30, 2012 and December 31, 2011:

	Liabilities		Assets	
	June 30, 2012	December 31, 2011	June 30, 2012	December 31, 2011
	Million Ch\$	Million Ch\$	Million Ch\$	Million Ch\$
U.S. dollar (amounts associated with balance sheet entries)	25,438.20	3,917.01	7,208.40	26,772.3
U.S. dollar (amounts associated with income statement entries)	33,121.60	30,110.93	-	-
Chilean peso	1,001,628.60	954,826.35	1,932,428.20	1,921,661.84



TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 3 - RISK MANAGEMENT POLICY (continued)

3.1 Financial risk (continued)

3.1.1 Market risk (continued)

3.1.1.2 Exchange rate risk (continued)

b) Polynomials indexing of the Company's revenues contain formulas for setting these revenues in the short term, differ from the long-term indexing. In order that the short-term indexing is consistent with long-term indexing, the Company, periodically (every six months) sell a percentage of their semi-annual fixed dollar income using currency forwards. These forwards are considered as cash flow hedges and therefore changes in fair value, while not realized are included in other comprehensive income.

3.1.1.2.1 Sensitivity analysis

The following chart shows the sensitivity analysis of various items to a 10% increase or decrease in exchange rates (US Dollar) and their effect on income or equity. This exchange rate sensitivity (10%) is used to internally report the Company's foreign exchange risk to key management personnel and represents management's valuation of the possible change in US Dollar exchange rate. The sensitivity analysis includes asset and liability balances in currencies other than the Company's functional currency. A positive number indicates an increase in income or other comprehensive income when the Chilean peso is strengthened with respect to the foreign currency. A negative percentage implies a weakening of the Chilean peso with respect to the foreign currency, which negatively impacts the income statement or in other comprehensive income.

Item (Currency)	Position	Net income (gain)/loss		Position	OCI (gain)/loss	
	Million\$	Million \$		Million\$	Million \$	
	Long /(Short)	Change (-10%)	Change (+10%)	Long /(Short)	Change (-10%)	Change (+10%)
Receivables (US\$)	3,185	290	(318)	-	-	-
Payables (US\$)	(22,259)	(2,024)	2,226	-	-	-
Cash (US\$)	19,878	1,807	(1,988)	-	-	-
Forwards (assets) (US\$)	(6,524)	(593)	652	-	-	-
Forwards (income)	-	-	-	(82,051)	(7,459)	8,205
Bonds (US\$)	-	-	-	(33,121)	(3,011)	3,312
Intercompany loan (US\$)	(39,774)	(394)	3,977	-	-	-
Net investment	-	-	-	69,675	6,334	(6,967)
Other (US\$)	6,519	593	(652)	-	-	-
Total	(38,975)	(321)	3,897	(45,497)	(4,136)	4,550



TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 3 - RISK MANAGEMENT POLICY (continued)

3.1 Financial risk (continued)

3.1.2 Credit risk

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

However, revenues are highly concentrated in two major customers representing 70% of revenue as of June 30, 2012 and 60% as of June 30, 2011.

The toll agreements signed with these clients, including its subsidiaries will generate a large part of the Company's future cash flows. Therefore, a substantial change in their assets, financial condition or operating income could negatively affect the Company.

In recent months there have been timely insolvency problems by some members of the CDEC-SIC.

In terms of the Company's credit risk associated with other financial assets (time deposits, fixed-return mutual funds and reverse repurchase agreements, net asset position from derivative contracts), 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.

3.1.3 Liquidity risk

a) Risk associated to Company's management

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 that Transelec is able to quickly react to investment opportunities and pay its obligations by their maturity dates, in addition to its cash balances and short-term receivables, the Company has committed lines of credit for working capital (US\$ 15 million, equivalent to ThCh\$ 7,527,600). These credit lines have been active or renovated during 2011 and are still active as of June 30, 2012.

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

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

The following table presents the capital amortizations corresponding to the Company's financial liabilities, according to their maturity date, as of June 30, 2012 and December 31, 2011.



TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish-See Note 2.1)

3.1.3 Liquidity risk (continued)

a) Risk associated to Company's management (continued)

In thousand of Chilean pesos Year	Less than 1 Years	1 to 3 Years	3 to 5 Years	5 to 10 Years	More than 10 years	Total
June 30, 2012	-	142,211,328	192,332,560	-	554,370,320	888,914,208
December 31, 2011	-	196,346,419	133,764,180	-	546,203,735	876,314,334

b) Associated risk to the settlement of trunk transmission system tariff revenues

According to Decree N°4/20.018 from the Ministry of Economy, Fomentation and Reconstruction, in its articles 81, 101, 104 and 106, and complementary rules, Transelec has the right to perceive on a provisory basis the real tariff income (IT for its name in Spanish) of the trunk transmission system generated for every period. In order to get their own revenues set up in the first paragraph of article N°101 of the above mentioned Decree N°4/20.018, the real tariff income perceived on a provisory basis must be settled by Transelec according to the repayment schedule prepared by the respective CDEC (Center of Economic Dispatch of Charge) through the collection or payment to the different companies owner of generation facilities.

Transelec could face the risk of not opportunely collect the IT that some of the companies owners of generation facilities should pay as set up in the repayment schedule of CDEC, which may temporarily affect the liquidity situation of the company . In this sense, and in the opinion of the company, the clearing house work being done by Transelec in respect of the above-mentioned collection consists not in the collection of values for its own benefit, but in the mere collection and payment to third parties of credits and debts that belong to the generating companies.

NOTE 4 - CRITICAL ESTIMATES, JUDGMENTS OR CRITERIA EMPLOYED BY MANAGEMENT

The estimates and criteria used by the Company are continually evaluated and are based on historical experience and other factors, including expectations of future events that are considered reasonable based on the circumstances.

The Company makes estimates and assumptions about the future. By definition, the resulting accounting estimates will rarely be equal to the real outcomes. Estimates and assumptions with a significant risk of causing a material adjustment to the balances of assets and liabilities during the upcoming year are detailed below:

- The estimates of recoverable values of assets and goodwill to determine potential existence of impairment losses;
- Useful lives of property, plant and equipment and intangible assets;
- The assumptions used to calculate the fair value of financial instruments;
- The assumptions used to calculate the actuarial liabilities and obligations to employees;
- Future tax results for the purposes of determining the recoverability of deferred tax assets.



TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 5 - CASH AND CASH EQUIVALENTS

a) As of June 30, 2012 and December 31, 2011, this account is detailed as follows:

Cash and Cash Equivalents	Balance as of	
	June 30, 2012 ThCh\$	December 31, 2011 ThCh\$
Bank and cash balances	2,141,860	646,549
Short-term deposits	28,590,125	54,481,751
Reverse repurchase agreements and mutual funds	15,993,456	9,083,694
Total	46,725,441	64,211,994

Cash and cash equivalents included in the statement of financial position as of June 30, 2012 and December 31, 2011 does not differ from those presented in the statement of cash flows.

b) The following table details the balance of cash and cash equivalents by type of currency:

Detail of Cash and Cash Equivalents	Currency	Balance as of	
		June 30, 2012 ThCh\$	December 31, 2011 ThCh\$
Amount of cash and cash equivalents	U.S. dollars	10,575,149	8,805,706
Amount of cash and cash equivalents	Euros	19,858	19,301
Amount of cash and cash equivalents	Chilean pesos	36,130,434	55,386,987
Total		46,725,441	64,211,994

Fair values are not significantly different from book values due to the short maturity of these instruments.



TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 6 - TRADE AND OTHER RECEIVABLES

As of June 30, 2012 and December 31, 2011, this account is detailed as follows:

Item	Balance as of	
	June 30, 2012 Current ThCh\$	December 31, 2011 Current ThCh\$
Trade receivables	58,297,589	68,911,384
Miscellaneous receivables	570,491	459,412
Total trade and other receivables	58,868,080	69,370,796

Refer to Note 7 for the amounts, terms and conditions of receivables from related parties. As of June 30, 2012 and December 31, 2011, the aging of trade and other receivables is as follows:

	Balance as of	
	June 30, 2012 ThCh\$	December 31, 2011 ThCh\$
Maturing in less than 30 days	35,982,623	47,437,475
Maturing in more than 30 days up to 1 year	22,885,457	21,933,321
Total	58,868,080	69,370,796

The fair values are not significantly different from book values due to the short maturity of these instruments.

On September 13, 2011 the company Campanario Generation SA was declared insolvent and has ceased to pay Transelec SA to September 30, 2011 the amount of ThCh\$ 6,345,762 for tolls and fare revenue

On 13 September 2011, the National Energy Commission (CNE) sent a communication to the “Dirección de Peajes (DP)” of the CDEC-SIC tolls, where they ask to establish procedures DP - Calculation and determination of Economics transfers of energy and where the CNE offers general criteria to consider in the respective DP procedure, based among others in the experience of the insolvency of a generator.

On October 14, 2011, CDEC-SIC issued a new procedure DP - Calculation and Determination of energy efficient transfer. This was challenged by Transelec before the Expert Panel, which by Opinion Number 24-2011 was accepted and the issuance of a new procedure was ordered by the CDEC-SIC, which is pending approval by the CNE.



TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 6 - TRADE AND OTHER RECEIVABLES (continued)

On June 26, 2012, the Expert Panel issued Opinion Number 2-2022 "Calculation of Tolls for Trunk Transmission System Year 2011", in which numeral 3.3.10-Number 2 ordered "the rectification of the annual review report for 2011 which must meet the provisions of the final paragraph of Article Number 101 of the General Law of Electrical Services, in order to ensure that the transmission business receives the compensation defined in paragraph one of same article, and that each user companies that inject and withdraw energy from the system pays to trunk transmission companies according to the percentage of use defined in Article Number 102 ". The opinion stated that Transelec does not have the debtor quality in relation to the payments owed by Campanario Generación S.A. corresponding to the trunk income owed to the surplus generating companies in the system, therefore Transelec should not assume that debt. It further stated that generators should pay Transelec the tariff income until that date, which had not been paid due to the bankruptcy of the company Campanario Generación S.A.

Under the statutory and regulatory history held by the Company, unpaid receivables by the company Campanario Generación S.A. amounted to ThCh\$1,355,760

To date, Transelec has received a figure of around 24% of the claims and as reported by our external advisors, 55% of the verified total will be recovered in bankruptcy.

In consideration of the above, the Company estimates that the provision of doubtful accounts recorded as of June 30, 2012 for ThCh\$ 1,026,284 is sufficient to cover the losses that are not recoverable in the bankruptcy of the company Campanario Generación S.A., for tariff and other income.

The determination and collection of the amounts owed to Transelec by generating companies related to tariff income are subject to reassessment pending the CDEC-SIC.

TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 7 - BALANCES AND TRANSACTIONS WITH RELATED PARTIES

7.1 Balances and transactions with related parties

Transactions between the Company and its subsidiary consist of customary transactions in terms of their objective and conditions. These transactions have been eliminated in the consolidation process and are not presented in this Note.

Balances of receivables and payables between the company and its unconsolidated related companies are detailed as follows:

Receivables to related parties

Taxpayer ID Number	Company	Description	Term of transaction	Relationship	Currency	Balance as of			
						Current		Non-Current	
						June 30, 2012 ThCh\$	December 31, 2011 ThCh\$	June 30, 2012 ThCh\$	December 31, 2011 ThCh\$
76.560.200-9	Transelec Holdings Rentas Electricas Ltda	Mercantile current account	6 months	Parent company	US\$	2,413,121	1,460,395	-	-
76.560.200-9	Transelec Holdings Rentas Electricas Ltda	Mercantile current account	6 months	Parent company	UF	-	1,811,618	-	-
76.560.200-9	Transelec Holdings Rentas Electricas Ltda	Loan	6 months	Parent company	UF	-	-	68,934,259	67,896,855
76.560.200-9	Transelec Holdings Rentas Electricas Ltda	Mercantile current account	N/A	Parent company	CLP	-	900,000	-	-
Total						2,413,121	4,172,013	68,934,259	67,896,855

Payable to related parties

Taxpayer ID Number	Company	Description	Term of Transaction	Relationship	Currency	Balance as of			
						Current		Non-Current	
						June 30, 2012 ThCh\$	December 31, 2011 ThCh\$	June 30, 2012 ThCh\$	December 31, 2011 ThCh\$
76.560.200-9	Transelec Holdings Rentas Electricas Ltda	Loan	5 years and 7 months	Parent company	US\$	-	3,870,835	38,632,693	39,970,247

TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 7 - BALANCES AND TRANSACTIONS WITH RELATED PARTIES (continued)

7.1 Balances and transactions with related parties (continued)

a) Most significant transactions and their effect on income

Transactions with unconsolidated related parties had the following effects on the income statement for the periods June 30, 2012 and December 31, 2011:

Taxpayer ID Number	Company Transaction	Relationship	Description of	June 30, 2012		December 31, 2011	
				ThCh\$		ThCh\$	
				Amount	Effect on	Amount	Effect on
				Income		Income	
76.560.200-9	Transelec Holdings Rentas Ltda.	Parent company	Loans granted	-	-	62,720,714	-
76.560.200-9	Transelec Holdings Rentas Ltda.	Parent company	Loans paid	2,345,863	-	12,290,720	-
76.560.200-9	Transelec Holdings Rentas Ltda.	Parent company	Interest earned	2,366,873	2,366,873	1,890,985	1,890,985
76.560.200-9	Transelec Holdings Rentas Ltda.	Parent company	Interest paid	1,831,044	-	97,295	-

These operations are in accordance with the provisions of Articles No. 44 and 49 of Law No. 18,046, on Corporations.



TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 7 - BALANCES AND TRANSACTIONS WITH RELATED PARTIES (continued)

7.2 Board of Directors and management

In accordance with the Company's by-laws, the Board of Directors of Transelec is composed of nine members appointed by shareholders at the respective shareholders' meeting. They hold their positions for two years and may be re-elected. The current Board of Directors was elected in the Ordinary General Shareholders' Meeting on April 27, 2012. The current Chairman of the Board was elected at Board meeting dated May 24, 2012.

7.2.1 Board of Directors' compensation

As established in Article No. 33 of Law No. 18,046 on Corporations, on the Second Ordinary Shareholders' Meeting of Transelec S.A., held on April 28, 2010, shareholders established annual gross compensation for the Company's Directors of the equivalent of US\$ 70,000, regardless of the number of sessions actually attended or held. Allowances are paid on a quarterly basis.

Directors Jeffrey Blidner, Bruce Hogg, Patrick Charbonneau and Brenda Eaton waived their respective allowances for 2011 and this waiver is maintained for 2012 year. Accordingly, the following compensation was received by directors during the periods 2012 and 2011:

	June 30, 2012	June 30, 2011
	ThCh\$	ThCh\$
Blas Tomic Errázuriz	17,616	16,581
José Ramón Valente Vías	17,616	16,581
Alejandro Jadresic Marinovic	17,616	16,581
Mario Valcarce Duran	17,616	16,581
Bruno Philippi Irrazabal	17,616	16,581

As established in article 8 of its by-laws, the Directors of the Company's subsidiary, Transelec Norte, S.A. do not receive compensation for their services.

7.3 Board expenses

During the periods 2012 and 2011, no payments were made for Board expenses.



TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 7 - BALANCES AND TRANSACTIONS WITH RELATED PARTIES (continued)

7.4 Audit committee

In April 2007, the Company approved creation of an Audit Committee, separate from that established in the Corporations Law. Its functions include, among others, reviewing the reports of the external auditors as well as the Company's balance sheets, other financial statements and internal systems. Transelec's Audit Committee is composed of four Directors, all of whom are qualified in financial matters and apply their specialized knowledge to diverse topics of interest to the Company. Committee members are appointed by the Board of Directors. They hold their positions for two years and may be re-elected. The Committee appoints a Chairman-from among its members-and a Secretary, who may be one of its members or the Secretary of the Board of Directors. The Audit Committee held two meetings in 2012 and two meetings for the periods 2011.

As of June 30, 2012, the Audit Committee members included Chairman José Ramón Valente Vías, Directors Patrick Charbonneau, Mario Alejandro Valcarce Duran and Brenda Eaton and Secretary Fernando Abara Elías. The Committee members are entitled to receive compensation as determined by shareholders at the Ordinary Shareholders' Meeting.

On the Quarter Ordinary Shareholders' Meeting of Transelec S.A., held on April 28, 2011, shareholders established annual gross compensation for the Committee members at US\$ 10,000, regardless of the number of sessions actually attended or held.

The following compensation was received by members of the Audit Committee during 2012 and 2011:

	June 30, 2012	June 30, 2011
	ThCh\$	ThCh\$
Mario Alejandro Valcarce Duran	5,192	-
José Ramón Valente	5,192	4,680

7.5 Compensation of key management that are not Directors

Members of Key Management

Andrés Kuhlmann Jahn	Chief Executive Officer
Eric Ahumada Gomez	Vice-President of Business Development
Francisco Castro Crichton	Vice-President of Finance
Alexandros Semertzakis Pandolfi	Vice-President of Engineering and Construction
Claudio Aravena Vallejo	Vice-President of Human Resources
Fernando Abara Elías	Vice-President of Legal Matters
Rodrigo López Vergara	Vice-President of Operations
Jorge Lagos Rodríguez	Corporate Affairs Manager
Juan Carlos Araneda Tapia	Business Development Manager



TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 7 - BALANCES AND TRANSACTIONS WITH RELATED PARTIES (continued)

7.5 Compensation of key management that are not Directors (continued)

The Company has established an incentive plan for its executives based on meeting certain individual goals that contribute to the Company's results. These incentives are structured as a minimum and maximum number of gross monthly salaries and paid once per year.

Compensation of key management personnel by concept for the periods 2012 and 2011 is detailed as follows:

	June 30, 2012	June 30, 2011
Salaries	758,826	697,015
Short-term employee benefits	286,451	253,929
Long-term employee benefits	170,768	106,476
Total compensation received by key management personnel	1,216,045	1,057,420

NOTE 8 - INVENTORY

As of June 30, 2012 and December 31, 2011 this account is detailed as follows:

Classes of inventory	Balance as of	
	June 30, 2012	December 31, 2011
	ThCh\$	ThCh\$
Safety equipment	39,166	38,111
Total	39,166	38,111

NOTE 9 - FINANCIAL LEASES

9.1 Finance lease receivables

	Balance as of	
	June 30, 2012	December 31, 2011
	ThCh\$	ThCh\$
Current finance leases receivables	462,642	473,555
Non-current finance leases receivables	9,879,400	10,462,445
Total	10,342,042	10,936,000



TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 9 - FINANCIAL LEASES (continued)

9.1 Finance lease receivables (continued)

Within current and non-current other assets receivable, the Company includes assets that have been constructed at the express request of the lessee. Therefore, all risks and benefits have been transferred when the asset is commissioned.

June 30, 2012			
Period in Years	Nominal Value	Interest receivable	Present value
	ThCh\$	ThCh\$	ThCh\$
Less than 1	462,671	379,272	841,943
1-5	1,964,521	1,403,251	3,367,772
Over 5	7,914,850	2,920,135	10,834,985
Total	10,342,042	4,702,658	15,044,700

December 31, 2011			
Period in years	Nominal value	Interest receivable	Present value
	ThCh\$	ThCh\$	ThCh\$
Less than 1	473,555	397,513	871,068
1-5	1,969,704	1,274,312	3,244,016
Over 5	8,492,741	3,392,847	11,885,588
Total	10,936,000	5,064,672	16,000,672

9.2 Operating leases payable

The Company has operating leases contract in which it acts as lessee. Payments under those contracts are recognized in administrative expenses as follows:

	June 30, 2012	June 30, 2011
	ThCh\$	ThCh\$
Real estate lease	274,663	254,800
Other leases	277,347	283,066
Total operating leases	552,010	537,866

The following table details the amounts payable based on the maturity of each agreement.

	Up to 1 year	1 to 5 years	More than 5 Years
	ThCh\$	ThCh\$	ThCh\$
Real estate lease	549,326	2,197,304	-
Other leases	554,694	2,218,776	-
Total operating leases	1,104,020	4,416,080	-



TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 10 - INTANGIBLE ASSETS

The following tables detail the balances within this account as of June 30, 2012 and December 31, 2011:

Intangible assets, net	June 30, 2012	December 31, 2011
	ThCh\$	ThCh\$
Rights of way	153,195,845	148,448,704
Software	881,314	815,158
Goodwill	338,897,614	338,897,614
Total intangible assets, net	492,974,773	488,161,476

Intangible assets, gross	June 30, 2012	December 31, 2011
	ThCh\$	ThCh\$
Rights of way	153,195,845	148,448,704
Software	4,002,896	3,782,694
Goodwill	338,897,614	338,897,614
Total intangible assets	496,096,355	491,129,012

Accumulated amortization and impairment	June 30, 2012	December 31, 2011
	ThCh\$	ThCh\$
Software	(3,121,582)	(2,967,536)
Total accumulated amortization	(3,121,582)	(2,967,536)

TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 10 - INTANGIBLE ASSETS (continued)

The composition and movements of intangible assets during the period 2012 and 2011 are the following:

Period 2012

Movements in intangible assets	Rights of way	Software	Goodwill	Net intangible assets
	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Opening balance as of January 1, 2012	148,448,704	815,158	338,897,614	488,161,476
Movements in identifiable intangible assets				
Additions	4,935,915	223,570	-	5,159,485
Amortization	-	(154,046)	-	(154,046)
Translation difference	(188,774)	(3,368)	-	(192,142)
Ending balance of intangible assets as of June 30 , 2012	153,195,845	881,314	338,897,614	492,974,773

Year 2011

Movements in intangible assets	Rights of way	Software	Goodwill	Net intangible assets
	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Opening balance as of January 1, 2011	139,817,492	955,400	338,897,614	479,670,506
Movements in identifiable intangible assets				
Additions	8,085,483	287,648	-	8,373,131
Transfer to receivables for financial leasing	(11,021)	-	-	(11,021)
Amortization	-	(434,923)	-	(434,923)
Translation difference	36,194	7,033	-	43,227
Increase (decrease)	520,556	-	-	520,556
Ending balance of intangible assets as of December 31, 2011	148,448,704	815,158	338,897,614	488,161,476

Based on estimates made by Management, projections of cash flows attributable to intangible assets allow the carrying value of these assets recorded as of June 30, 2012 and December 31, 2011 to be recovered.



TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 11 - PROPERTY, PLANT AND EQUIPMENT

11.1 Detail of accounts

This account is detailed as follows:

Property, plant and equipment, net	June 30, 2012	December 31, 2011
	ThCh\$	ThCh\$
Land	20,737,268	20,668,591
Buildings and infrastructure	814,639,468	780,897,957
Machinery and equipment	352,978,248	349,626,007
Other property, plant and equipment	2,332,514	1,852,680
Property, plant and equipment, net	1,190,687,498	1,153,045,235

Property, plant and equipment, gross	June 30, 2012	December 31 2011
	ThCh\$	ThCh\$
Land	20,737,268	20,668,591
Buildings and infrastructure	950,162,116	903,866,114
Machinery and equipment	450,743,849	438,028,430
Other property, plant and equipment	2,332,514	1,852,680
Total property, plant and equipment, gross/	1,423,975,747	1,364,415,815

Total accumulated depreciation and impairment, property, plant and equipment, net	June 30, 2012	December 31, 2011
	ThCh\$	ThCh\$
Buildings and infrastructure	(135,522,648)	(122,968,157)
Machinery and equipment	(97,765,601)	(88,402,423)
Total accumulated depreciation and impairment, property, plant and equipment	(233,288,249)	(211,370,580)

TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 11 - PROPERTY, PLANT AND EQUIPMENT (continued)

11.2 Reconciliation of changes in property, plant and equipment

Period 2012		Land	Buildings and infrastructure	Machinery and equipment	Other property, plant and equipment	Property, plant and equipment, net
Opening balance January 1, 2012		20,668,591	780,897,957	349,626,007	1,852,680	1,153,045,235
Movement	Additions	120,003	19,856,712	14,080,335	480,060	34,537,110
	Retirement	-	(90,247)	(305,864)	-	(396,111)
	Depreciation expense	-	(12,373,836)	(10,111,506)	-	(22,485,342)
	Translation adjustment	(51,326)	(1,175,846)	(310,724)	(226)	(1,538,122)
	Other increases (decreases)	-	27,524,728	-	-	27,524,728
Ending balance as of June 30, 2012		20,737,268	814,639,468	352,978,248	2,332,514	1,190,687,498

Year 2011		Land	Buildings and infrastructure	Machinery and equipment	Other property, plant and equipment	Property, plant and equipment, net
Opening balance January 1, 2011		19,949,131	752,861,802	319,851,833	1,890,717	1,094,533,483
Movement	Additions	568,115	42,538,782	50,094,208	5,192	93,206,297
	Retirement	-	(1,732,191)	(1,542,834)	(43,473)	(3,318,498)
	Transfer to receivables for financial leasing	-	(2,198,812)	-	-	(2,198,812)
	Depreciation expense	-	(22,269,924)	(19,771,293)	-	(42,041,217)
	Translation adjustment	151,345	5,533,538	994,093	244	6,679,220
	Other increases (decreases)	-	6,164,762	-	-	6,164,762
Ending balance as of December 31, 2011		20,668,591	780,897,597	349,626,007	1,852,680	1,153,045,235

11.3 Additional information on property, plant and equipment

Transelec has taken out insurance policies to cover possible risks related to its tangible assets as well as possible claims related to its activities that may arise. These policies are understood to sufficiently cover the risks to which the Company is exposed.

As of June 30, 2012 and December 31, 2011, the Company maintained commitments to acquire tangible assets related to EPC construction contracts totaling ThUS\$ 117,880,107 and ThUS\$177,909,784, respectively.

The following table details capitalized interest costs in property, plant and equipment:

	June 30, 2012	June 30, 2011
Capitalization rate (Annual basis) (%)	7.06%	7.89%
Capitalized interest costs (ThCh\$)	1,339,425	2,727,384

Work in progress balances amounts to ThCh\$ 87,618,973 ThCh\$ 165,901,229 and as of June 30, 2012, and June 30, 2011, respectively.



TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 12 - DEFERRED TAXES

12.1 Detail of deferred tax assets and liabilities

The origin of the deferred taxes recorded as of June 30, 2012 and December 31, 2011, is detailed as follows:

Temporal differences	Deferred tax assets		Deferred tax liabilities	
	June 30, 2012	December 31, 2011	June 30, 2012	December 31, 2011
	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Depreciable fixed assets	17,954,077	25,825,245	3,332,306	2,199,478
Forwards contracts	(447,325)	686,126	-	-
Prepaid bond expenses	(1,102,080)	(1,163,314)	-	-
Leased assets	(30,667)	(442,412)	(9,689)	1,425,706
Materials and spare parts	347,351	339,182	-	-
Tax losses	10,597,193	7,295,460	-	-
Staff severance indemnities provision	(6,286)	(63,367)	-	-
Deferred income	529,316	426,019	-	-
Investment value provision	8,157	8,157	-	-
Lawsuit provision	38,258	37,794	(25,310)	(26,341)
Obsolescence provision	9,250	14,256	-	-
Assets under construction	662,477	844,357	-	-
Vacation provisions	192,972	128,221	-	-
Intangible assets	(9,005,177)	(9,285,626)	(227,190)	139,797
Adjustment of effective interest rate of bonds	(1,332,955)	(1,349,402)	-	-
Land	264,944	214,721	134,581	(235,996)
Allowance for Doubtful Recivables	174,467	174,467	-	-
Total	18,853,972	23,689,884	3,204,698	3,502,644



TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 12 - DEFERRED TAXES (continued)

12.2 Deferred tax movements in statement of financial position

The movements of balances of deferred taxes in the consolidated statement of financial position for the periods 2012 and 2011 are as follows:

Deferred tax movements	Asset	Liability
	ThCh\$	ThCh\$
Balance as of January 1, 2011	30,931,637	3,249,021
Increase (decrease)	(7,241,753)	(101,748)
Translation adjustment	-	355,371
Balance as of December 31, 2011	23,689,884	3,502,644
Increase (decrease)	(4,835,912)	(181,565)
Translation adjustment	-	(116,381)
Balance as of June 30, 2012	18,853,972	3,204,698

Recovery of deferred tax assets will depend on whether sufficient tax profits are obtained in the future. Based on its projections the Company believes that its future profits will allow these assets to be recovered.

NOTE 13 - FINANCIAL LIABILITIES

13.1 Other financial liabilities

The current and non-current portion of this account as of June 30, 2012 and December 31, 2011 is as follows:

Interest bearing loans	June 30, 2012		December 31, 2011	
	Current	Non- current	Current	Non- current
	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Bonds payable	7,729,555	874,708,279	7,737,562	861,758,340
Total bonds payable	7,729,555	874,708,279	7,737,562	861,758,340
Forward contract	-	-	165,199	-
Total	7,729,555	874,708,279	7,902,761	861,758,340

TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 13 - FINANCIAL LIABILITIES (continued)

13.2 Detail of other financial liabilities

The detail of other financial liabilities is as follows:

Instrument registration number	Series	Nominal amount placed outstanding	Indexation unit	Nominal interest are	Effective interest rate	Final maturity	Periodicity		Par value		Placement in Chile or abroad
							Interest payments	Principal payments	June 30, 2012	December 31, 2011	
									ThCh\$	ThCh\$	
481	C	6,000,000	UF	3.50%	4.03%	09.09.2016	Semiannually	At the end	1,761,108	1,731,578	Chile
480	D	13,500,000	UF	4.25%	4.37%	12.15.2027	Semiannually	At the end	1,049,386	1,104,929	Chile
598	E	3,300,000	UF	3.90%	3.82%	08.01.2014	Semiannually	At the end	1,169,347	1,160,326	Chile
598	F	33,600,000,000	CLP	5.70%	5.79%	08.01.2014	Semiannually	At the end	789,818	794,901	Chile
599	H	3,000,000	UF	4.80%	4.79%	08.01.2031	Semiannually	At the end	1,329,674	1,318,974	Chile
598	I	1,500,000	UF	3.50%	3.79%	09.01.2014	Semiannually	At the end	420,864	414,171	Chile
599	K	1,600,000	UF	4.60%	4.61%	09.01.2031	Semiannually	At the end	547,176	539,172	Chile
598	L	2,500,000	UF	3.65%	3.92%	12.15.2015	Semiannually	At the end	178,789	181,769	Chile
599	M	1,500,000	UF	4.05%	4.26%	06.15.2032	Semiannually	At the end	114,242	116,222	Chile
599	M-1	1,900,000	UF	4.05%	4.23%	06.15.2032	Semiannually	At the end	144,986	147,493	Chile
599	N	3,000,000	UF	3.95%	4.29%	12.15.2038	Semiannually	At the end	224,165	228,027	Chile
Total – short – term portion									7,729,555	7,737,562	
Forward contracts									-	165,199	
Total current									7,729,555	7,902,761	

TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 13 - FINANCIAL LIABILITIES (continued)

13.2 Detail of other financial liabilities (continued)

Instrument registration number	Series	Nominal amount placed outstanding	Indexation unit	Nominal interest are	Effective interest rate	Final maturity	Periodicity		Par value		Placement in Chile or abroad
							Interest payments	Principal payments	June 30, 2012	December 31, 2011	
									ThCh\$	ThCh\$	
481	C	6,000,000	UF	3.50%	4.03%	09.09.2016	Semiannually	At the end	132,874,111	130,646,110	Chile
480	D	13,500,000	UF	4.25%	4.37%	12.15.2027	Semiannually	At the end	300,944,624	296,386,272	Chile
598	E	3,300,000	UF	3.90%	3.82%	08.01.2014	Semiannually	At the end	74,811,460	73,735,682	Chile
598	F	33,600,000,000	CLP	5.70%	5.79%	08.01.2014	Semiannually	At the end	32,951,191	33,523,950	Chile
599	H	3,000,000	UF	4.80%	4.79%	08.01.2031	Semiannually	At the end	67,097,717	66,915,067	Chile
598	I	1,500,000	UF	3.50%	3.79%	09.01.2014	Semiannually	At the end	34,291,680	33,171,042	Chile
599	K	1,600,000	UF	4.60%	4.61%	09.01.2031	Semiannually	At the end	36,982,101	35,635,957	Chile
598	L	2,500,000	UF	3.65%	3.92%	12.15.2015	Semiannually	At the end	55,991,683	55,101,096	Chile
599	M	1,500,000	UF	4.05%	4.26%	06.15.2032	Semiannually	At the end	32,950,644	32,449,304	Chile
599	M-1	1,900,000	UF	4.05%	4.23%	06.15.2032	Semiannually	At the end	41,628,034	40,992,954	Chile
599	N	3,000,000	UF	3.95%	4.29%	12.15.2038	Semiannually	At the end	64,185,034	63,200,906	Chile
Total long term									874,708,279	861,758,340	

The fair value of current and non-current bonds payable, both secured and unsecured, amounts to ThCh\$ 915,822,467 and ThCh\$ 873,531,935 as of June 30, 2012 and December 31, 2011, respectively.

The fair value of the bonds is estimated by discounting future cash flows using discount rates available for debt with similar terms of credit risk and similar maturities.



TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 13 - FINANCIAL LIABILITIES (continued)

13.3 Hedge debt

As of June 30, 2012 and December 31, 2011, this account is detailed as follows:

	June 30, 2012	December 31, 2011
Exchange rate differences recorded in equity	32,552	130,034
Cash flow hedge	176,316	(137,115)
Net investment hedge	1,381,440	1,162,191
Balance of reserves at the end of the year	1,590,308	1,155,110

13.4 Other aspects

As of June 30, 2012, Transelec had short-term and long-term lines of credit available for ThCh\$7,527,600, while it had short-term lines available for ThCh\$98,034,090 as of December 31, 2011.

Many of the Company's debt agreements include an obligation to comply with certain covenants, including financial ratios, which is customary for agreements of this nature. This also includes affirmative and negative obligations that require these commitments to be monitored.

NOTE 14 - TRADE AND OTHER PAYABLES

Trade and other payables as of June 30, 2012 and December 31, 2011 are detailed as follows:

Trade and other payables	Current		Non- current	
	June 30, 2012	December 31, 2011	June 30, 2012	December 31, 2011
	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Trade and other payables	69,234,076	90,936,736	-	-
Total	69,234,076	90,936,736	-	-

The average payment period for suppliers in 2012 was 30 days and, therefore, the fair value of these liabilities does not differ significantly from their book value.

TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 15 - DERIVATIVE INSTRUMENTS

In adhering to its risk management policy, Transelec enters primarily into exchange rate derivatives (see Note 3). The Company classifies its derivatives as:

- Cash flow hedging instruments: Those that hedge the cash flows of the hedged underlying item.
- Non-hedge derivatives: Those that do not meet the requirements established by IFRS and thus do not qualify for hedge accounting.

15.1 Hedge assets and liabilities

	June 30, 2012				December 31, 2011			
	Asset		Liability		Asset		Liability	
	Current	Non - current	Current	Non - current	Current	Non - current	Current	Non - current
	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Cash flow Hedge	218,202	-	-	-	-	-	165,199	-
Hedge Forwards	1,889,004	-	-	-	-	-	3,026,289	-
Non-hedge Forwards	524,117	-	-	-	-	-	844,546	-
Total	2,631,323	-	-	-	-	-	4,036,034	-

15.2 Other Information

The following table details Transelec's derivatives as of June 30, 2012 and December 31, 2011, including their fair values as well as their notional and contractual values by maturity:

Financial derivatives	Fair value	Fair value							June 30, 2012
		Before 1 year	2013	2014	2015	2016	2017	Subsequent years	Total
		ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Cash flow hedge	218,202	218,202	-	-	-	-	-	-	218,202
Hedge Forwards	1,889,004	1,889,004	-	-	-	-	-	-	1,889,004
Non-hedge swaps	524,117	524,117	-	-	-	-	-	-	524,117

Financial derivatives	Fair value	Fair value							December 31, 2011
		Before 1 year	2012	2013	2014	2015	2016	Subsequent years	Total
		ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Cash flow hedge	165,199	165,199	-	-	-	-	-	-	165,199
Non - hedge forwards	3,026,289	3,026,289	-	-	-	-	-	-	3,026,289
Non - hedge swaps	844,546	844,546	-	-	-	-	-	-	844,546

The contractual notional amount of these contracts does not represent the risk assumed by Transelec as it is only in response to the basis with which derivative settlements are calculated. In the periods presented, June 30, 2012 and December 31, 2011, Transelec had not recognized any gains or losses for ineffectiveness of cash flow hedges.

TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 15 - DERIVATIVE INSTRUMENTS (continued)

15.2 Other Information (continued)

Derivatives are valued considering valuation techniques which include observable data. The most commonly used valuation techniques include forward pricing and swap valuation models using present value calculations. The models include several inputs including the credit risk of the counterparty, foreign exchange spot rate, forward rates and interest rate curves.

15.3 Fair value hierarchies

Financial instruments recognized at fair value in the statement of financial position are classified based on the following hierarchies: (a) Level 1: Quoted (unadjusted) price in an active market for identical assets and liabilities, (b) Level 2: Inputs other than quoted prices included in Level 1 that are observable for assets or liabilities, either directly (i.e. as a price) or indirectly (i.e. as a derivative of a price); and (c) Level 3: Inputs for assets or liabilities that are not based on observable market information (non-observable inputs).

The following table details financial assets and liabilities measured at fair value as of June 30, 2012.

Financial instrumental measured at fair value	Fair value measured at the end of the reporting period using			
	June 30, 2012	Level 1 ThCh	Level 2 ThCh\$	Level 3 ThCh\$
Financial asset				
Cash flow derivate	218,202	-	218,202	-
Hedge Forward	1,889,004	-	1,889,004	
Non hedge Forward	524,117	-	524,117	-
Total	2,631,323	-	2,631,323	-

The following table details financial assets and liabilities measured at fair value as of December 31, 2011.

Financial instruments measured at fair value	Fair value measured at the end of the reporting period using			
	December 31, 2011	Level 1 ThCh\$	Level 2 ThCh\$	Level 3 ThCh\$
Cash flow derivative	165,199	-	165,199	-
Total	3,026,289	-	3,026,289	-
Financial liabilities	844,546	-	844,546	-
Total	4,036,034	-	4,036,034	-



TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 16 - PROVISIONS

16.1 Detail of provisions

As of June 30, 2012 and December 31, 2011 this account is detailed as follows:

Detail	Current		Non-current	
	June 30, 2012 ThCh\$	December 31, 2011 ThCh\$	June 30, 2012 ThCh\$	December 31, 2011 ThCh\$
Staff severance indemnities	605,363	375,151	3,228,404	3,481,742
Accrued vacations	1,135,132	1,300,932	-	-
Profit sharing benefits	2,486,251	3,004,270	9,530	9,530
Other provisions	474,025	439,330	-	-
Total	4,700,771	5,119,683	3,237,934	3,491,272

16.2 Provision movements

In 2012 and 2011, provision movements were the following:

Movements in provisions	Staff severance indemnities	Profit sharing benefits	Accrued vacations	Other provision	Total
	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Beginning balance as of January 1, 2012	3,856,383	3,014,310	1,300,932	439,330	8,610,955
Movements in provisions:					
Provisions during the year	310,658	2,102,312	395,242	34,695	2,842,907
Other rate increase (decrease)	-	-	-	-	-
Payments	(333,274)	(2,620,841)	(561,042)	-	(3,515,157)
Ending balance as of June 30, 2012	3,833,767	2,495,781	1,135,132	474,025	7,938,705

Movements in provisions	Staff severance indemnities	Profit sharing benefits	Accrued vacations	Other provisions	Total
	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Beginning balance as of January 1, 2011	3,928,161	2,794,087	898,556	363,758	7,984,562
Movements in provisions:					
Provisions during the year	637,340	683,253	1,123,802	75,572	2,519,967
Other rate increase (decrease)	-	-	-	-	-
Payments	(709,118)	(463,030)	(721,426)	-	(1,893,574)
Ending balance as of December 31, 2011	3,856,383	3,014,310	1,300,932	439,330	8,610,955

TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 16 - PROVISIONS (continued)

16.2 Provision movements (continued)

The maturity of these provisions is detailed in the table below:

As of June 30, 2012

Detail	Less than 1 year	More than 1 year and up to 3 years	More than 3 years and up to 5 years	More than 5 years
Staff severance indemnities	605,363	424,978	515,176	2,288,250
Accrued vacations	1,135,132	-	-	-
Profit sharing benefits	2,486,251	9,530	-	-
Other provisions	474,025	-	-	-
Total	4,700,771	434,508	515,176	2,288,250

As of December 31, 2011

Detail	Less than 1 year	More than 1 year and up to 3 years	More than 3 years and up to 3 years	More than 5 years
Staff severance indemnities	375,151	424,978	515,176	2,541,588
Accrued vacations	1,300,930	-	-	-
Profit sharing benefits	3,004,272	9,530	-	-
Other provisions	439,330	-	-	-
Total	5,119,683	434,508	515,176	2,541,588

16.3 Lawsuits and arbitration proceedings

TRANSELEC S.A.

1. – Charges presented by the Superintendency of Electricity and Fuels (SEC) for failure on January 13, 2003. **Fine applied:** : UTA 1120 (one thousand one hundred and twenty annual tax units) equal to to ThCh\$ 533,420 as of June 30, 2012. **Current status:** resource legal claim being brought, the Court of Appeals of Santiago (5666-09 Role) was hosted by judgment dated 09.07.12 which stated the decay of the administrative sanction. SEC appealed and is pending the hearing of the case in the Supreme Court. Probable outcome: Given the Court’s historical behavior in similar cases , the most likely scenario is the confirmation of the of first instance judgment.
2. - Charges presented by the Superintendency of Electricity and Fuels (SEC), for failure on December 4, 2006. Amount of fine: UTA 100 (one hundred annual tax units) equal to ThCh\$ 47,627 as of June 30, 2012. Current status: complaint appeal was filed before the Santiago Court of Appeals (Docket 4470-2011) for rejection of prior resource of invalidation, which was rejected. An appeal of complaint was subsequently filed against the Santiago Court of Appeals of Santiago, which was not accepted. Result: Judgment is final and enforceable. The fine is in payment process.

NOTE 16 - PROVISIONS (continued)

16.3 Lawsuits and arbitration proceedings (continued)

3. - Charges presented by the Superintendency of Electricity and Fuels (SEC), for failure of the day June 28, 2010 (S / E High Jahuel). Fine applied: UTA 100 (one hundred annual tax units) equal to 30 June 2012 as of ThCh\$ 47,627. Current situation: As the motion for reconsideration filed with the SEC was rejected, Transelec filed an appeal before the Santiago Court of Appeals,, which was rejected. Result: Judgment is final and enforceable. Fine in process of payment.
4. - Charges presented by the Superintendency of Electricity and Fuels (SEC), for failure on March 14, 2010. Fine applied: UTA 1645 (one thousand six hundred forty-five units per year tax) equal to ThCh\$ 783,461 as of June 30, 2012. Current situation: As the motion for reconsideration filed with the SEC was rejected, Transelec filed an appeal before the Santiago Court of Appeals,) which has not been ruled on as of June 30, 2012. Probable result: Given the Court's historical behavior in similar cases the most likely scenario is that the fine will be upheld
5. - Charges presented by the Superintendency of Electricity and Fuels (SEC), for failure on 30 October 2010. (S / E Cardones). Fine applied: UTA 100 (one hundred annual tax units) equal to ThCh\$ 47,627 as of June 30, 2012. Current situation: As the motion for reconsideration filed with the SEC was rejected, Transelec filed an appeal before the Santiago Court of Appeals). On July 27, 2012, the Court of Appeals rejected the appeal. Appeal deadline expires on August 8, 2012. Probably result: Given the Court's historical behavior in similar cases the most likely scenario is that the fine will be upheld.
- 6- Regarding the delay in commissioning the Rodeo-Chena project, and in accordance with the bidding terms and conditions, which stipulate a fine of US\$30,000 per day of delay with a maximum of 60 days, and given that on various occasions authorities have rejected the Company's arguments that this delay should qualify as force majeure, a provision has been established for this fine of US\$2,113,500.

As of June 30, 2012 the Company has established a provision for these contingent obligations of ThCh\$ 2,621,705. This estimation considers the fact that similar cases are being heard in the Court of Appeals Court, and that the Court of Appeals and Supreme Court have upheld the SEC's decision in similar cases. In addition, there are similar cases with a motion for reconsideration before the SEC for which the SEC has normally maintained the previously established fine.

7. - As of June 30, 2012, the company Campanario Generación S.A. has not fulfilled its obligation to pay invoices issued by Transelec for the injection and withdrawal balances issued by the CDEC-SIC in June, July, August and September 2011. On August 3, 2011, Transelec notified the SEC of this company's failure to comply with its obligation so it could adopt legally appropriate measures.

In order to collect the funds owed by Campanario Generación S.A., on August 12, 2011, Transelec S.A. filed a preparatory invoice notification measure against that company before the 5th Civil Court of Santiago for unpaid invoices totaling ThCh\$ 6,285,171.

On September 13, 2011, Campanario Generación S.A. was declared bankrupt by the 6th Civil Court of Santiago.

In this bankruptcy proceeding, Transelec claimed \$ 14,688,235,160 (U.S.dollars \$ 28.13 million), which includes value added tax VAT, of Th\$ 2,345,064, plus principal, interest, and costs adjustment.



TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 16 - PROVISIONS (continued)

16.3 Lawsuits and arbitration proceedings (continued)

By Exempt Resolution No. 2288 dated August 26, 2011, the SEC ordered the CDEC-SIC to exclude the Company from the Balance of Energy and Power which is made to calculate tariff revenues (IT). In compliance with the order, CDEC-SIC issued a new procedure, which was approved by the National Energy Commission (CNE). Transelec S.A. impugned the proceedings before the Panel of Experts, which in Opinion No. 24-2011 ordered the issuance of a new procedure by the CDEC-SIC that still requires an approval by the CNE.

In relation with the final tolls and IT for 2011, the CDEC-SIC issued the corresponding settlement, which was also impugned by Transelec to the Panel of Experts, which through Opinion No. 2-2012 ordered CDEC-SIC to determine new settlements of tolls and final IT for 2011, declaring that Transelec S.A. has no liability make the payments of amounts owed by Campanario Generación S.A. to generators, also that they must pay the IT related to Campanario Generación S.A. to Transelec S.A. The distribution of the amounts already recovered by Transelec S.A. in the bankruptcy (ThCh\$ 3,161,082) will be determined through this new settlement that is still pending to be determined.

In the bankruptcy proceedings the assets of Campanario Generación S.A. were liquidated and an amount of US\$ 86.6 million was recovered through a sale. According to the opinion of our external lawyers (Philippi), those proceeds will be sufficient to cover approximately 55% of the verified debt of Campanario Generación S.A.

In connection with this case, the SEC presented charges against Transelec S.A., accusing it of having broken the chain of payments in the system. Transelec S.A. responded the charges and after obtaining a favorable opinion from the Panel of Experts, made a presentation to the SEC requesting to set aside the punitive process.

- 8.-In relation with this case (Campanario Generación S.A.), dated May 29, 2012, Transelec was notified of the lawsuit filed by a group of generators, led by Colbun SA, seeking the recovery of ThCh\$ 1,374,898 from Transelec S.A. which corresponds to a debt of Campanario Generación S.A. consequence of its default. Transelec S.A. defense is to show that, as stated by the Panel of Experts in its Opinion No. 2-2012 cited above, it does not assume the payment of an obligation to a third party, in this case Campanario Generación S.A., as Transelec S.A. did not participate as a debtor in the "Balance of Injections and Withdrawals of Energy and Power" prepared by the CDEC-SIC, and only acts as collector of such settlements.

TRANSELEC NORTE S.A. (Subsidiary)

Charges presented by the Superintendency of Electricity and Fuels (SEC) for failure on January 12, 2009. Fine applied: UTA 300 (three hundred annual tax units), equivalent to ThCh\$ 142,880 as of June 30, 2012. Current situation: the claim appeal brought against the sanction resolution was rejected by the Court of Appeals and confirmed the fine against the Company. Probable outcome: The fine is final and enforceable and payment process and perception of the Treasury of the Republic.

As of June 30, 2012, Transelec Norte S.A. has established a provision for this contingent obligation of ThUS\$ 296.

TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 17 - POST-EMPLOYMENT AND OTHER BENEFIT OBLIGATIONS

17.1 Detail of account

Post-employment and other benefit obligations	June, 30 2012 ThCh\$	December 31, 2011 ThCh\$
Staff severance indemnity provision – current	605,363	375,151
Staff severance indemnity provision non – current	3,228,404	3,481,742
Total current and non-current obligations for post-employment benefits	3,833,767	3,856,893

17.2 Detail of post-employment and other similar obligations

As of June 30, 2012 and December 31, 2011, this account is detailed as follows:

Post-employment and other benefits obligations	Staff severance indemnity	
	June 30, 2012 ThCh\$	December 31, 2011 ThCh\$
Present value of defined benefit plan obligations opening balance	3,856,893	3,928,161
Current service cost of defined benefit plan obligations	174,835	277,610
Interest cost of defined benefit plan obligations	135,313	360,240
Payments	(333,274)	(709,118)
Present value of defined benefit obligations ending balance	3,833,767	3,856,893

17.3 Balance of post-employment and other similar obligations

	Staff severance indemnity	
	June 30, 2012 ThCh\$	December 31, 2011 ThCh\$
Present value of defined benefit obligations, ending balance	3,833,767	3,856,893
Present obligation with defined benefit plan funds	3,833,767	3,856,893
Fair value of defined benefit plan assets, ending balance	-	-
Net actuarial gains/losses not recognized in balance sheet	-	-
Balance of defined benefit obligations, ending balance	3,833,767	3,856,893



TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 17 - POST-EMPLOYMENT AND OTHER BENEFIT OBLIGATIONS (continued)

17.4 Expenses recognized in income statement

	Staff severance indemnity		Income statement line item where recognized
	January 1, 2012 to June 30, 2012 ThCh\$	January 1, 2011 to June 30, 2011 ThCh\$	
Current service cost of defined benefit plan	174,835	36,487	Cost of sales Administrative and sales expenses
Interest cost of defined benefit plan	135,313	50,234	Cost of sales Administrative and sales expenses
Total expense recognized in income statement	310,148	86,721	

17.5 Actuarial hypothesis

Detail	June 30, 2012 ThCh\$	December 31, 2011 ThCh\$
Discount rate used	3.2%	3.2%
Inflation rate	4%	4%
Future salary increase	2.0%	2.0%
Mortality table	B-2006	B-2006
Disability table	PDT1985-Category II	
Rotation table	ESA-77	

Assumptions for future mortality rates are based on actuarial data consulting provided in accordance with published statistics and historical experience.



TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 18 - EQUITY

18.1 Subscribed and paid capital

As of June 30, 2012 and December 31, 2011, authorized, subscribed and paid share capital amounts to ThCh\$857,944,548.

18.2 Number of subscribed and paid shares

	Number of shares subscribed	Number of shares paid	Number of shares with voting rights
Sole series	1,000,000	1,000,000	1,000,000

No shares have been issued or redeemed in the years covered by these financial statements.

18.3 Dividends

On April 28, 2011 shareholders approved distribution of a final dividend for the year 2010 of \$19,815,903,600 equivalent to \$19,815.9036 per share, to be paid beginning December 31, 2010. At June 30, this dividend was fully paid.

On May 18, 2011, the distribution of interim dividend from the year 2011 was approved for Ch\$12,550,000,000 equivalent to Ch\$ 12,550 per share. At June 30, 2011, this dividend was paid in full.

On April 27, 2012, the Company held its regular meeting of shareholders, in which it was agreed to unanimously approve a final dividend for the year 2011 for the sum of Ch\$ 20,789,620,729, dividend to be paid from 28 May 2012. It was also agreed to distribute a dividend corresponding to retained earnings for 2008 for Ch\$ 41,148,907,284, which shall be paid in three installments during the year 2012, the first one for a total amount of \$ 13,000,000,000 in the same opportunity that 2011 dividend and on the other two installments, the Board is empowered to set the date and amount to be distributed at each opportunity. As of June 30, 2012 an amount of \$ 33,789,620,729, have been paid and dividends payable amounts to \$ 28,148,907,284. The balance payable is included in Other non-financial liabilities current as of June 30, 2012.



TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 18 - EQUITY (Continued)

18.4 Other reserves

Other reserves as of June 30, 2012 and December 31, 2011 are detailed as follows:

Description	June 30, 2012 ThCh\$	December 31, 2011 ThCh\$
Translation adjustment	39,942	130,034
Hedge Forwards	1,709,960	1,426,863
Cash flow hedge	218,202	(165,198)
Deferred taxes	(377,796)	(236,589)
Total	1,590,308	1,155,110

18.5 Capital management

Capital management refers to the Company's administration its equity.

The capital management policy of Transelec S.A. and subsidiary is aimed at maintaining adequate capitalization levels to sustain operations and provide sensible leverage, thus optimizing shareholder returns and maintaining a sound financial position.

Capital requirements are determined based on the Company's financing needs, taking care to maintain an adequate level of liquidity and complying with financial covenants established in current debt contracts. The Company manages its capital structure and makes adjustments based on prevailing economic conditions in order to mitigate risks from adverse market conditions and take advantage of any opportunities that may arise to improve its liquidity position.

The principal financial covenants established in current debt contracts related to capital requirements are:

- Maintain individual and consolidated indebtedness levels (Total Equity/Total Capitalization and Total Debt/Total Capital) no greater than 0.7 based on the definitions of these terms in the respective prospectuses.
- Maintain minimum individual and consolidated equity of fifteen million UF equivalents to ThCh\$ 339,410,400 as of June 30, 2012.

As of the date of issuance of these financial statements, the Company was in compliance with all financial covenants established in its current debt contracts.



TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 19 - INCOME

19.1 Revenue

The following table details revenue for the six month periods ended June 30, 2012 and 2011:

Revenue	For the six months ended	
	June 30, 2012 ThCh\$	June 30, 2011 ThCh\$
Regulated revenues	46,153,132	37,801,366
Contractual revenues	61,455,009	54,705,230
Total revenues	107,608,141	92,506,596

19.2 Other operating income

The following table details operating income for the six month periods ended June 30, 2012 and 2011:

Other operating income	For the six months ended	
	June 30, 2012 ThCh\$	June 30, 2011 ThCh\$
Financial income	2,866,680	1,608,995
Other income	535,970	883,066
Total other operating income	3,402,650	2,492,061



TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 20 - RELEVANT INCOME STATEMENT ACCOUNTS

20.1 Expenses by nature

Detail	For the six months ended	
	June 30, 2012 ThCh\$	June 30, 2011 ThCh\$
Personnel expenses	7,880,360	6,463,335
Operating expenses	12,778,187	7,237,875
Maintenance expenses	1,871,273	1,829,916
Depreciation	22,917,524	21,430,149
Other	1,212,136	1,135,681
Total	46,659,480	38,096,956

20.2 Personnel expenses

As of June 30, 2012 and 2011, this account is detailed as follows:

Detail	For the six months ended	
	June 30, 2012 ThCh\$	June 30, 2011 ThCh\$
Salaries and wages	7,780,101	6,647,219
Short-term employee benefits	603,236	283,123
Staff severance indemnity	310,149	86,269
Other long-term benefits	587,093	286,020
Other personnel expenses	2,374,372	2,267,356
Expenses capitalized on construction in progress	(3,774,591)	(3,106,652)
Total	7,880,360	6,463,335

20.3 Depreciation and amortization

The following table details depreciation and amortization for the periods ended June 30, 2012 and 2011:

Detail	For the six months ended	
	June 30, 2012 ThCh\$	June 30, 2011 ThCh\$
Depreciation	22,485,342	21,076,342
Amortization	154,046	230,301
Losses from damages	278,136	123,506
Total	22,917,524	21,430,149



TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 20 - RELEVANT INCOME STATEMENT ACCOUNTS (continued)

20.4 Financial results

The Company's financial result for the periods ended June 30, 2012 and 2011 is detailed as follows:

Detail	June 30, 2012 ThCh\$	June 30, 2011 ThCh\$
Financial income:	2,866,680	1,608,995
Commercial interest earned	53,032	-
Bank interest earned	1,324,350	1,011,633
Interest earned related parties	1,334,759	-
Other income	154,539	597,362
Financial expenses:	(18,191,105)	(16,762,634)
Interest and bond expenses	(17,113,350)	(16,557,940)
Commercial interest earned	(163,483)	-
Interest paid related parties	(798,930)	-
Mark-to-market of swaps	-	(204,694)
Other expenses	(115,342)	-
Gain (loss) from indexation of UF	(11,462,910)	(13,690,382)
Foreign exchange gains (losses), net	200,152	(882,269)
Positive	2,829,981	1,414,572
Negative	(2,629,829)	(2,296,841)
Total financial result, net	(26,587,183)	(29,726,290)

NOTE 21 - INCOME TAX RESULT

The following table reconciles income taxes resulting from applying statutory tax rate to the "Profit Before Taxes" to the income tax expense recorded in the Consolidated Income Statement for the periods 2012 and 2011:

Income tax expense (income)	June 30, 2012 ThCh\$	June 30, 2011 ThCh\$
Current tax expense	463,792	448,231
Tax benefit arising from previously unrecognized tax assets used to reduce current tax expenses	-	-
Adjustments to current tax of prior period	-	-
Other current tax expenses	-	-
Current tax expense, net, total	463,792	448,231
Deferred tax expense relating to origination and reversal of temporary differences	4,316,514	2,653,257
Other deferred tax expense	-	-
Deferred tax expense, net, total	4,316,514	2,653,257
Effect of change in tax situation of the entity or its shareholders	-	-
Income tax expense	4,780,306	3,101,488



TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 21 - INCOME TAX RESULT (continued)

Reconciliation of Tax Expense Using Statutory Rate with Tax Expense

Using Effective Rate	June 30, 2012 ThCh\$	June 30, 2011 ThCh\$
Tax expense at statutory rate	(6,456,028)	(5,113,283)
Price level restatement of equity	1,608,294	2,953,810
Effect of change in income tax rate	387,556	(653,246)
Other differences	(320,128)	(288,769)
Total adjustments to tax expense using statutory rate	1,675,722	2,011,795
Tax Expense at effective Rate	(4,780,306)	(3,101,488)

	June 30, 2012 ThCh\$	June 30, 2011 ThCh\$
Statutory Tax Rate	18.50%	20.00%
Other Increase (Decrease) in Statutory Tax Rate	(4.80)%	(7.87)%
Adjustments to Statutory Tax Rate, Total	(4.80)%	(7.87)%
Effective Tax Rate	13.70%	12.13%

The tax rate used for the years 2012 and 2011 reconciliations corresponds to the 18.5% and 20%, respectively, corporate tax rate that entities should pay on taxable profits based on current tax regulations.

NOTE 22 - EARNINGS PER SHARE

Basic earnings per share is calculated by dividing profit attributable to the Company's shareholders by the weighted average number of common shares in circulation during the year excluding, if any, common shares purchased by the Company and maintained as treasury shares.

Basic Earnings per Share	June 30, 2012 ThCh\$	June 30, 2011 ThCh\$
Profit attributable to equity holders of parent	30,117,142	22,464,928
Earnings available to common shareholders, basic	30,117,142	22,464,928
Total basic shares	1,000,000	1,000,000
Basic earnings per share	30,117	22,465

There are no transactions or concepts that create a dilutive effect.



TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 23 - SEGMENT REPORTING

The Company and its subsidiary engage exclusively in providing services related to electricity transmission. To provide such services, they possess assets throughout the country that form the Transelec transmission system, stretching 3,168 kilometres from the Arica y Parinacota Region to the Los Lagos Region.

Electricity transmission service falls under the legal framework that governs the electricity sector in Chile. This framework defines transmission systems and classifies transmission facilities into three categories (the trunk transmission system, the subtransmission system and additional systems), establishing an open access scheme for the first two systems and allowing additional lines that use rights of way and have national assets for public use along their paths to be used by third parties under non-discriminatory technical and economic conditions. The law also sets criteria and procedures for determining compensation that transmission facility owners are entitled to receive.

Transelec's revenue from the trunk system consists of the "annual transmission value per segment" (VATT for its Spanish acronym), which is calculated every 4 years based on the "annual investment value" (AVI for its Spanish acronym), plus "operating, maintenance and administrative costs" (COMA for its Spanish acronym) for each trunk system segment.

The annual subtransmission system value (VASTX for its Spanish acronym) is calculated every four years. It is based on the valuation of facilities that are economically adapted to demand and consists of standard investment, maintenance, operating and administrative costs, plus average energy and capacity losses of the adapted facilities.

Revenue from additional systems is established in private contracts with third parties, which are principally generators and users that are not subject to price regulation. The main objective of the additional systems is to enable generators to inject their production into the electricity system and to allow large customers to make withdrawals.

The law distinguishes between the different systems in order to ensure that tariffs are appropriate for each case. Nevertheless, facilities of a given voltage (220 KV, for example) are identical, whether trunk, subtransmission or additional. Thus, a 220 KV facility requires a given type of maintenance, fundamentally because of its geographic location, its proximity to the ocean, the climate, etc., but in no case does this maintenance depend on whether that 220 KV facility is trunk, subtransmission or additional. Precisely the same happens with operating costs: operations are executed by the corresponding CDEC regardless of whether that 220 KV facility is trunk, subtransmission or additional. Thus, for Transelec this classification into trunk, subtransmission or additional systems is merely for tariff purposes and has no other consequences.

The Company's management analyzes its business as a set of transmission assets that enables it to provide services to its customers. As a result, resource allocation and performance measurements are analyzed in aggregate.



TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 23 - SEGMENT REPORTING (continued)

Internal management takes into account this classification criterion for revenue and costs merely for descriptive purposes but in no case for business segmentation.

As a result, for the purposes of applying IFRS 8, all of the businesses described above are defined as one sole operating segment for Transelec S.A.

Information about products and services

	June 30, 2012 ThCh\$	June 30, 2011 ThCh\$
Regulated revenues	46,153,132	37,801,366
Contractual revenues	61,455,009	54,705,230
Total revenues	107,608,141	92,506,596

Information about sales and principal customers

The company has three customers individually representing more than 10% of total revenues at June 30, 2012. The amount recognized in income from these customers amounted to ThCh\$ 55,897,642, ThCh\$ 20,318,514 and ThCh\$ 14,592,706 as of June 30, 2012. As of June 30, 2011 the Company had two customers that individually exceeded 10% of total revenues. The amount recognized in income for these customers as of June 30, 2011 amounted to ThCh\$ 47,360,839 and ThCh\$ 8,587,168 respectively.

NOTE 24 - THIRD-PARTY GUARANTEES, OTHER CONTINGENT ASSETS AND LIABILITIES AND OTHER COMMITMENTS

As of June 30, 2012, the Company has received performance guarantees from contractors and third parties, primarily to guarantee performance of construction and maintenance works, amounting to ThCh\$ 49,360,091 (ThCh\$ 29,617,003 as of June 30, 2011). In addition, in order to guarantee repayment of housing loans, mortgages have been constituted in favour of the Company.



TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 25 - DISTRIBUTION OF PERSONNEL

As of June 30, 2012 and December 31, 2011, personnel employed by Transelec S.A. are detailed as follows:

	June 30, 2012				Average of the year
	Manager and executives	Professionals and technical personnel	Other employees	Total	
Total	13	322	170	515	484.5

	December 31, 2011				Average of the year
	Manager and executives	Professionals and technical personnel	Other employees	Total	
Total	12	321	174	507	487.7

NOTE 26 - ENVIRONMENT

In accordance with environmental policies, Transelec S.A. and its subsidiary have no objections against its facilities. Based on its new investment projects and in compliance with current legislation, the Company has initiated studies to prepare Environmental Impact Statements or Environmental Impact Studies, These documents are prepared and filed for approval from the Regional Environmental Commission (CONAMA) in accordance with General Environmental Laws No, 19,300 and 20,417 and their corresponding regulations.

During the six month periods ended June 30, 2012 and 2011, the Company has made the following disbursements related to environmental matters:

Company making disbursement	Project	June 30, 2012 ThCh\$	June 30, 2011 ThCh\$
Transelec S.A.	Environmental impact studies	244,569	346,891
Total		244,569	346,891



TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish-See Note 2.1)

NOTE 27 - CASH FLOWS

The detail of “Other non cash items” in the Cash flow statements is as follows:

	June 30, 2012 ThCh\$	June 30, 2011 ThCh\$
Bonds indexation	29,626,607	29,789,888
Fair Value adjustments of swap	(524,102)	475,954
Other adjustments	(1,431,127)	93,217
Total	27,671,378	30,359,059

NOTE 28 - SUBSEQUENT EVENTS

On July 3, 2012, the SVS was informed that on June 28, 2012 a special meeting of Shareholders of the Company was held and in which it was agreed that:

- 1) Granting Andrés Kuhlmann Jahn, Francisco Castro Crichton and Arturo Le Blanc Cerda that the authority for any two of them acting jointly to proceed with the execution of a Revolving Credit Agreement with Banks Scotiabank, DnB Nor, Bank of Tokyo -Mitsubishi and others, amounting to USD 200,000,000. It was also agreed to authorize its implementation, including signing relevant notes and associated documentation, by the attorneys of Transelec S.A. authorized to contract loans at the date of each transaction, any future disbursements, according to the terms of the Revolving Credit Agreement signed with the banks above, could individually or collectively exceed one hundred million US dollars.
- 2) To ratify the resolutions adopted by the Board of Directors in Extraordinary Session Number 81, approving the registration of two lines of bonds 10 and 30 years, respectively, by signing the bond contracts and its amendments and clarifications and all acts and related contracts, including agreements or contracts regarding liquidity reserves for debt service of the Company, and additional public documentation necessary to carry out the bond placement to be made under the lines agreed to issue bonds under such issuance contracts. The Board further agreed to approve the indebtedness of the Company through the future issuance and placement of bonds under both lines of bonds, amounting to twenty million UF each.
- 3) The Board also ratified unanimously, the special powers granted by the Board of Directors to correct the amounts, characteristics, opportunities, specific terms and conditions of future bond issues under the lines registered in the Securities Registry of the Superintendency of Securities and Insurance (SVS) pursuant to previously made agreements, which shall correspond to market conditions at the time of issue.



TRANSELEC S.A. AND SUBSIDIARY
Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish-See Note 2.1)

28. - SUBSEQUENT EVENTS (Continued)

4) Finally, the Board agreed unanimously that the authorization is limited to bonds placed under each of the aforementioned Bonds Lines may not exceed the sum of twenty million UF or its equivalent in pesos or US dollars to the date of such placement. Based on the above, the approval of new shareholders of the Company and its Board will be required, in order to issue and place new bonds under the Bond lines in excess of twenty million UF, as outlined above.

On July 9, 2012, the contract was signed by a line of credit for ThUS \$ 180,000.

Between June 30, 2012, closing date of the interim consolidated financial statements and the date of issuance, there have been no other significant financial and accounting events that may affect the assets of the Company or the interpretation of these financial statements.



TRANSELEC S.A. AND SUBSIDIARY

REASONED ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2012

INTRODUCTION

During the first half of 2012, Transelec S.A. and subsidiary recorded net income of MCh\$30.117, which is 34,1% higher than the prior period (MCh\$22.465). Operating revenues totaled to MCh\$107.608, which represents an increase of 16.3% in comparison to the same period in 2011 (MCh\$92.507). EBITDA for the period was MCh\$84.557, with an EBITDA over revenues of 78,6% (83,1% in the first half of 2011). The company's non-operating income and taxes for 2012 period represent a charge of MCh\$26.052 (MCh\$28.843 in 2011) and MCh\$4.780 (MCh\$3.102 in 2011), respectively. This decrease in non-operating losses is mainly due to the loss from indexed assets and liabilities for the six month period ended June 30, 2012 for MCh\$ 11.463, which during the comparison period was a loss of MCh\$ 13.690.

Transelec S.A. and its subsidiary Transelec Norte S.A. have prepared their financial statements as of June 30, 2012 in conformity with International Financial Reporting Standards (IFRS) and correspond to the comprehensive, explicit and non-reserved adoption of the abovementioned international standard. The figures of this ratio analysis are expressed in million of Chilean pesos (MCh\$) as the Chilean peso is the functional currency of Transelec S.A.

1. INCOME STATEMENT ANALYSIS

Items	June 2012 MCh\$	June 2011 MCh\$	Variation 2012/2011 %
Operating Revenues	107.608	92.507	16,3%
Toll sales	99.198	87.445	13,4%
Work and services	8.410	5.062	66,1%
Operating costs	-41.365	-34.479	20,0%
Fixed costs	-18.660	-13.248	40,9%
Depreciation	-22.705	-21.231	6,9%
Administraton and sales expenses	-5.294	-3.618	46,3%
Fixed costs	-5.081	-3.419	48,6%
Depreciation	-213	-199	7,0%
Operating Income	60.949	54.410	12,0%
Interest from Leasing	155	131	18,3%
Other Financial Income	2.712	1.478	83,5%
Financial Costs	-18.191	-16.763	8,5%
Foreign exchange differences, net	200	-882	-122,7%
Gain (loss) for indexed assets and liabilities	-11.463	-13.690	-16,3%
Other income	535	883	-39,4%
Non-Operating Income	-26.052	-28.843	-9,7%
Income before Income Taxes	34.897	25.567	36,5%
Income tax	-4.780	-3.102	54,1%
Net Income	30.117	22.465	34,1%
EBITDA	84.557	76.854	10,0%

EBITDA= Net income +abs(Income tax)+abs(Depreciation)+abs(Non-operating income)+abs(Other gains)+Lease financial income.



a) Operating income

During the first semester 2012, revenues reached MCh\$107.608 (MCh\$92.507 in 2011), which is an increased of a 16,3%. 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. During the first half 2012, the company provided engineering and other services that accounted for 7,8% of the total revenues; during the prior period in 2011, these services only increased to 5,5% of the total revenues.

During the period under analysis the operating costs reached MCh\$41.365 (MCh\$34.479 in 2011). These costs are primarily related the maintenance and operation of the Company's facilities. In percentage terms, 54,9% of the company's cost correspond to depreciation of property, plant and equipment (61,6% in 2011), while the remaining 45,1% (38,4% in 2011) correspond to personnel, supplies and service contracted.

Administrative and selling expenses amounted to MCh\$5.294 (MCh\$3.618 at the same date in 2011) and consist primarily of personnel expenses and expenses for contracted work, supplies and services (96% in 2012 and 94,5% in 2011), and depreciation (4% in 2012 and 5,5% in 2011).

b) Non-operating income

Net income was negatively impacted by the non-operating loss of MCh\$26.052 (MCh\$28.843 in 2011) registered for the first half of 2012, which was generated mainly by the loss from indexed asset and liabilities of MCh\$11.463 in 2012 period, while in the same period of 2011 amounted to MCh\$13.690.

2. BALANCE SHEET ANALYSIS

The decrease in current assets between June 2012 and December 2011 is mainly due to a decrease in accounts receivable from third parties and the decrease in cash and cash equivalents.

Items	June 2012 MCh\$	December 2011 MCh\$	Variation 2012/2011 %
Current assets	119.099	154.709	-23,0%
Non-current assets	1.805.493	1.786.269	1,1%
Total Assets	1.924.592	1.940.978	-0,8%
Current liabilities	111.725	108.733	2,8%
Non current liabilities	923.125	911.203	1,3%
Equity	889.742	921.042	-3,4%
Total liabilities & Equity	1.924.592	1.940.978	-0,8%

VALUE OF THE MAIN PP&E IN OPERATION

Assets	June 2012 MCh\$	December 2011 MCh\$	Variation 2012/2011 %
Land	20.737	20.669	0,3%
Building, Infraestructure, works in progress	950.162	903.866	5,1%
Machinery and equipment	450.744	438.028	2,9%
Other fixed assets	2.332	1.853	25,8%
Depreciation (less)	-233.288	-211.371	10,4%
Total	1.190.687	1.153.045	3,3%

CURRENT DEBT

Debt	Currency or index	Interest rate	Type of rate	Maturity Date	Amount in original currency (million) Unpaid capital	
					June 2012	December 2011
Series C bond	UF	3,50%	Fixed	Sep 1st, 2016	6,0	6,0
Series D bond	UF	4,25%	Fixed	Dec 15 th, 2027	13,5	13,5
Series E bond	UF	3,90%	Fixed	Aug 1st, 2014	3,3	3,3
Series F bond	CLP	5,70%	Fixed	Aug 1st, 2014	33.600,0	33.600,0
Series H bond	UF	4,80%	Fixed	Aug 1st, 2031	3,0	3,0
Series I bond	UF	3,50%	Fixed	Sep 1st, 2014	1,5	1,5
Series K bond	UF	4,60%	Fixed	Sep 1st, 2031	1,6	1,6
Series L bond	UF	3,65%	Fixed	Dec 15 th, 2015	2,5	2,5
Series M bond	UF	4,05%	Fixed	Jun 15 th, 2032	3,4	3,4
Series N bond	UF	3,95%	Fixed	Dec 15 th, 2038	3,0	3,0

3. MAIN CASH FLOWS DURING THE YEAR

Items	June 2012 MCh\$	June 2011 MCh\$	Variation 2012/2011 %
Cash flows provided by (used in) operating activities	53.654	57.402	-6,5%
Cash flows provided by (used in) investing activities	-39.697	-39.721	-0,1%
Cash flows provided by (used in) financing activities	-31.444	-34.964	-10,1%
Net increase (decrease) of cash and cash equivalent	-17.487	-17.283	1,2%
Cash and cash equivalent at the beginning of the period	64.212	35.496	80,9%
Cash and cash equivalent at the end of the period	46.725	18.213	156,5%

In the first half of 2012, cash flows from operating activities reached only MCh\$ 53.654 (MCh\$ 57.402 in the comparison period).

During the first half of 2012, financing activities generated negative net cash flows of MCh\$ 31.444, mainly due to dividends payments amounted to MCh\$33.789, which were offset by intercompany loan payments for MCh\$2.345. During the same period in 2011, financing activities generated



negative cash flows of MCh\$ 34.964, which was mainly due to the placement of Series L, M and N (MCh\$ 146.935) and its associated expenses (MCh\$20,087) \$, payment of Yankee Bond (MCh\$ 115.882), payment of the swaps associated on its maturity date and the distribution of dividends for MCh\$32.365.

In the first half of 2012, investing activities generated cash outflows amounting to MCh\$39.697, because of investments in property, plant & equipment. During the same period in 2011, cash flows from investing activities were negative by MCh\$39.721, as a result of net additions of property, plant & equipment.

The closing balance of cash and cash equivalents as of June 30, 2012 amounted to MCh\$46.725 considering an initial balance of MCh\$64.212. As of June 30, 2011 the final balance of cash and cash equivalents amounted to MCh\$18.213, with an initial balance of MCh\$35.496

In addition, the Company has secured the following committed credit line to ensure funds are available to cover working capital needs:

Bank	Amount (up to)	Maturity	Type of Credit
Scotiabank Sudamericano	US\$15,000,000	Nov 15th, 2012	Working Capital

4. INDICATORS

Bonds	Covenant	Limit	June	December	Status
			2012	2011	
All local Series	Distribution Test (**)	FNO/Financial Expenses > 1,5	6,01	5,70	OK
	Capitalization Ratio (***)	< 0,7	0,51	0,49	OK
	Shareholder's Equity (in UF)	> ThUF15.000	40.425	42.433	OK

(*) FNO = Cash flow from operating activities plus the absolute value of finance costs, plus the absolute value of the expenditure for Income Taxes.

(**) This is only a test to distribute restricted payments such as dividends.

(***) Equity = Total equity attributable to owners of the parent plus accumulated amortization of Goodwill. The accumulated amortization of Goodwill between June 30, 2006 and June 30, 2012 amounted to MCh\$24.970.

INDICATORS	June 2012	December 2011	Variation 2012/2011
Profitability			
Shareholders' Equity profitability *	6,77%	5,09%	33,1%
Assets profitability *	3,13%	2,41%	29,9%
Operating assets profitability *	4,48%	3,60%	24,4%
Earnings per share (\$) *	60.234,00	46.839,62	28,6%
Liquidity & Indebtedness			
Current Ratio	1,07	1,42	-24,6%
Acid-Test Ratio	1,07	1,42	-25,1%
Debt to Equity	1,16	1,11	4,5%
% Short term debt	10,80	10,66	1,3%
% Log term debt	89,20	89,34	-0,2%
Financial expenses coverage	4,65	4,58	1,4%



5. THE MARKET

Transelec S.A. carries out its activities in the electricity market, which has been divided into three sectors: generation, transmission and distribution. The generation sector includes companies that are dedicated to generating electricity that 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. 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 company 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 its subsidiary, which stretches between Arica in Chile's 1st Region to the Island of Chiloé in the 10th Region, encompasses the majority of the trunk transmission lines and substations in the Central Interconnected System (SIC) and the Great North Interconnected System (SING). This transmission system transports the electricity that supplies approximately 99% of Chile's population. The Company owns all of the 500 kV electricity transport lines, approximately 47% of the 220 kV lines and 86% of the 154 kV lines.

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; and the General Electricity Services Law. (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; the Regulations to Establish the Structure, Functioning and Financing of Load Dispatch Centers (Supreme Decree No. 291/2007) and also the Technical Standard on Reliability 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 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, a decree from the Ministry of Economy, Development and Reconstruction was published that set the new Investment Value (VI), the Annuity of the Investment Value (AVI), the Operation, Maintenance and Administration Costs (COMA) and the Annual Transmission Value per Segment (VATT) for 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. During 2010, the second Trunk Transmission Study was conducted which will allow setting the tariffs and the corresponding indexation formulas for the period 2011-2014. Decree 61,



published on November 17, 2011 contains the tariffs that will be retroactively applicable from January 1, 2011. During 2012 the new tariffs have been applied and it is expected that the process of recalculation corresponding to the year 2011 will be completed during the second half of 2012.

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 October 31, 2010. The new subtransmission tariffs that will be in effect from November 2010 to October 2014 shall be set by the Ministry of Energy based on valuation studies on subtransmission facilities that began during 2010. As of the date of this management discussion and analysis, the decree setting subtransmission tariffs from November 2011 to October 2014 has not yet been issued. In the meantime, the tariffs set in decree 320/2009 will continue to be provisionally applied. The difference between amounts invoiced using these provisional tariffs and the definitive values ultimately established will be recalculated.

6. MARKET RISK FACTORS

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:

6.1 Regulatory Framework

Electricity transmission tariffs are set by law and are indexed in order to guarantee real annual returns for the operator. The nature of the industry enables transmission income to be stable over time. In addition, this income is complemented with income obtained from private contracts with large clients.

However, the fact that these tariffs are revised every four years in Trunk Transmission Studies could place the Company at risk of new tariffs that are detrimental or less attractive given the investments it has made.

The Company cannot guarantee that other regulatory changes will not negatively affect it or its clients or creditors, thus compromising Transelec's income.

6.2 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.

6.3 Application of regulations and / or Environmental Law

The operations of Transelec are subject to Law No. 19.300, on Chilean environment ("Environmental Law"), enacted in 1994. According to its recent modification, through Law N° 20.417 which was published in the official journal on January 26, 2010, created, among others, new institutions consisting of: (i) the Ministry of Environmental Affairs; (ii) the Minister Council for Sustainability; (iii) the Environmental Evaluation Service; and (iv) the Superintendence of Environmental Affairs; these institutions are in charge of the regulation, evaluation and inspection of the activities involving environmental impacts. These new institutions replaced the National Commission of Environmental Affairs ("CONAMA") and the Regional Commissions of Environmental



Affairs and are fully operative except for new demands to the evaluation system of environmental impact (SEIA) through the enactment of an updated regulation. That however, recently began its stage of review by the Comptroller General of the Republic. Law No. 20.600 of the official journal was published on June 28, 2012 that creates the environmental courts, last step so the Superintendency of Environmental Affairs(SMA) can begin to implement in full its powers of control and sanction. Within six months from the publication of this law, the environmental court, which will have its headquarters in Santiago, will come into operation at which the powers of control and sanctions of the SMA will be fully in effect.

Notwithstanding that Transelec meets the environmental requirements of the environmental law, it is not possible to assure that these filings (EIA o DIA) before the environmental authority will be approved by government authorities or that the laws and regulations will not change or will be interpreted in a way that may adversely affect the company's operations and plans, as the new institutional structure is just in progress.

6.4 Delays in the 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 such projects including delays in obtaining regulatory authorizations, scarcity of equipment, materials or labor, etc. 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.

6.5 Technological Changes

Transelec is compensated for investments it makes in electrical transmission facilities through an annual valuation of the existing facilities (AVI), which is performed every four years using current market prices. 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.

6.6 Foreign Exchange Risk

The following factors expose Transelec to foreign exchange risk:

- The functional currency of its subsidiary Transelec Norte is the US dollar.
- Transelec carries out diverse transactions in US dollars (awarding construction contracts, importing, etc.).
- Transelec has a foreign exchange forward to sell dollars in order to cover the risk of future dollar-denominated income. Transelec also has a forward with a related company to finance its subsidiary's dollar-denominated assets.

Exchange rate exposure is managed using a policy that involves fully hedging the Company's net balance sheet exposure using diverse instruments such as: US 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:



In million pesos	June 2012		December 2011	
	Assets	Liabilities	Assets	Liabilities
Dollar (amounts associated with balance sheet items)	7.208	25.438	26.722	3.917
Dollar (amounts associated with income statement items)	0	33.122	0	30.111
Chilean peso	1.932.428	1.001.629	1.921.662	954.826

(*) Indexation polynomials 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 income protection 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 RATES (Observed exchange rates)

Month	Average 2012 (\$)	Last day 2012 (\$)	Average 2011 (\$)	Last day 2011 (\$)
January	501,34	488,75	489,44	483,32
February	481,49	476,27	475,69	475,63
March	485,4	487,44	479,65	482,08
April	486	484,87	471,32	460,04
May	497,09	519,69	467,73	467,31
June	505,63	501,84	469,41	471,13
Period Average	492,83	493,14	475,54	473,25

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

6.7 Credit Risk

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

However, Transelec's income is highly concentrated in a small number of customers, which are detailed in the following chart:

Billing	June 2012 MM\$	June 2011 MM\$
Endesa Group	55.898	47.361
AES Gener Group	20.319	8.587
Colbún Group	14.593	6.567
Others	16.798	29.992
Total	107.608	92.507
% Concentration	66.79%	56.49%



Income from 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.

In terms of the Company's credit risk associated with financial assets (time deposits, fixed-return mutual funds and sell-back agreements), its 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.

6.8 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.

a) Risk from Company's Management Processes

In order to guarantee that Transelec is able to quickly react to investment opportunities and pay its obligations by their maturity dates, in addition to its cash balances and short-term receivables, the Company has committed lines of credit for working capital for US\$ 15 million.

As of June 30, 2012, these lines have not been used and are expected to be renewed upon maturity. These credit lines were in effect during the entire year 2012.

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 principal payments for the Company's financial liabilities according to their maturity as of June 30, 2012 and December 31, 2011:

In million pesos	0 to 1 year	1 to 3 years	3 to 5 years	5 to 10 years	More than	Total
March 31, 2012	0	0	193.095	131.092	493.780	817.967
December 31, 2011	0	196.346	133.764	0	546.204	876.314

b) Risk from Rate Income Recalculations in Trunk Transmission System

By virtue of articles 81, 101, 104, 106 and other complementary provisions of DFL No. 4/20,018 from the Ministry of Economy, Development and Reconstruction, Transelec is entitled to provisionally receive the actual trunk system rate income produced during each period. For Transelec to collect the compensation established in the first paragraph of article 101 of DFL No. 4/20.018, the rate income received provisionally is recalculated each month using payment charts prepared by the respective Economic Load Dispatch Center (CDEC) and then payments are made to or collected from the different generators.

The Company may face the risk of not opportunely collecting the income established in the CDEC payment charts from some generators, which can temporarily affect its liquidity. Thus, in the Company's opinion, Transelec's efforts to collect these amounts do not entail managing collections of debt owed to the Company but rather merely coordinating collections and payments to third parties of loans and debt that are completely removed from the Company and, with the exception of the expected rate income, belong to the generators.



6.9 Interest Rate Risks

The Company's assets consist principally of property, plant and equipment 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.

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

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

CONSOLIDATED RELEVANT FACTS

TRANSELEC S.A.

1) On March 21 2012, and according to article 9 and subsection 2 of article 10 of the law No 18,045 of Securities Market, and General Rules No 30 and No 210 of such Superintendency, the following relevant fact was reported:

Transelec S.A.'s Board of Directors, at the meeting held on March 21 2012, agreed on calling to a Shareholders' Annual Meeting to be held on April 27th 2012, at 9:00 am, at the company's headquarters located at Av. Apoquindo 3721, sixth floor, Las Condes.

This meeting aims to inform the shareholders and request their approval for the following matters:

- 1) Annual Report, General Balance, Financial Statements and Report from the External Auditors, corresponding to the period finished on December 31 2011.
- 2) Definitive dividend distribution.
- 3) Dividend policy and information about the payment procedures.
- 4) Board of Directors renewal.
- 5) Fees to be paid to the Board of Directors and the Audit Committee.
- 6) Appointment of External Auditors.
- 7) Newspaper to be used for the Shareholders Meetings calls.
- 8) Other matters of interest for the company and within the Shareholders' competence.

2) On April 27 2012, and according to article 9 and subsection 2 of article 10 of the law No 18,045 of Securities Market, and General Rules No 30 and No 210 of such Superintendency, the following relevant fact was reported:

On April 27th 2012, the annual shareholders' meeting of the company was held, where the following matters were agreed:

- 1) Approving the Annual Report, General Balance, Financial Statements and Report from the External Auditors, corresponding to the period finished on December 31 2011
- 2) Approving the amount of \$ 20,789,620,729 Chilean pesos as the definitive dividend for year 2011 to be paid from May 28 2012 to the shareholders registered at the corresponding registrar on May 18 2012. At the same time, they agreed on paying an eventual dividend to be charged to the retained earnings from year 2008 for 41,148,907,284 Chilean pesos, in three installments during the exercise 2012: first one for 13,000,000,000 Chilean pesos, at the same opportunity as indicated for the 2011 definitive dividend payment, and regarding the other two installments, the Board of Directors was authorized to set the date and amount to be distributed for each one.
- 3) The dividend policy for year 2012 was informed.
- 4) The Board of directors was renewed as follows: Mr. Richard Legault as director and Mr. Jeffrey Blidner as his respective alternate director; Mr. Bruce Hogg as director and Mr. Daniel Fetter as his respective alternate director; Mr. Patrick Charbonneau as director and Mr. Paul Dufresne as his respective alternate director; Mrs. Brenda Eaton as director and Mr. Richard Dinneny as her respective alternate director; Mr. Bruno Philippi Irrarázabal as director and Mr. Enrique Munita Luco as his respective alternate director; Mr. Mario Valcarce Durán as director and Mr. Juan José Eyzaguirre Lira as his respective alternate director; Mr. Blas Tomic Errázuriz as director and Mr. Federico Grebe Lira as his respective alternate director; Mr. José Ramón Valente Vías as director and Mr. Juan Paulo Bambach Salvatore as his respective alternate director, and Mr. Alejandro Jadresic Marinovic as director and Mr. Juan Irrarázabal Covarrubias as his respective alternate director.
- 5) The fees for the Board of Directors and the Audit Committee were set down.
- 6) Approving the appointment of Ernst & Young as the company's external auditors for the 2012 period.
- 7) Approving the "Diario Financiero" as the newspaper to be used to publish the notices for calling to the general shareholders meetings.

3) On May 24th 2012, and according to article 9 and subsection 2 of article 10 of the law No 18,045 of Securities Market and General Rules No 30 and No 210 of such Superintendency, the following relevant fact was reported:

That in the session held on May 23rd 2012, the Board of the company took knowledge of Mr. Jeffrey Blidner's resignation to his position as alternate director of Mr. Richard Legault, as well as Mr. Daniel Fetter's resignation to his position as alternate director of Mr. Bruce Hogg.

In that same session, the Board of the company agreed to appoint Mr. Benjamin Vaughan as alternate director of Mr. Richard Legault, and Mr. Etienne Middleton as alternate director of Mr. Bruce Hogg. Finally, at said meeting Mr. Richard Legault was elected as Chairman of the Board.

4) On June 26th 2012, and according to article 9 and subsection 2 of article 10 of the law No 18,045 of Securities Market, and General Rules No 30 and No 210 of such Superintendency, the following relevant fact was reported:

The shareholders of Transelec S.A. agreed to self-convoke a special meeting to be held on June 28th 2012. This meeting aimed to inform the shareholders and request their approval for the following matters:

One) Authorize and grant the necessary powers to execute a Revolving Credit Facility with Scotiabank Sudamericano, DnB Nor, Bank of Tokyo-Mitsubishi and others;

Two) Authorize and grant the necessary powers for the disbursements of the Revolving Credit Facility;

Three) Ratify the resolutions adopted by the Board at its special session No. 81, according to Article 28 of the corporate By-laws; and

Four) to authorize the Board to set the characteristics, terms and conditions of future bonds issuances against the lines that are registered in the Securities Registrar of the SVS.

5) On July 3rd 2012, and according to article 9 and subsection 2 of article 10 of the law No 18,045 of Securities Market, and General Rules No 30 and No 210 of such Superintendency, the following relevant fact was reported:

On June 28th 2012, a special shareholders' meeting was held, where the following matters were agreed:

- 1) To grant powers of attorney to Messrs. Andrés Kuhlmann Jahn, Francisco Castro Crichton and Arturo Le Blanc Cerda so that any two of them, acting jointly, proceed with the execution of a Revolving Credit Facility with Scotiabank, DnB Nor, Bank of Tokyo-Mitsubishi and others, for an amount for up to USD 200.000.000. Also, it was agreed to authorize the materialization by the representatives of Transelec S.A. of future disbursements that could individually or as a whole exceed the amount of USD 100 million.
- 2) Ratify the resolutions adopted by the Board at its special session No. 81, approving the registration of two Lines of Bonds, of 10 and 30 years of maturity respectively, through the execution of the bonds issuance agreements. The shareholders'

meeting also approved the indebtedness of the Company through the future bonds issuances and placements against both Lines, for an amount up to 20.000.000 UF each one.

- 3) Likewise, the shareholders' meeting ratified the special powers of attorney granted by the Board to set the specific amounts, characteristics, opportunities, terms and conditions of the future bond issuances against the lines that are registered in the Securities Registrar of the SVS.
- 4) Finally, the shareholders' meeting agreed that the authorization is limited to the fact that the bonds that are placed against each one of the Line of Bonds cannot jointly exceed the amount of 20.000.000 UF, or its equivalent in Chilean pesos or dollars at the date of the meeting

TRANSELEC NORTE S.A.

1) On March 21 2012, and according to article 9 and subsection 2 of article 10 of the law No 18,045 of Securities Market, and General Rules No 30 and No 210 of such Superintendency, the following relevant fact was reported:

Transelec Norte S.A.'s Board of Directors, at the meeting held on March 21 2012, agreed on calling to a Shareholders' Annual Meeting to be held on April 27th 2012, at 10:00 am, at the company's headquarters located at Av. Apoquindo 3721, sixth floor, Las Condes.

This meeting aims to inform the shareholders and request their approval for the following matters:

- 1) Annual Report, General Balance, Financial Statements and Report from the External Auditors, corresponding to the period finished on December 31 2011.
- 2) Definitive dividend distribution.
- 3) Dividend policy and information about the payment procedures.
- 4) Board of Directors renewal.
- 5) Appointment of External Auditors.
- 6) Newspaper to be used for the Shareholders Meetings calls.
- 7) Other matters of interest for the company and within the Shareholders' competence.

2) On April 27 2012, and according to article 9 and subsection 2 of article 10 of the law No 18,045 of Securities Market, and General Rules No 30 and No 210 of such Superintendency, the following relevant fact was reported:

On April 27th 2012, the annual shareholders' meeting of the company was held, where the following matters were agreed:

- 1) Approving the Annual Report, General Balance, Financial Statements and Report from the External Auditors, corresponding to the period finished on December 31 2011
- 2) Approving the amount of USD 3.673.247 as the definitive dividend for year 2011 to be paid from May 28 2012 to the shareholders registered at the corresponding registrar on May 18 2012.
- 3) Dividend policy for 2012 was informed.
- 4) The Board of directors was renewed as follows: Mr. Richard Legault as director and Mr. Jeffrey Blidner as his respective alternate director; Mr. Bruce Hogg as director and Mr. Daniel Fetter as his respective alternate director; Mr. Patrick Charbonneau as director and Mr. Paul Dufresne as his respective alternate director; Mrs. Brenda Eaton as director and Mr. Richard Dinneny as her respective alternate director; Mr. Bruno Philippi Irarrázabal as director and Mr. Enrique Munita Luco as his respective alternate director; Mr. Mario Valcarce Durán as director and Mr. Juan José Eyzaguirre Lira as his respective alternate director; Mr. Blas Tomic Errázuriz as director titular and Mr. Federico Grebe Lira as his respective alternate director; Mr. José Ramón Valente Vías as director titular and Mr. Juan Paulo Bambach Salvatore as his respective alternate director, and Mr. Alejandro Jadresic Marinovic as director and Mr. Juan Irarrázabal Covarrubias as his respective alternate director.
- 5) Approving the appointment of Ernst & Young as the company's external auditors for the 2012 period.
- 6) Approving the "Diario Financiero" as the newspaper to be used to publish the notices for calling to the general shareholders meetings.

3) On May 24th 2012, and according to article 9 and subsection 2 of article 10 of the law No 18,045 of Securities Market and General Rules No 30 and No 210 of such Superintendency, the following relevant fact was reported:

That in the session held on May 23rd 2012, the Board of the company took knowledge of Mr. Jeffrey Blidner's resignation to his position as alternate director of Mr. Richard Legault, as well as Mr. Daniel Fetter's resignation to his position as alternate director of Mr. Bruce Hogg.



In that same session, the Board of the company agreed to appoint Mr. Benjamin Vaughan as alternate director of Mr. Richard Legault, and Mr. Etienne Middleton as alternate director of Mr. Bruce Hogg. Finally, at said meeting Mr. Richard Legault was elected as Chairman of the Board.