TRANSELEC S.A. AND SUBSIDIARY

Reasoned Analysis

As of June 30, 2009

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

A. Summary

In the six-month period ended June 30, 2009, TRANSELEC S.A. and subsidiary recorded net income of ThCh$ 28,265,933, which is 21.34% less than the same period in 2008. This net income is derived from operating income of ThCh$ 52,162,211, a non-operating loss of ThCh$18,896,256, a net charge to income for first category income taxes and deferred taxes of ThCh$ 4,999,907 and minority interest of ThCh$ 115. In the six-month period ended June 30, 2008, the Company recorded net income of ThCh$ 35,933,000, with operating income of ThCh$ 61,077,112, a non-operating loss of ThCh$ 17,133,769, a net charge for first category income taxes and deferred taxes of ThCh$ 8,010,258 and minority interest of ThCh$ 85.

In the current period, revenues reached to ThCh$ 86,210,477 (ThCh$ 90,797,016 in 2008). These revenues are mainly obtained, for both periods, from commercializing the transmission capacity of the Company's facilities. The variation is mainly explained by the following effects. During the period 2009, a) ThCh$1.975.991 due to the commissioning of new facilities that were not in service during the period 2008, b) ThCh$234.271 from toll recalculation for the Trunk Transmission System from the year 2008, c) ThCh$8,495,795 higher income in comparison to the same period 2008 due to variations of exchange rate, indexation formulas and the result of derivates designated to hedge the portion in Chilean pesos of some revenues denominated in US Dollars, d) ThCh$ 5,271,848 originated in sales of services related to the activity provided to, among others, Centrales Hidroeléctricas de Aysén S.A, (including a margin on the services provided during the second half of 2008), and, e) ThCh$987,766 due to higher sales associated with other works and services provided by the Company, compared to the same period 2008. In 2008, incomes included, in addition to the normal commercialization of the facilities, some non-recurrent revenues associated with the following concepts: i) reassessment of the Trunk Transmission System's tolls for the year 2007, in accordance with Decree 207 published on January 15, 2008 and the Toll Report for the year 2007 issued by CDEC-SIC in March 2008, amounting ThCh$ 5.416.726, ii) reassessment of the Trunk Transmission System's tolls for the period March 13, 2004 to December 31, 2006, in accordance with Decree 207, which amounted to ThCh$13,851,760, net from income tariff, interest and contractual discounts, and, iii) net income from prior years based on an agreement with Puyehue S.A. and Panguipulli S.A. for ThCh$ 2,283,724.

In 2009, cost of sales reached ThCh$ 31,378,103 (ThCh$ 26,877,474 in 2008). These costs are due primarily to maintaining and operating the Company's facilities, in addition to costs incurred in providing engineering services to Centrales Hidroeléctricas de Aysén S.A. in 2009, as described in the previous paragraph. The Company's costs consist of: 57.3% depreciation of property, plant and equipment (64.7% in 2008), 13.2% personnel costs (11.2% in 2008), 23.2% supplies and services hired (16.9% in 2008) and 6.3% amortization of intangibles (7.2% in 2008).

A. Summary (continued)

Administrative and selling expenses amounted to ThCh$ 2,670,163 (ThCh$ 2,842,430 in 2008) and consist of 45.8% personnel expenses (49.2% in 2008), 47.4% work, supplies and services hired (47.1% in 2008), and 6.8% depreciation (3.7% in 2008).

The Company recorded a non-operating loss of ThCh$ 18,896,256 (loss of ThCh$ 17,133,769 in 2008), generated mainly by interest expenses of ThCh$ 17,914,707 (ThCh$ 19,884,359 in 2008, which includes interest on income recalculations of ThCh$ 2,713,908) and by amortization of goodwill of ThCh$ 4,406,244 (ThCh$ 4,330,989 in 2008). Other important accounts that affected the non-operating loss during the period were interest income of ThCh$ 1,802,511 (ThCh$ 7,829,267 in 2008, of which ThCh$ 5,325,906 was from interest associated with the aforementioned trunk income recalculation). Foreign currency translation for the period produced a gain of ThCh$ 1,931,176 (loss of ThCh$ 874,800 in 2008), valued in accordance with SVS Circular No. 1,560. In turn, price-level restatement generated a loss of ThCh$ 296,869 (gain of ThCh$ 524,812 in 2008) and net other non-operating results amounted to a negative ThCh$ 12,123 (negative ThCh$ 397,700 in 2008).

B. Income

	For the period ended June 30, 2009 ThCh$	For the period ended June 30, 2008 ThCh$	Variation June 2009/2008 %	Variation June 2009-2008 ThCh$
Sales	86,210,477	90,797,016	-5.05%	(4,586,539)
Toll income	78,576,621	89,422,774	-12.13%	(10,846,153)
Work and services	7,633,856	1,374,242	455.50%	6,259,614
Cost of sales	(31,378,103)	(26,877,474)	16.74%	(4,500,629)
Fixed costs	(11,421,258)	(7,574,865)	50.78%	(3,846,394)
Depreciation	(17,992,886)	(17,376,458)	3.55%	(616,428)
Amortization of intangibles	(1,963,959)	(1,926,152)	1.96%	(37,808)
Administrative and selling expenses	(2,670,163)	(2,842,430)	-6.06%	172,267
Operating Income	52,162,211	61,077,112	-14.60%	(8,914,901)
Non-Operating Loss	(18,896,256)	(17,133,769)	10.29%	(1,762,487)
Income before income taxes	33,265,955	43,943,343	-24.30%	(10,677,388)
Income taxes (1)	(4,999,907)	(8,010,258)	-37.58%	3,010,351
Minority interest	(115)	(85)	35.29%	(30)
Net Income	28,265,933	35,933,000	-21.34%	(7,667,067)
EBITDA	73,984,680	79,748,898	-7.23%	(5,764,218)

B. Income (continued)

(1) The decrease in income taxes in 2009 is due principally to deferred taxes, basically because of a decrease in the book-basis value of certain assets affected by the negative price-level restatement in 2009 of -2.3% (positive 3.2% in 2008), which does not apply to the tax basis since it is negative, thus generating a temporary difference of ThCh$ 22,072,336, which in turn produced a smaller deferred tax expense for the period of ThCh$ 3,047,425.

B. Income (continued)

Profitability

	As of June 30, 2009	As of June 30, 2008	Variation June 2009/2008
Ratio			
Return on equity	3.16%	4.17%	-24.22%
Return on assets	1.62%	2.06%	-21.36%
Return on operating assets	4.62%	5.49%	-15.85%
Earnings per share (Ch$)	28,266	35,933	-21.34%

C. Balance Sheet Analysis

	As of June 30, 2009 ThCh$	As of June 30, 2008 ThCh$	Variation June 2009/2008 %	Variation June 2009-2008 ThCh$
Current assets	130,751,626	99,674,214	31.18%	31,077,412
Property, plant and equipment	1,071,711,793	1,073,888,663	-0.20%	-2,176,870
Other assets	547,343,512	567,946,765	-3.63%	-20,603,253
Total assets	1,749,806,931	1,741,509,642	0,48%	8,297,289
Current liabilities	71,961,380	88,937,915	-19.09%	-16,976,535
Long-term liabilities	781,980,800	791,450,052	-1.20%	-9,469,252
Minority interest	4,533	4,628	-2.05%	-95
Shareholders’ equity	895,860,218	861,117,047	4.03%	34,743,171
Total liabilities and shareholders’ equity	1,749,806,931	1,741,509,642	0.48%	8,297,289

C. Balance Sheet Analysis (continued)

Value of principal operating property, plant and equipment

Assets	As of June 30, 2009 ThCh$	As of June 30, 2008 ThCh$	Variation June 2009/2008 %	Variation June 2009-2008 ThCh$
Land	18,343,283	17,573,922	4.38%	769,361
Buildings and infrastructure	806,784,903	795,117,339	1.47%	11,667,564
Machinery and equipment	349,409,900	328,349,020	6.41%	21,060,880
Other property, plant and equipment	1,677,670	1,545,127	8.58%	132,543
Accumulated depreciation	(104,503,963)	(68,696,745)	52.12%	(35,807,218)
Total	1,071,711,793	1,073,888,663	-0.20%	(2,176,870)

As of June 30, 2009 and 2008, property, plant and equipment mainly consist of land, buildings, infrastructure, machinery and equipment.

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

Differences between book values and economic values and/or market values of principal assets

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

C. Balance Sheet Analysis (continued)

Liquidity and indebtedness

Ratio	As of June 30, 2009 ThCh$	As of June 30, 2008 ThCh$	Variation June 2009/2008 %
Current liquidity	1.82	1.12	62.50%
Acid ratio	1.16	0.68	70.59%
Total liabilities/equity	0.95	1.02	-6.86%
% short-term debt	8.43	10.10	-16.58%
% long-term debt	91.57	89.90	1.86%
Financial expense coverage ratio	4.12	4.00	2.78%

The increase in liquidity ratios in 2009 is due principally to increased cash and cash equivalent as compared to 2008.

D. Most important changes in the company's market

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

The business of Transelec and its subsidiary are mainly related to 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 spans 2,900 kilometers between Arica in the Región de Arica y Parinacota in the north to the Island of Chiloé in the Región de Los Lagos in the south, encompasses the majority of the trunk transmission lines and substations in the SIC and the SING. This transmission system transports the electricity that supplies approximately 99% of Chile's population. The Company owns 100% of the 500 kV electricity transport lines, 46% of the 220 kV lines, 94% of the 154 kV lines and 11% of the lines ranging from 66kV to 110 kV.

D. Most important changes in the company's market (continued)

The legal framework that governs the electrical transmission business in Chile is regulated by DFL No. 4/2007, which establishes the modified, coordinated and systemized text of Decree with Force of Law No. 1 from the Ministry of Mining, issued in 1982; the General Electricity Services Law of 1982 (DFL(M) No. 1/82) and its subsequent modifications, including Law 19,940 (Short Law I) enacted on March 13, 2004, Law 20,018 (Short Law II) enacted on May 19, 2005 and Law 20,257 (Generation with Non-conventional Renewable Energy Resources) enacted April 1, 2008. These standards are complemented by the Regulations of the General Electricity Services Law of 1997 (Supreme Decree No. 327/97 from the Ministry of Mining) and its respective modifications, as well as by the Technical Rules for Reliabilty and Quality of Service (Exempt Ministerial Resolution No. 40 dated 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, subtransmission and additional transmission. It also establishes that electricity transmission - both by trunk transmission as well as subtransmission systems - is considered a public service and is subject to regulated tariffs.

Finally, Law 19,940 established that the new payment regime for the use of the trunk facilities would become effective as of March 13, 2004 and determined a transitory period that was in effect until the first trunk transmission decree was enacted. Thus, from 2004 to 2007, collection and payment of compensation for 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), Annuity Investment Value (AVI), Operation, Maintenance and Administration Costs (COMA) and Annual Transmission Value per Segment (VATT) for the trunk facilities for the period from March 14, 2004 to December 31, 2010, as well as the indexation formulas applicable during that period. New rates for the trunk transmission system began being applied in April 2008 and during 2008 trunk income was recalculated for the period from March 13, 2004 to December 31, 2007.

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

E. 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:

Regulatory framework

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

Even though some application-related aspects of Short Law I still need to be defined in the electricity regulations, which have not yet been prepared, the most relevant methodological aspects for establishing tolls for trunk facilities to be paid by each user company, as well as procedures for payment and recalculation, are defined in decree No. 207, issued July 9, 2007 by the Ministry of Economy, Development and Reconstruction, published in the Official Gazette on January 15, 2008. Regarding subtransmission facility tolls, although the decree that sets subtransmission tariffs and indexation formulas was already published in January 2009, it contains provisions that do not yet allow full application.

Concentration of income

A major part of Transelec’s total sales (70.5%) is from one single customer, Empresa Nacional de Electricidad S.A. (Endesa) and its subsidiaries generating companies. The toll agreements signed with Endesa and its subsidiaries Pangue and Pehuenche will generate a large part of the Company’s future cash flows. Therefore, a substantial change in the assets, financial condition or operating income of Endesa or its subsidiaries could negatively affect Transelec.

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 business.

E. Market risk factors (continued)

Application of environmental standards and/or policies

Transelec is also subject to regulatory environmental standards that, among other things, require it to conduct environmental impact studies for future projects and obtain the respective regulatory authorizations. It is not possible to ensure that these environmental impact studies will be approved by government authorities within the periods and under the terms presented by Transelec, or that delays or modifications will not occur in the proposed projects, or that the laws and regulations will not change or be interpreted in a manner that could adversely affect the Company's operations and plans.

Delays in construction of new transmission facilities

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

Technological changes

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

F. Foreign Exchange and Interest rate Risk

Foreign exchange risk

Depending on the market and other considerations, Transelec has carried out, when deemed necessary, certain hedging activities such as cross currency swaps and currency forwards in order to hedge the risk of fluctuations in the UF-dollar exchange rate for its bonds denominated in US dollars. However, it is not possible to ensure that Transelec will be fully protected by these foreign exchange hedge contracts. In addition, cross currency swaps and forwards contain counterparty credit risks, cash requirements upon maturity and other associated risks.

As of June 30, 2009, a portion of the Company's debt was denominated in US dollars as a result of bonds placed abroad for ThUS$ 477,840 (including accrued interest) and a loan from the related company Rentas I Ltda. for ThUS$ 18,000, as well as other liabilities of ThUS$ 26,771. On the other hand, the Company had the following assets denominated in US dollars: credit in a mercantile current account with the related company Transelec Holdings Rentas Limitada of ThUS$ 30,847 (including interest earned), short-term financial investments of ThUS$ 37,802 (including interest earned), trade receivables of ThUS$ 1,516, swap contracts for ThUS$ 274,018 (including accrued interest), property, plant and equipment of ThUS$ 177,059 and forward contracts for ThUS$ 3,500. Therefore, in 2009, the Company's dollar-denominated assets exceed the respective liabilities by ThUS$ 2,041.

Additionally, the Company maintains forward contracts for sales of US dollars amounting to US$ 58.2 million associated with the sale of a portion of its future income (July to December 2009).

As of June 30, 2008, a portion of the debt of the Company and its subsidiary was denominated in US dollars as a result of bonds placed abroad for ThUS$ 489,220 (including accrued interest) and other short-term liabilities of ThUS$ 44,647. On the other hand, the Company had the following assets denominated in US dollars: credit in a mercantile current account with the related company Transelec Holdings Rentas Limitada of ThUS$ 29,566 (including interest earned), short-term financial investments of ThUS$ 73,380 (including interest earned), swap contracts at fair value of ThUS$ 231,357, trade accounts receivable and other current assets of ThUS$ 1,597, forward contracts for ThUS$ 3,000, property, plant and equipment and intangibles at fair value of ThUS$ 193,752 and a lease contract for ThUS$ 2,073. These assets exceed the respective liability by ThUS$ 858.

Exposure to exchange rate variation is partially mitigated by the fact that toll income is denominated in US dollars and indexed monthly or semiannually, as the case maybe, by an index formula partly linked to the dollar.

F. Foreign Exchange and Interest rate Risk

Foreign exchange risk (continued)

Toll amounts are denominated in United States dollars, but monthly invoices are sent in their Chilean peso equivalent, calculated by applying the average observed dollar rate to approximately 93.89% of contracts and the month-end observed dollar rate to the remaining 4.85%. Most of the remaining income (1.26%) is invoiced in Chilean pesos based on the value of the Unidad de Fomento. The corresponding exchange rates are shown below:

Exchange rate

Month	Average 2009 (Ch$)	Last day 2009 (Ch$)	Average 2008 (Ch$)	Last day 2008 (Ch$)
January	623.01	612.43	480.90	465.30
February	606.00	595.76	467.22	458.02
March	592.93	582.10	442.94	439.09
April	583.18	588.62	446.43	459.16
May	565.72	564.64	470.10	479.66
June	553.08	529.07	493.61	520.14
Average for the Period	587.32	578.77	466.87	470.23

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

For the 2009 period, indexation decreased the value of tolls by an average of 3.4% over 2008.

Interest rate risk

As of June 30, 2009, the Company has debt with fixed interest rates. In effect, its debt denominated in US dollars bears interest at an annual fixed rate of 7.875%. All debt denominated in UF was placed at fixed interest rates varying from 3.5% to 6.2%, depending on each bond. The Company also has mercantile current accounts with related companies denominated in US dollars, for a net amount of US$ 12.8 million, with a variable interest rate. Given the fact that the Company's net assets exposed to variable interest rates are an insignificant portion of its total assets, the Company believes that its net income is not exposed to risk from changes in market interest rates.

G. Principal cash flows for the period

For the six-month period ended June 30, 2009, the Company recorded positive net cash flows of ThCh$ 18,569,198, due to positive cash flows from operating activities of ThCh$ 50,293,661, partially offset by negative cash flows from financing activities and investing activities of ThCh$ 6,210,295 and ThCh$ 25,514,168, respectively. For the six-month period ended June 30, 2008, the Company recorded positive net cash flows of ThCh$ 24,314,946, due to positive cash flows from operating activities of ThCh$ 56,693,177, partially offset by negative cash flows from financing activities and investing activities of ThCh$ 659,321 and ThCh$ 31,718,910, respectively.

In 2009, financing activities generated negative net cash flows of ThCh$ 6,210,295, primarily due to dividend payments, partially offset by loans obtained from related companies. In 2008, financing activities generated negative cash flows of ThCh$ 659,321 as a result of payments made on bonds.

Investing activities generated negative net cash flows of ThCh$ 25,514,168, as a result of net additions to property, plant and equipment. In 2008, investing activities generated negative net cash flows of ThCh$ 31,718,910, due principally to net additions to property, plant and equipment of ThCh$ 16,051,015 and other investment disbursements of ThCh$ 74,111,706 (corresponding to the price adjustment on the investment paid to HQ and IFC because of the Trunk Transmission Decree). These effects were partially offset by net collections on loans to related companies of ThCh$ 58,443,811.

In 2009, the effect of inflation on cash and cash equivalents was negative, amounting to ThCh$ 539,674. In 2008, the effect was positive and amounted to ThCh$ 1,775,535.

The final balance of cash and cash equivalents as of June 30, 2009 amounted to ThCh$ 83,284,543 from an opening balance of ThCh$ 65,255,019. In 2008, the final balance of cash and cash equivalents amounted to ThCh$ 60,696,205 from an opening balance of ThCh$ 34,605,724.